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MEDIA

Tribune faces key tests to seal deal

The company's move to go private must first resolve cross-ownership and financing issues.

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WASHINGTON — Tribune Co.'s shareholders are set to vote in late August on an \$8.2-billion proposal to go private, but the Chicago-based media company has other hurdles to clear before the deal can be completed.

Washington regulators must agree to transfer the licenses of Tribune's 23 TV stations and one radio station to the new company, led by real estate mogul Sam Zell, and to issue waivers allowing it to hold on to TV stations in Los Angeles and four other cities where Tribune also owns newspapers, including The Times.

In addition, borrowing terms have grown more onerous since Zell made the proposal in April, making it costlier to finance the transaction. The company is expected to be saddled with about \$10 billion in debt even after an expected sale of the Chicago Cubs baseball team.

Wall Street has signaled its skittishness, sending Tribune shares down to \$29.25 late last month after they had hit a high in late May of \$33.20. The Zell deal is worth \$34 a share if it is completed.

The stock closed Tuesday at \$30.14, up 23 cents, on a holiday-shortened trading day.

One contributor to the uptick: Deutsche Bank analyst Paul Ginocchio, who upgraded Tribune stock to "buy" from "hold" this week after expressing misgivings last month about whether the deal would close. After discussions with the company, investors and other analysts, Ginocchio said he concluded that financing appeared to be firmly committed. He also calculated that Tribune would have a \$72-million cushion above the crucial debt-to-cash-flow test even if revenue growth was worse than expected in the last half of the year.

Ginocchio also predicted that the Federal Communications Commission would issue the needed waivers. Tribune itself is bullish. "We hope and expect to get FCC approval before the end of the year," Tribune spokesman Gary Weitman said.

Zell wants to close the deal by December and to keep the deal from collapsing needs FCC waivers to hold on to KTLA-TV Channel 5 and TV stations in New York, Chicago, Fort Lauderdale, Fla., and Hartford, Conn. Federal regulations prohibit the ownership of a newspaper and a TV station in the same city.

The waivers normally would be routine because business-friendly Republicans control the FCC. But in a stroke of bad timing for Tribune, Democrats took control of Congress in January and immediately toughened oversight of the agency.

Further complicating matters, the FCC is in the middle of hearings about relaxing its media ownership rules. Eliminating the ban on cross-ownership of newspapers and TV stations in the same market is one possible outcome.

Many Democrats and liberal activist groups adamantly oppose changing the rule because they say media consolidation leads to less diversity of viewpoints. Several of those groups, including Consumer Reports publisher Consumers Union, Consumer Federation of America and the United Church of Christ, have formally opposed Tribune's waiver requests.

Company executives have successfully pushed key congressional Democrats — including two from Tribune's home state — to signal to FCC Chairman Kevin J. Martin that he wouldn't face a major backlash on Capitol Hill if the waivers were granted.

Tribune executives are trying to avoid "outright opposition" from Democrats in Congress, "so Martin knows he's not going to get his head taken off" if he approves the waivers, said one Democratic congressional aide who was not authorized to speak publicly about the meetings.

But granting the Tribune waivers in the middle of the FCC's deliberations on the issue could cause political problems with Democrats in Congress.

"It runs the risk of creating an appearance of favoritism that would be very counterproductive for Kevin Martin," said Andrew Jay Schwartzman,

president of the Media Access Project, a public interest law firm that is representing the United Church of Christ and the Media Alliance in their opposition to Tribune's waiver request. "They'd be far better off if the Republicans were in control on the Hill."

With that in mind, Tribune has been trying to smooth the way with some influential Democrats for temporary waivers to allow the company to keep the TV stations and newspapers until the FCC finishes its media ownership deliberations. Tribune argues that it would make no sense for the FCC to force the company to sell some of those properties, only to turn around and eliminate the rule.

But waiting on the FCC can be dicey. Tribune had expected the commission would get rid of the cross-ownership ban after it acquired the Los Angeles Times and newspapers in New York and Hartford in 2000. The timing was right then for the gamble.

Tribune already owned the TV stations, so no licenses needed to change hands, keeping the FCC out of the process until the licenses expired. That gave Tribune several years to press the commission to end the cross-ownership prohibition.

The license of KTLA expired in December, and licenses in New York and Connecticut expired in the spring. Tribune was granted a temporary waiver in South Florida and did not need one in Chicago, where the company's longtime ownership of WGN-TV and WGN-AM radio has been grandfathered since the rule was instituted in 1975. That special treatment will end when Tribune changes hands.

Under Martin's predecessor, Michael Powell, the FCC voted in 2003 to eliminate the cross-ownership rule as part of a broad overhaul of media ownership regulations. That sparked a backlash from Democrats and Republicans. Congress scaled back some of the changes and a federal court halted the rest, sending the issue back to the FCC for reconsideration.

The commission's two Democrats, Michael J. Copps and Jonathan S. Adelstein, strongly oppose loosening media ownership restrictions. And Martin has moved slowly on the issue, agreeing to hold seven public hearings in a process that will not be completed until next year.

Tribune can't wait that long.

In May, at the company's urging, a bipartisan group of 14 Illinois lawmakers wrote to Martin asking for "prompt consideration" of Tribune's waiver requests.

Then in June, Zell and Tribune Chief Executive Dennis J. FitzSimons came to Washington. Among those they met with were Rep. Rahm Emanuel (D-Ill.), a member of the House Democratic leadership, and Rep. Edward J. Markey (D-Mass.), chairman of the House subcommittee that oversees the FCC.

Zell and FitzSimons also met with Senate Majority Leader Harry Reid (D-Nev.) and Sens. Richard J. Durbin (D-Ill.) and Charles S. Schumer (D-N.Y.), who have Tribune properties in their states. The three senators later wrote to Martin asking for a quick decision.

"I am not going to urge the FCC to rule one way or the other," Durbin told reporters after the meeting. "But I think it's fair to ask, in the interests of justice, in the interest of all of the lives affected by the decision, to make a prompt decision."

Martin's spokeswoman, Tamara Lipper, would not comment on the waiver process.

Opponents of Tribune's waivers said that granting a temporary waiver tied to the FCC's media ownership deliberations could allow the company to continue operating the newspapers and TV stations in the five markets for years.

"They've been gaming the system and we don't think they ought to be allowed to get away with it anymore," said Mark Cooper of the Consumer Federation of America.

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Times staff writer Thomas S. Mulligan contributed to this report.

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