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Tribune vote a sure thing; firm's future not as certain

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*L*ike so many Chicago elections, the vote at Tuesday's special Tribune Co. shareholder meeting is a foregone conclusion.

But how many campaign promises will be delivered on? And is the money really there to pay for it all?

After all, there's no reason to think Tribune Co. shareholders, as a group, will reject at Tuesday's meeting the second half of billionaire Sam Zell's plan to take the company private at $34 per share through considerable debt and an employee stock ownership plan.

It's a money thing. The buyout price represents a 25 percent premium on Monday's close of $27.02, up $1.35 from Friday, fueled by the chief investment officer at Chicago's Harris Private Bank saying the deal is likely to be completed.

If shareholders were to reject the proposal, that $27 share price almost would surely be longingly recalled as the good old days. Having turned away the only substantive lifeline thrown its way in a strategic review begun 11 months ago, they would be left holding a heavily leveraged public company without any of the tax advantages Zell's ESOP reorganization would afford.

But that arbitrage gap—"unusually wide," according to Gimme Credit senior investment grade analyst Dave Novosel—reflects market concern Zell's proposal still might fall apart, shareholder endorsement or not, in part because of global credit crunch fears.

Some worry recent revenue trends could make it difficult for Tribune to pay down its debt as planned; not coincidentally, Tribune's rating was downgraded further into junk territory by Standard & Poor's on Monday.

Some worry the Federal Communications Commission could gum things up by withholding permission for the company to continue to own both broadcast outlets and newspapers in such markets as Chicago, New York and Los Angeles.

And it's those lingering doubts that inform this special shareholder meeting for the 160-year-old media company, parent of the Chicago Tribune, the Los Angeles Times, WGN-Ch. 9 and other media properties, a publicly traded entity since 1983.

"There's a story to write because somebody's taking a vote, but of course they're going to vote for it," said Ken Doctor, senior media analyst at Outsell, a worldwide market research and consulting company. "The drama in the meeting isn't in the vote. It's in whether any more information comes forward."

If it does, it won't be from Zell. The Chicago billionaire named to Tribune's board after the company's directors accepted his proposal, who is supposed to become its chairman with completion of the transaction, isn't planning to attend Tuesday's meeting. A schedule conflict was cited.

Zell, however, has told people in recent days he is confident the transaction will go through as proposed, and he has no intention to renegotiate the terms, sources said. Tribune Co. issued a statement stating its "going-private transaction is on track, and the financing for it is fully committed," with the anticipation of closing by year's end, after FCC approval, and in full compliance with its credit agreements.

But that doesn't mean questions won't be asked.

For one thing, the International Brotherhood of Teamsters, a union representing about 2,000 Tribune Co. employees, said Monday that it is sending a delegation to demand employee representation on the company's ESOP and board of directors. It plans to voice concerns about what it sees as the dangers of Tribune's proposed reorganization.

"Although called an employee stock ownership plan, employees will have few real ownership rights," Teamsters General President Jim Hoffa testified this summer at an FCC hearing. "If given a chance, Tribune employee-owners could play a crucial role in enhancing localism and diversity for the benefit of the public served by the Tribune. … Such a perspective is particularly important when the FCC is being asked to extend the Tribune's cross-media ownership waivers."

Andrew Schwartzman, president and chief executive of Media Access Projects, which opposes the FCC granting Tribune Co. temporary waivers in the five markets where it owns both broadcast outlets and papers, noted that FCC Chairman Kevin Martin has signaled he would like to repeal or loosen the prohibitions on media cross-ownership.

"The FCC splits pretty much on a party-line basis on these things, so Martin probably has the necessary three votes," Schwartzman said by e-mail Monday, adding, however, this would be subject to oversight of the 3rd U.S. Circuit Court of Appeals.

Even if the FCC OKs cross-ownership, Tribune has some serious debt ahead of it in the face of revenue declines. Tribune in May closed on $7 billion in financing to fund the first half of its transaction at higher prices and tighter terms than hoped, and looks to add another $4.2 billion in debt with the deal's second half.

When all is said and done, the company will have $13 billion in debt. Meanwhile, for the first half of 2007, its print and online advertising revenue was down 8.7 percent.

In downgrading the company to four notches below investment grade, S&P said Monday that it would drop the company further, from B-plus to B, when Tribune closes its buyout, reflecting "deterioration in expected operating performance and cash-flow generation compared with previous expectations."

Between now and then, who knows what will happen? Will results at Tribune Co.'s papers and TV stations improve? What kind of price will the announced sale of the Chicago Cubs contribute to the company coffers? Will the current credit crunch scaring world markets abate?

"These are the things that will drive the arithmetic for Tribune post-sale in 2008 to pay down the debt they've taken on," Doctor said.

Tuesday's shareholder vote at Tribune Tower may not be the beginning of the campaign, but it's hardly the end of it.