ANNEX A

DISCOUNTED CASH FLOW ANALYSIS

This Annex first discusses certain valuation methodologies and the relevance and applicability of those methods to establishing a value for Tribune at the Step Two Financing Closing Date. In particular, the Examiner's financial advisor discusses why the use of a DCF approach to valuing Tribune's operating assets is, in this case, preferable to other market-based approaches to valuation. This Annex then discusses: (a) the DCF valuation model prepared by the Examiner's financial advisor, (b) the approach to, and development of interim period projections of revenues and EBITDA, or operating cash flow, for each of the Publishing Segment and the Broadcasting Segment, (c) the manner in which these forecasts of EBITDA were converted to cash flow, by taking into account, for example, expected capital expenditures, (d) the development and selection of long-term growth rates for each of the Publishing Segment and Broadcasting Segment, as well as Tribune's nascent interactive business, as those expectations would apply for periods subsequent to the interim period cash flow projections discussed above, (e) the selection of discount rates that the Examiner's financial advisor used to convert forecasted cash flows (including both discrete period and long-term, or perpetuity cash flow expectations) to present value, for purposes of establishing a value of Tribune's operating assets at the Step Two Closing Date, and (f) the value of Tribune's non-operating assets.

A. Valuation of Tribune's Operating Assets.

1. Methodological Overview.

The Examiner's financial advisor valued Tribune's operating assets at the Step Two Financing Closing Date by first determining whether market-based valuation methodologies commonly considered in connection with performing business valuations were likely to lead to credible indications of the value of Tribune's operating assets, recognizing that such approaches to valuation can lead to invalid valuation conclusions absent sufficiently similar "cohort" (or comparable) companies or transactions from which performance metrics (*e.g.*, EBITDA multiples) can reasonably be applied to the valuation subject (in this case, Tribune). Comparability was assessed by reviewing cohort companies identified by Tribune, VRC and various financial advisors in the events culminating in the Leveraged ESOP Transactions.[1] For several reasons, the Examiner's financial advisors concluded that less meaningful valuation conclusions would be derived from the use of such market-based methodologies than would be derived from using a DCF approach.

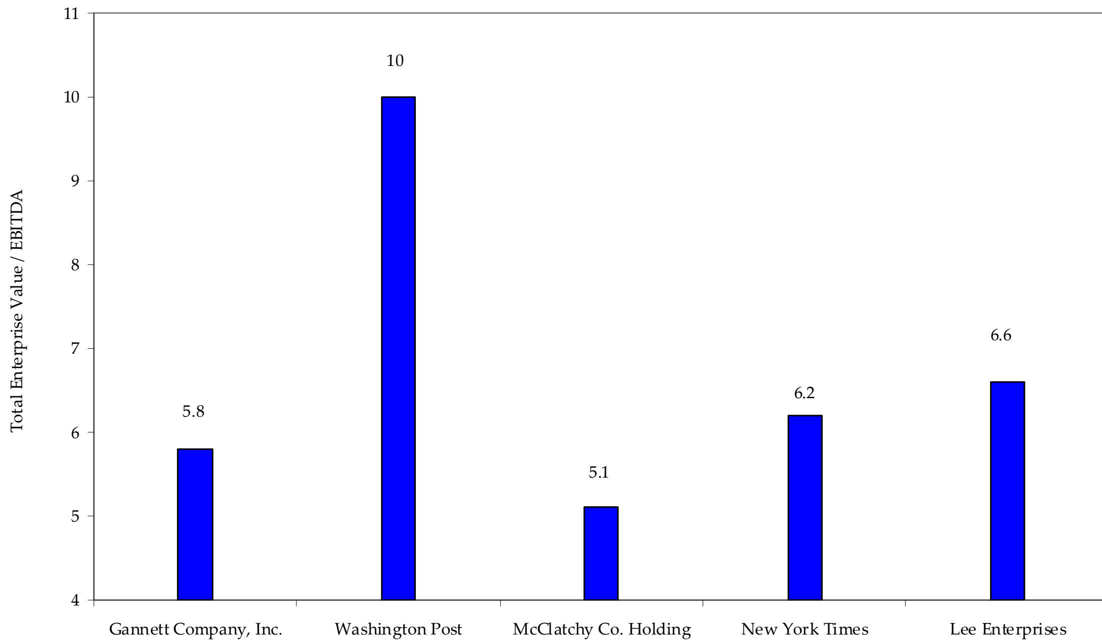
[1] *See* Report at § III.H.3.

