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Chicago Magnate To Control Tribune
Media Firm to Go Private in $13 Billion Deal

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Chicago real estate magnate Samuel Zell outbid a pair of other billionaires for control of Tribune Co. yesterday, a move that would put the storied media empire in private hands and install a powerful personality at the helm of the industry's third-largest newspaper chain.

Zell withstood an 11th-hour surge by Southern California businessmen Eli Broad and Ronald Burkle, winning a bidding war taken as an encouraging sign by some in the struggling newspaper industry.

PHOTO: A couple walks past the front entrance to the Tribune Tower Friday. Chicago real estate mogul Sam Zell has won the six-month auction for Tribune Co., the company announced today, taking control of the media empire's nine newspapers and 25 broadcast outlets for $34 per share, or more than $8 billion. (M. Spencer Green - AP)

Graphic

Tribune Co. Media Holdings

Media Holdings
Tribune Co. is valued at $8 billion, slightly larger than The Washington Post Co. ($7.2 billion) and smaller than Gannett ($13 billion), the industry's largest chain. Here's a look at the company's holdings.

Tribune's board accepted Zell's plan to buy out stockholders for $34 per share and institute an employee stock-ownership plan, a framework that has been tried elsewhere in the newspaper industry with mixed success, but not on this scale.

Zell, 65, is a colorful and sometimes quirky businessman who rides motorcycles and got his start in real estate as an apartment manager in college. Over the next four decades, he built what would become the nation's largest office building company, which he sold in February for $39 billion, clearing at least $1.1 billion in the transaction.

The deal's total value is about $13.2 billion -- $8.2 billion to purchase outstanding shares of stock and about $5 billion in existing Tribune debt that Zell is assuming. Zell is putting up only $315 million of his own money to buy Tribune's 16 newspapers, including the Los Angeles Times and Chicago Tribune; 26 radio and television stations; and other properties, including a stake in job-search site CareerBuilder.com. He would also gain two seats on the Tribune board, including the chairmanship. Current Tribune management would be retained, the company said. The buyout is expected to be completed this year.

Newspaper executives at other companies raised red flags about the extraordinary amount of debt required in the deal. If the buyout proceeds as planned, Tribune would carry a debt load of about 10 times its cash flow -- nearly double that of the most highly leveraged newspaper companies.

The deal's high leverage led Standard & Poor's to cut Tribune's credit rating yesterday, with a further downgrade anticipated.

Zell will not buy Tribune's baseball club, the Chicago Cubs. In a separate announcement yesterday -- baseball season's opening day -- Tribune said it is putting the Cubs up for sale to pay down corporate debt and expects to find a buyer by the end of the year. The club is estimated to be worth at least $600 million, according to analysts.

Yesterday's deal is the latest shake-up in the newspaper industry, which is undergoing its most significant upheaval in years. Faced with subscription losses, competition from the Web and punishment from Wall Street for their poorly performing stocks over the past decade, newspaper companies are being pushed from public ownership into the hands of leveraged-buyout firms and wealthy individuals.

By going private, Tribune "gets out from underneath Wall Street's spotlight and can develop a game plan that's a little more long-term-focused," said Edward Atorino, media analyst for Benchmark, a research firm. "They don't have to worry about quarterly numbers. This gives them a little more time to adjust to the terrible environment newspapers are in."

Zell's purchase may herald a new era of press lords, 100 years after Pulitzer, Hearst and the Chicago Tribune's own monarch, Col. Robert R. McCormick, whose influential reign at the helm of the Tribune lasted a half a century.

Zell swooped in on Tribune after the company officially concluded its auction in January to lukewarm response. The company was forced on the block in September by dissident shareholders upset with the slide of Tribune stock, which has lost nearly half of its value in the past seven years.

The strategy fit Zell's modus operandi: He is known on Wall Street as the "grave dancer" for his ability to identify and acquire undervalued companies and extract profit.

Last year, shareholder dissatisfaction led to the breakup of the venerable Knight Ridder chain, which was purchased by the McClatchy newspaper company. The New York Times Co. has felt heat from institutional investors over its poor stock performance in recent years, as well.

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"I am delighted to be associated with Tribune Co., which I believe is a world-class publishing and broadcasting enterprise," Zell said in a statement. "As a long-term investor, I look forward to partnering with the management and employees as we build on the great heritage of Tribune Co." Through a spokeswoman, Zell declined to comment further.

The deal must still be approved by Tribune shareholders. It includes a breakup fee of $25 million for Zell if Tribune solicits and chooses a superior bid.

Zell has said he wants to keep the company intact, but he would face some regulatory hurdles to do so.

Tribune owns television stations and newspapers in several cities, such as Los Angeles, which is a violation of Federal Communications Commission "cross-ownership" rules designed to ensure media diversity.

Tribune has received temporary waivers that allow it to break the FCC rules and has lobbied the agency heavily over the past several years to change the rule to allow cross-ownership. In 2004, the FCC attempted to do so but was blocked by a court order.

Zell may be confident that he can clear the FCC issues: He was advised by a number of lawyers that he may not have to re-apply for the waivers as a new owner because he will own less than half of Tribune, with employees holding the majority stake, said a source familiar with the situation who spoke on condition of anonymity because the process is ongoing.

Both the Zell and the Broad-Burkle bid offered an employee stock-ownership plan as a way to buy back Tribune stock. A spokeswoman for Broad and Burkle had no comment on Tribune's selection of Zell's bid. New Tribune stock would be issued to company employees over time, and they would gain a majority holding of the company's common stock.

Such ownership plans have been popular in other sectors, such as the steel industry.

A similar plan failed at the Milwaukee Journal Sentinel because overwhelming debt drove down the company's value, said newspaper analyst John Morton, but one has succeeded so far at the Omaha World-Herald.

At the Peoria (Ill.) Journal Star, the plan worked too well. When the paper grew highly profitable, it drove up the value of employees' holdings, and staff members chose to cash out before retirement.

"Over four or five years, the cost of buying out employees who were leaving was going to be so burdensome, it was going to break the company," said Morton, who did yearly appraisals of the Peoria paper. As a result, the paper was forced to sell out to a chain.