

From: Chase Edge <cedge@valuationresearch.com>
Sent: Sunday, July 22, 2007 12:41 PM
To: Chad Rucker <crucker@valuationresearch.com>; Bryan Browning <BBROWNIN@valuationresearch.com>
Subject: Tribune Debt Default Risk Tops 50 Percent, Swaps Show

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-----Original Message-----

From: Chad Rucker
Sent: Sun 7/22/2007 7:16 AM
To: Chase Edge
Subject: RE:

Chase, when you get up this morning give me a call at 609 443 1513.

Chad

From: Chase Edge
Sent: Sat 7/21/2007 8:36 PM
To: Chad Rucker
Subject:

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Tribune Debt Default Risk Tops 50 Percent, Swaps Show (Update3)

By *Tim Mullaney and Shannon D. Harrington* - July 20, 2007 17:24 EDT



The Tribune Tower



Sam Zell, chairman of Equity Group Investments

July 20 (Bloomberg) -- [Tribune Co.](#) has a 50-50 chance of missing [interest payments](#) on some of the \$13 billion in debt it will have after real estate investor [Sam Zell](#) buys the company, trading in the company's credit-default swaps shows.

Prices of the swaps, financial contracts used to speculate on a company's ability to repay debt, have jumped \$331,000 since the first step in the sale was completed in May. It costs \$770,000 to protect \$10 million of Tribune bonds for five years, according to CMA Datavision, indicating a more than 50 percent risk of default. That's up from 32 percent on May 24, based on a JPMorgan Chase & Co. pricing [model](#).

Investor unease is being fed by a deepening advertising slump at Tribune, owner of 11 metropolitan newspapers including the Los Angeles Times. That newspaper had "one of the worst quarters ever experienced," in the second quarter and Tribune publishing results generally were "worse than the industry," Publisher [David Hiller](#) wrote in a July 13 memo.

"If you were unsure about a deal before, it's much worse now," said [Dave Novosel](#), an analyst at Gimme Credit Publications Inc. in Chicago who rates Tribune bonds "sell."

Tribune revenue fell 11 percent in May, the company said June 20, and was down 5.6 percent for the year to \$2.02 billion. The company reports second-quarter results on July 25.

Riskier Than Ford

Tribune's results trail a forecast for a 0.9 percent sales decline this year that the Chicago-based company gave Zell in February, according to a June 1 Securities and Exchange Commission filing.

Tribune swaps prices imply investors consider the company the fourth-riskiest debt issuer among the almost 1,200 worldwide whose credit-default swaps were quoted this week by London-based CMA. Tribune is perceived as more likely to default on its bonds than [Ford Motor Co.](#), the Dearborn, Michigan-based automaker that reported a record \$12.6 billion loss last year. Ford credit- default swaps trade at \$682,000, CMA prices show.

"It's definitely a high-risk, speculative position for anyone to take," said [Matthew Eagan](#), who helps oversee bond trading at Boston-based Loomis Sayles & Co., the second-largest owner of Tribune bonds according to [data](#) compiled by Bloomberg.

Credit-default swaps were conceived to protect bondholders against default. They pay the buyer face value in exchange for the underlying securities or the cash equivalent should a company fail to adhere to its debt agreements. They are privately negotiated contracts between banks and hedge funds or other investors, and are not issued by companies.

Zell Offer

Tribune said April 2 that Zell would lead a \$34-a-share buyout that valued the company at \$8.2 billion. [Shares](#) of Tribune, also owner of 23 television stations and the Chicago Cubs baseball team, fell 65 cents, or 2.2 percent, to \$28.91 as of 4:01 p.m. in New York Stock Exchange composite trading, and are 15 percent below the offer price.

Zell, a 65-year-old billionaire from Chicago, declined to comment. Tribune spokesman [Gary Weitman](#) said the company won't elaborate on its filings and public statements.

The company's sales are running behind even the most pessimistic scenario evaluated by its banker, New York-based [Morgan Stanley](#). Tribune would be worth as little as \$14.21 a share if newspaper sales were to fall 3 percent a year and broadcasting cash flow declined 1 percent annually through 2011, Tribune said in the filing, citing a Morgan Stanley analysis.

A 3 percent sales decline for 2007 may be the most optimistic possibility now, CreditSights Inc. bond analyst [Jake Newman](#) said. If Tribune has to sell assets in [bankruptcy](#), the pieces could be worth less after taxes than the company owes, he said.

`At Risk'

``Their capacity to service their [obligations](#) could certainly be at risk," said [Mike Simonton](#), a credit analyst at Fitch Ratings in Chicago.

Tribune's newspaper division provided almost [three-quarters](#) of 2006 sales of \$5.52 billion.

Tribune has said in [filings](#) it will slash capital spending, eliminate dividends and use an employee-ownership structure to avoid taxes, conserving cash to make interest payments that New York-based Benchmark Co. analyst [Edward Atorino](#) estimated at \$1.08 billion.

The company will earn \$1.09 billion to \$1.18 billion before interest, taxes, depreciation and amortization this year, estimates Deutsche Bank newspaper analyst [Paul Ginocchio](#) in New York. While the deal is ``more likely than not" to be completed, ``there may be some [unhappy lenders](#) in the end," he wrote in a July 1 report.

Optimistic View

Tribune plans to sell the Cubs and a cable network that shows the team's games, generating as much as \$645 million after taxes, according to Ginocchio. The company may get \$900 million for its 30 percent of cable-TV's Food Network, Atorino said. Tribune would likely sell TV stations next, said analyst [James Goss](#) at Barrington Research in Chicago.

[Hale Holden](#), a credit analyst at Barclays Capital in New York, raised his rating on Tribune debt to ``outperform" from ``underperform" July 16, partly because ``the credit market is currently undervaluing potential asset-sale proceeds." He suggested selling credit-default swaps and buying shares.

``We do not view Tribune as a default candidate near term," Holden wrote in a research note.

The takeover calls for Tribune to be controlled by Zell and the employee stock ownership plan after the company borrows money to buy itself in two steps.

On May 24, Tribune bought back 126 million shares, using more than \$4 billion [borrowed](#) from four banks, including Citigroup Inc. and JPMorgan Chase. Tribune plans to borrow another \$4.2 billion by year-end to buy its remaining stock.

To contact the reporters on this story: Tim Mullaney in New York at tmullaney1@bloomberg.net; Shannon D. Harrington in New York at sharrington6@bloomberg.net

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