The Examiner's financial advisor considered, for example, that market multiples quantified by VRC at Step Two demonstrated significant variability[2] with respect to both companies identified as comparable to the Publishing Segment and the Broadcasting Segment.[3]

---

[2] This variability, in Examiner's financial advisor's opinion, was partially the result of VRC's selected cohorts not being sufficiently comparable to Tribune to allow for meaningful valuation conclusions to be determined on the basis of multiples derived from the cohort companies.

[3] The table below summarizes, for example, the LTM EBITDA multiples quantified by VRC as part of its Step Two analyses, for identified companies that VRC believed to be comparable to the Publishing Segment.



The table reflects that multiples can also be upwardly or downwardly biased due to the inclusion of "outlier" statistics, as well as the inclusion of non-comparable companies' multiples as part of the cohort company identification and selection process. Valuation results could differ, for example, by nearly 100% by selecting one multiple (10x for The Washington Post) versus another (5.1x for McClatchy).

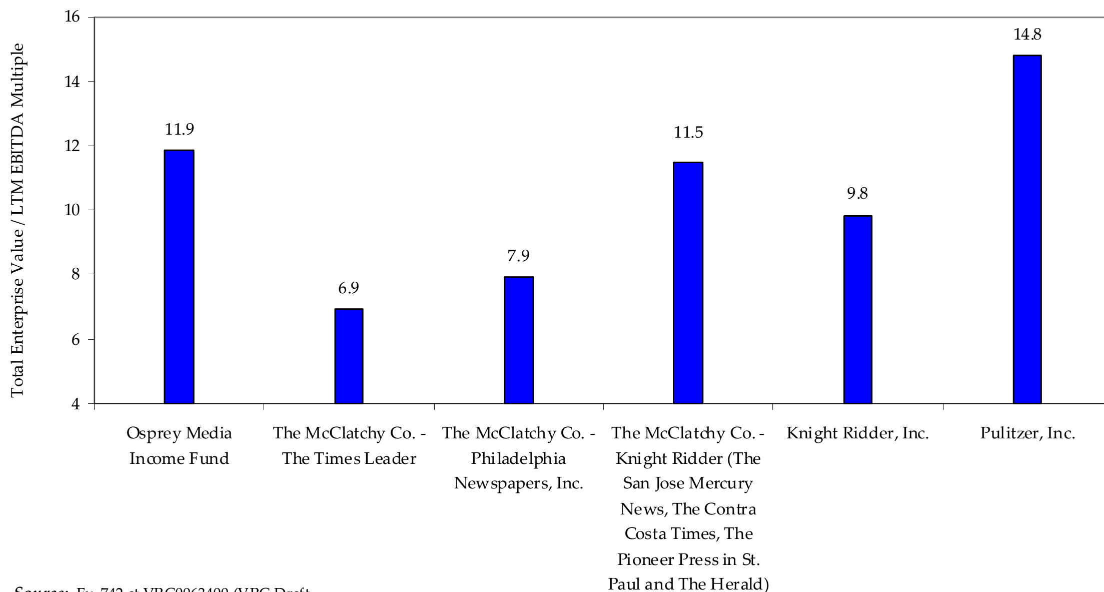
Tribune's identified Broadcasting Segment cohorts as selected by VRC also exhibited significant variability.

Significant variability, in turn, limited the reliability of valuation results predicated on those methods: [4]

> The extent to which the valuation multiples are tightly clustered or widely dispersed tends to indicate the extent to which the market tends to focus on that particular multiple in pricing stock in the particular industry. For this reason, when analyzing the guideline companies, the analyst may want to calculate not only measures of central tendency (such as mean and median), but also measures of dispersion (such as standard deviation and coefficient of variation).
>
> Generally, the lower the dispersion of the valuation multiples, the greater the weight the analyst might consider according to that

---

VRC Publishing Comparable Transaction Multiples
(at Step Two)



Source: Ex. 742 at VRC0063400 (VRC Draft Solvency Analysis, dated November 30, 2007).

Transaction multiples can also result in unreliable valuation conclusions.

> In theory, the M&A market is the true reflection of current interaction between willing sellers and willing buyers. In the real world, however, this is rarely the case. Corporations are not yellow pencils, quickly stacked and easily matched; it is difficult to make true comparisons of complex situations – in one way or another virtually every M&A sale can be considered special or extraordinary. Furthermore, the M&A market often evinces aberrations – companies selling too low when suffering distressed conditions and companies selling too high when faddish or foolish buyers are over-eager to acquire.

