

1 *Draft*

2 **Tribune Co. — Step 2 Solvency Valuation Questions**

3 *The following outlines questions concerning the solvency analysis for Step 2 of the Tri-*  
4 *bune transaction. Other questions may arise as a result of discussions of these questions and*  
5 *related matters.*

- 6 1) Summarize preliminary conclusions, nature of due diligence investigation and scope  
7 of review.
- 8 2) Provide detail on the comparable transactions used in the analyses including:  
9 a. The underlying business and business mix of the target companies?  
10 b. Was the target public or private?  
11 c. What were the dates of the transactions?  
12
- 13 3) What comparable public companies were used in the analyses?
- 14 4) Explain the sum of individual assets method and underlying assumptions.
- 15 5) Explain the weighting given to the different valuation approaches, if any. Was any  
16 weighting different as between Step 1 and Step 2?
- 17 6) Discuss the methods and assumptions used in the discounted cash flow analysis:  
18 a. What is the discount rate (WACC) used?  
19 b. Are cash flows discounted at a single WACC or different discount rates for  
20 each year?  
21 c. What is the assumed capital structure? What is the cost of debt (pre-tax or  
22 post-tax) assumed? Is the current market cost of debt considered in the analy-  
23 sis?  
24 d. What is the cost of equity? Please outline methodology, assumptions and  
25 sources for inputs.  
26 e. Discuss methodology used to calculate terminal year value.  
27 f. In the discounted cash flow analysis, what assumptions were used in the ter-  
28 minal value calculation (i.e., growth rate, capital structure, exit multiple, etc.)  
29 and support for the assumptions?
- 30 7) Discuss whether methods and principles employed in solvency analysis are consistent  
31 between Step 1 and Step 2. Discuss any general changes in assumptions and outlook  
32 that were considered in the Step 2 analysis as compared with the Step 1 analysis.
- 33 8) How are taxes treated in the analysis? As the Company will not be a federal taxpayer  
34 as a result of the S Corp election, does the discounted cash flow analysis take this into  
35 consideration, and if so, how?
- 36 9) Have current market conditions and marketability of the Company's assets been con-  
37 sidered in the analysis? How do market condition factors differ for analyses of Fair  
38 Value (commercially reasonable time period) and Present Fair Value (reasonable  
39 promptness)?

- 40 10) Discuss the following issues concerning equity investments:  
41 a. Considering the Company has minority ownership in many of its equity in-  
42 vestments, how has the marketability of these equity investments been consi-  
43 dered?  
44 b. Explain the methodology in valuing unconsolidated investments. Are these  
45 added to values calculated by the four stated valuation methods or already part  
46 of the calculation?  
47 c. When adding back the equity investments to the operating values, was the re-  
48 lated income from these investments excluded from the EBITDA?  
49 d. Depending on how much is owned of the equity investments and whether they  
50 are public or private, are discounts for minority interest and marketability ap-  
51 plicable?
- 52 11) Was the value of any excess real estate considered in the valuation?
- 53 12) What is considered the acceptable range of excess capital in the capitalization test?  
54 What is considered to be the acceptable range of equity cushion? Is book value of  
55 equity considered in the analysis?
- 56 13) Was a company specific or market capital structure used to calculate the levered cost  
57 of equity? If a market capital structure was used, was a market cost of debt applicable  
58 for that capital structure used or was the Company's specific cost of debt used?
- 59 14) Has \$1.4bn of tranche flex to bonds been considered in the analysis (cap rate at  
60 12.5%)?
- 61 15) How was the beta developed?
- 62 16) What was the market risk premium used in the calculation of the cost of equity? Was  
63 a size risk premium considered?
- 64 17) How are guarantees and contingent liabilities taken into account in the analysis? How  
65 are the PHONES liabilities valued? How are other long-term liabilities, such as de-  
66 ferred taxes, analyzed?
- 67 18) What is the assumption for the Company's ability to refinance debts as they become  
68 due and how is the assumption established?
- 69 19) What downside cases were considered? What were the relevant assumptions to the  
70 downside case and how did it affect overall analyses?  
71 a. Were financial covenants met in downside cases? If not, which ones were  
72 tripped?  
73 b. In the downside cases, did the Company have revolver capacity to fund its op-  
74 erating capital needs?  
75
- 76 20) Discuss differences from recent research published by equity analysts and rating  
77 agency (Lehman, Deutsche Bank, Merrill, S&P)? Were these reports relevant to the  
78 analysis?