SHANNON P. PRATT, VALUING A BUSINESS 265 (4th Ed. 2000).

[4] SHANNON P. PRATT, VALUING A BUSINESS 291 (5th Ed. 2007).

multiple. In some cases, the guideline company table may lead the analyst to conclude that the valuation multiples based on some particular financial fundamental are so widely dispersed that those multiples have no usefulness as guidance to value.

Because quantitative adjustments necessary to normalize for differentiating characteristics are difficult to accurately estimate (and were, as discussed previously herein, not quantified accurately by VRC at Step Two),[5] the Examiner's financial advisor determined to give little weight to valuation results derived using multiple-based valuation methodologies, but instead focused on establishing a value for Tribune's assets based on the use of a DCF methodology.

---

[5] VRC (and others) established cohort company multiples by determining operating asset enterprise values for such companies and expressing those values as multiples of, for example, each company's LTM EBITDA. To calculate operating asset enterprise values, VRC first determined an overall value for each company (inclusive of the value of non-operating assets such as equity ownership interests of the type owned by Tribune). This was accomplished by adding to observed equity values (based on shares outstanding multiplied by observed stock prices) the recorded value of each company's net debt from respective SEC filings. These concluded total enterprise values for each cohort were then reduced by the recorded "book value" of each company's investment in non-operating assets, when applicable. The resulting "value" of *operating* assets was then expressed as a multiple of, for example, LTM EBITDA. By adjusting total values for the cohorts by the book value of non-operating asset equity investments, multiples were likely significantly overstated, because the market value of such assets would be expected to be at least as much as the recorded book value. Multiples so calculated were then applied to Tribune performance metrics (e.g., LTM EBITDA) to value Tribune's operating assets.

An example illustrates the point. In a hypothetical in which a cohort company (which earned $10,000,000 in LTM EBITDA) has an enterprise value of $110,000,000, while owning non-operating assets worth $30,000,000 (but recorded at book value of $10,000,000), very different multiples results will be calculated depending on whether the adjustment necessary to calculate an *operating* asset valuation multiple is done at market value versus book value. In this hypothetical example, the book basis EBITDA multiple overstates value by 25% (8x v. 10x).

	Book Adj.	Fair Value Adj.
Total Enterprise Value	$ 110,000,000	$ 110,000,000
Adjustment to Revenue Non-Operating Asset Value	$ (10,000,000)	$ (30,000,000)
Operating Asset Value	$ 100,000,000	$ 80,000,000
LTM EBITDA	$ 10,000,000	$ 10,000,000
LTM EBITDA Multiples	10X	8X

B. DCF Valuation of Tribune's Operating Assets

1. Overview

Because DCF valuation conclusions principally depend on forecasts of future cash flow for discrete periods, assumptions on terminal value (*i.e.*, timing and use of exit multiples or perpetuity growth rate methodologies), and selection of an appropriate weighted average cost(s) of capital (or "discount rate(s)"), or a range of discount rates, the Examiner's financial advisor focused its investigation on these important components of the DCF model inputs.[6]

In conducting a DCF valuation of Tribune's operating assets, the Examiner's financial advisor initially obtained projections prepared by Tribune management, including those provided to, and relied upon by, VRC as the basis for its valuation of Tribune. The Examiner's financial advisor noted, whenever possible, Tribune's rationale (to the extent ascertainable) underlying the projections, expectations of value, and salability of non-core assets, and other relevant cash flow projection parameters.[7] These components then were evaluated for reasonableness. This assessment, in turn, included review and evaluation of: (a) Tribune's near-term and longer term historical financial performance (by business unit when feasible), (b) the process undertaken by Tribune management to develop the projections (including February 2007, April 2007 (the basis for VRC's May 2007 solvency opinion model), and November 2007 (the basis for VRC's December 2007 solvency opinion model) iterations of those projections), (c) the expectations of Tribune's future performance held by analysts reporting on Tribune, (d) relevant market trends and expectations of future performance related thereto, a review of the record in this case (including depositions transcripts, sworn interview transcripts and interview notes), and (e) the valuation impact and significance of certain specific changes in the scope of, and key growth assumptions informing the projections.[8]

---

[6] DCF is a forward looking approach that estimates firm value as the discounted value of expected future cash flows. As such, it is sensitive to a number of assumptions used to derive the cash flows or discount rates. In contrast to the relative valuation models, however, this approach requires that the analyst be explicit about these important assumptions. DCF models are considered by some commentators to be the most useful measure of intrinsic value. EDWARD ALTMAN AND EDITH HOTCHKISS, CORPORATE FINANCIAL DISTRESS AND BANKRUPTCY 109 (3rd Ed. 2006).

[7] A comparison of Tribune's projections as relied upon by VRC for its May 2007 and December 2007 solvency opinions is particularly illuminating, particularly with regard to the reasonableness of the December 2007 projections of cash flows. These cash flows were used to inform both the market and discounted cash flow valuation method models used by VRC in connection with the rendering of its Step Two solvency opinion, as discussed herein, particularly given Tribune's adverse performance against its February 2007 plan.

[8] In addition to reviewing management's projection models (including, among others, those presented to the Tribune Board in February 2007 and October 2007), the Examiner's financial advisor reviewed certain comparative analyses of projections undertaken by VRC as part of its due diligence. The Examiner's financial advisor also conducted independent research in order to evaluate the reasonableness of the revenue and operating cash flow expectations informing Tribune management's and VRC's projections of Tribune operating performance. In connection with such efforts, the Examiner's financial advisor evaluated the expectations of the general market and Tribune-specific performance espoused by certain publishing and broadcasting investment analysts that were following Tribune through the date of the Step Two Financing Closing Date.

As of December 20, 2007, most of Tribune's businesses were mature, with little prospect for significant future growth or improved profitability relative to prior performance or beyond industry-wide expectations for similarly situated businesses. As a result, the Examiner's financial advisor evaluated the reasonableness of certain contemplated revenue and profitability enhancement effects of "transformative" changes identified by Tribune management during the course of 2007. As part of its strategic plan underlying its projections in the fall of 2007, however, Tribune management assumed that Tribune's interactive business would be a significant source of growth. Because the forecasted growth and profitability characteristics of Tribune's interactive business, as envisioned by Tribune management, are distinguishable from Tribune's traditional and more mature lines of business (the print advertising and circulation components of the Publishing Segment and the Broadcasting Segment), and because management's interactive business revenue growth and profitability expectations were much more aggressive, and much less certain in terms of realization (and therefore exhibited a very differentiable risk profile in relation to Tribune's other businesses),[9] as part of its independent DCF valuation exercise, the Examiner's financial advisor elected to segregate that component of Tribune's business from its other business segments for forecasting and discounting purposes.

On the basis of a review and assessment of management's projections, Tribune's historical financial performance, VRC's analytical work, and industry and analyst expectations, the Examiner's financial advisor developed independent projections of expected revenue and EBITDA performance for Tribune's legacy publishing, and broadcasting and entertainment segments over a five-year discrete period projection horizon (given the relatively mature nature of these businesses). The Examiner's financial advisor also developed a ten-year projection of interactive business revenue and EBITDA expectations (given the less mature and more aggressive growth and profitability outlook for this business). For purposes of its DCF analysis, the Examiner's financial advisor then considered terminal values for each business segment. For reasons articulated below, these independently developed projections, considered reasonable by the Examiner's financial advisor, are less optimistic than those prepared by Tribune and relied on by VRC for its Step Two solvency opinion.[10]

Of particular note, the Examiner identified an October 2007 VRC assessment of Tribune's revenue and expense growth rate assumptions informing Tribune's then-existing projections. The details of that assessment were memorialized in a late October 2007 internal VRC memorandum which, according to Bryan Browning of VRC, was the result of a routine procedure whereby analysts assisting him on valuation projects memorialized their work. The Examiner's financial advisor, in developing independent projections, considered VRC's commentary on the reasonableness of management's projections as contained in that memorandum, as well. *See* Report at § III.H.3.

[9] The relative risk and uncertainty of projections of interactive financial performance was specifically acknowledged by Mr. Landon and Mr. Zell, among others, during their interviews conducted by the Examiner. Examiner's Interview of Samuel Zell, June 14, 2010; Examiner's Interview of Timothy Landon, June 22, 2010.

[10] The Examiner notes that the revenue and expense projections (and resultant EBITDA forecasts) developed by his financial advisor are sometimes more consistent with alternative projection parameters discussed in a VRC October 2007 critique of management's projections. This fact, in the Examiner's view, adds to the credibility of the revised expectations as developed by the Examiner's financial advisor.

The Examiner also recognizes that valuation analysis involves the use of judgment. Although the Examiner believes that the projections developed by management and relied on by VRC for purposes of rendering its Step

C. Publishing Segment.

1. DCF Model Assumptions.

In a comprehensive review of the status of the newspaper industry dated December 11, 2007, [11] Credit Suisse analysts John Klim and Jim Kim assessed and reported on the factors then influencing expected performance of a group of newspaper companies for which they provided coverage.[12] The report contains numerous references to, and discussion of, the "secular decline" then facing the newspaper industry. In one such discussion, the analysts summarized the fundamental factors contributing to the secular decline effecting the industry as follows:[13]

> In the analog world of yesteryear, significant fixed costs associated with producing news on a daily basis insulated newspapers from new entrants. These barriers to entry afforded newspapers the dominant position in the local media market, allowing publishers to push ad rates well above the rate of inflation while driving healthy returns for investors.
>
> Times have certainly changed and the benefits that accompanied the industry's once quasi-monopolistic operating environment are rapidly being torn away by disruptive, new competitors. Technology has lowered production and distribution costs, expanded the domain of potential delivery channels, and empowered consumers.

The shift in consumer preferences described by the analysts is evidenced by the declining number of, and circulation related to, newspapers:

Two solvency opinion are excessively optimistic, the Examiner acknowledges that reasonable analysts can disagree. The Examiner believes that the alternative projections discussed herein, and valuation conclusions that result therefrom, are reasonable and appropriate. On the basis of such expectations, the Examiner concludes that a court would reasonably find that Tribune was insolvent at Step Two. If contested, the ultimate resolution of those issues would, of course, be the subject of expert and fact witness testimony. The Examiner further believes that market indicia would also be a factor considered by a court on the question of solvency and that information derived therefrom is likely to be considered corroborative (if not dispositive) of insolvency at Step Two as well.

[11] Ex. 1082 (Credit Suisse Newspaper Sector Report, dated December 11, 2007).

[12] Credit Suisse coverage had been initiated for Gannet, The New York Times, Belo Corp., Journal Communications, Lee Enterprises, McClatchy, Media General, and Scripps.

[13] *Id*. at VRC0007341.

NUMBER OF DAILY NEWSPAPERS										
Daily								Sunday		
Year	Morning	Evening	Total Newspapers	Morning Circulation (000)	Evening Circulation (000)	Total (000)	% Change	Total Newspapers	Total Circulation (000)	% Change
2000	766	727	1,480	46,772	9,000	55,773		917	59,421	
2001	776	704	1,468	46,821	8,756	55,578	-0.35%	913	59,090	-0.56%
2002	777	692	1,457	46,617	8,568	55,186	-0.71%	913	58,780	-0.52%
2003	787	680	1,456	46,930	8,255	55,185	0.00%	917	58,495	-0.48%
2004	814	653	1,457	46,887	7,738	54,626	-1.01%	915	57,754	-1.27%
2005	817	645	1,452	46,122	7,222	53,345	-2.35%	914	55,270	-4.30%
2006	833	614	1,437	45,441	6,888	52,329	-1.90%	907	53,179	-3.78%
2007	867	565	1,422	44,548	6,194	50,742	-3.03%	907	51,246	-3.63%
2008	872	546	1,408	42,757	5,840	48,597	-4.23%	902	49,115	-4.16%

Source: http://www.naa.org/trendsandnumbers/total-paid-circulation.aspx.

Credit Suisse credited declining circulation to customer defections to other forms of information delivery, and posed the critical question of newspaper survival.[14]

> However, it is important to note that it is consumers that are choosing to bypass the traditional forms of media—technology, in the form of new distribution platforms, is just the enabler. . . . The pertinent question as it relates to newspapers (and all traditional media for that matter) is how will they deal with the accelerating structural shifts to media consumption habits?

The task facing newspapers, according to Credit Suisse, was nothing short of complete transformation.[15] That newspapers were facing a secular decline in their ability to reach an audience through the distribution of newspapers and that advertisers were shifting their advertising dollars to other media are clearly, however, predominant undercurrents in many analyst's assessments of the newspaper publishing industry, and Tribune in particular, well before the announcement of the Merger.[16]

---

[14] *Id*. at VRC0007341. It is important when reviewing the historical financial performance of Tribune's print advertising sub-segments (i.e., retail, national and classified advertising, and "other") in relation to its circulation, to understand that the economic growth enjoyed as a result of, for example, the housing bubble, likely masked, to some degree, the detrimental economic impact on newspapers of the secular decline evidenced by contracting newspaper circulation. If circulation is declining as a result of a shift in customer demand away from newspapers as a news and information delivery mechanism (due to demographics or other reasons), advertisers will quite reasonably migrate toward the media replacing the increasingly outmoded newspaper.

However, in economic boom times (which characterized the 2002-2006 period), the financial impact of this negative trend may not be fully manifest because so many advertising dollars are expended in the market. When the boom ends however, and, depending upon the existence and severity of any economic swing the other way, the secular trend likely is again masked because advertisers are pulling more from their newspaper advertising budget than would be the case based solely on a migration toward other media. As a result of this "masking" phenomenon, it is difficult to specifically isolate and segregate secular impacts from cyclical elements of growth or decline based solely on a review of Tribune's historical performance.

[15] "Newspapers must ultimately transform themselves from lumbering dinosaurs into nimbler, multiplatform information providers capable of reaching customers in print, online, or by mobile download." *Id.*

[16] For example, on August 1, 2006, Wachovia Securities analyst John Janedis observed:

Ratings agencies also recognized the challenging newspaper environment. On December 20, 2007, Fitch cited "meaningful secular headwinds" faced by newspaper publishers, as it lowered Tribune's issuer default rating, as well as the ratings on Tribune's unsecured and secured debt.[17]

> TRB's circulation revenue growth has consistently underperformed the industry over the past several years. While some of the decline is attributable to overall secular trends, a large portion is due to steps the company took last year to cut back its "other paid" circulation. With the reduction of "other paid" largely out of the way and easier comps in 2006, we expect the declines in circ revenue to improve in 2007.

The secular trend affecting newspaper publishers and its disproportionate effect on the Tribune Company are reflected in the year-over-year percentage changes in circulation revenue through 2005. Wachovia's expectation of the continuation of this secular trend is reflected in their expectations for the percentage changes in circulation revenue that would be realized in 2006 and 2007 by Tribune and the industry. Note that although the Wachovia analysts expected "the declines in circ revenue to improve" in 2007, this improvement meant a one-tenth percentage point smaller decline than in 2006 for the industry. A table from the Wachovia report is replicated below:

YEAR/YEAR % CHANGE IN CIRCULATION REVENUE

	DJ (US WSJ print only)	MNI	TRB	NYT	SSP	GCI	LEE	JRC	Wachovia Universe	Industry	Difference
2001	-6.4%	-4.0%	1.0%	NA	2.6%	-1.7%	-1.1%	NA	-1.6%	2.3%	-1.3%
2002	-2.8%	-1.4%	1.1%	NA	-0.9%	-0.2%	-0.6%	0.4%	-0.6%	2.3%	-1.2%
2003	-3.2%	-0.3%	-1.1%	7.3%	-1.9%	0.5%	-0.2%	-1.4%	0.0%	1.8%	-2.9%
2004	-1.1%	0.6%	-3.0%	-0.2%	-3.5%	1.5%	-0.3%	-1.3%	-0.9%	-2.1%	-0.9%
2005	0.1%	-2.5%	-7.4%	-1.1%	-2.0%	-0.5%	-2.2%	-2.5%	-2.3%	-3.3%	-4.1%
2006E	-0.5%	-1.8%	-3.3%	1.2%	-3.0%	2.8%	-1.0%	-4.8%	-1.3%	-2.4%	-0.9%
2007E	-0.5%	-2.2%	-2.5%	-1.2%	-1.0%	0.0%	-1.3%	-1.0%	-1.2%	-2.4%	-0.2%

Source: Tribune reports, Newspaper Association of America (NAA), and Wachovia Capital Markets LLC estimates.

Other analysts held similar views through the period up to, and including, the Step Two Financing Closing Date. *See, e.g.*, Ex. 1083 at 3 (Morgan Stanley Analyst Report, dated September 26, 2006); Ex. 1084 at 1 (Morgan Stanley Analyst Report, dated October 22, 2006); Ex. 1085 at 1 (Prudential Equity, LLL Analyst Report, dated January 17, 2007); Ex. 1086 at 1 (JPMorgan Analyst Report, dated March 26, 2007); Ex. 1100 at 1 (Bear Sterns Research Report, dated April 2, 2007); Ex. 1087 at 2 (A.G. Edward Analyst Report, dated April 3, 2007); Ex. 627 at 3 (Lehman Change of Earnings Forecast, dated August 14, 2007); Ex. 1088 at 1 (Wachovia Securities Analyst Report, dated December 24, 2007).

[17] As reflected in their report, Fitch downgraded Tribune to the following ratings:

> --Issuer Default Rating (IDR) to 'B-' from 'B+'.
>
> --Senior secured revolving credit facility to 'B/RR3' from 'BB/RR2'.
>
> --Senior unsecured notes to 'CCC/RR6' from 'B-/RR6'.
>
> --Subordinated exchangeable debentures due 2029 to 'CCC-/RR6' from 'CCC+/RR6'.
>
> --Senior unsecured bridge loan 'CCC/RR6'.

Ex. 719 (Fitch Press Release, dated December 20, 2007).

Fitch further observed:

> Fitch's ratings reflect the significant debt burden the transaction places on the company's balance sheet while its revenue and cash flow have been declining. Fitch believes newspapers and broadcast affiliates (particularly in large markets where there is more competition for advertising dollars) face

Furthermore, in an industry outlook report dated December 2007, IBISWorld Research also summarized the secular nature of the decline in the newspaper industry, noting:[18]

> The proportion of the adult population in the United States that reads newspapers has been in long-term decline, and this has had a negative impact on the demand for printed newspaper advertising. An expected continuation of this trend would impact both newspaper circulation and advertising revenue going forward.

Secular declines were also evidenced by annual print advertising revenue declines heading into 2008:

ADVERTISING CATEGORIES 2007 ($mm)							
	2007	2006	$ Change	% Change	% Secular Change	% of Ad Decline	Rate of Secular Decline
National	$ 7,005	$ 7,505	($ 500)	(6.7%)	(10.0%)	(11.4%)	(0.7%)
Retail	$ 21,018	$ 22,121	($ 1,103)	(5.0%)	(15.0%)	(25.1%)	(0.7%)
Classified	$ 14,186	$ 16,986	($ 2,800)	(16.5%)	(47.5%)	(63.6%)	(7.8%)
Newspaper Print Total	**$ 42,209**	**$ 46,611**	**($ 4,402)**	**(9.4%)**	**(35.1%)**	**(100.0%)**	**N/A**

Source: Research Dept., Newspaper Association of America, and Credit Suisse for % secular change.

The Examiner's financial advisor considered contrary views. For example, notwithstanding the broadly acknowledged secular decline characterizing the newspaper industry, the Credit Suisse analysts nonetheless espoused an optimistic view for newspapers, observing that "newspapers will adapt and survive in the new media paradigm." The analysts also quantified factors contributing to observed declines.[19]

> meaningful secular headwinds that could lead to more cash flow volatility in the future. With fixed-charge coverage estimated to be below 1.3 times (x), there is very little room to endure a cyclical downturn. In addition, the rating continues to reflect volatile newsprint prices and the threat of emerging technologies on the economics of the pure-play broadcasting affiliate business. These concerns are balanced somewhat by the quality and geographic diversity of the company's assets as well as the success of several of the company's on-line investments. Also, the company's assets are separable from the company and provide some capacity to potentially postpone financial distress.
>
> The Negative Outlook reflects Fitch's belief that there are significant secular pressures facing newspapers and broadcast affiliate industries, as advertising dollars are being redirected toward the emerging mediums to the detriment of traditional media. Both businesses face the risk of margin compression as these revenue pressures are coupled with cost structures that are fixed or contain elements that are largely outside of management's control. There is a limited margin of safety around the bank facility covenant thresholds to endure these threats in a cyclical downturn.

Ex. 719 (Fitch Press Release, dated December 20, 2007).

[18] Ex. 1089 (IBIS World Industry Input, Newspaper Publications in the US, dated December 4, 2007).

[19] Ex. 1082 at VRC0007341 and VRC0007342–VRC0007354 (Credit Suisse Newspaper Sector Report, dated December 11, 2007). The Credit Suisse analysts cited three reasons for their optimism (a) "The recent downturn in print newspaper advertising is more cyclical than secular. . . .", (b) "Organic online revenue growth

It is not entirely clear from their report what specific analysis was conducted by Credit Suisse in estimating the rates of secular decline. However, the analysis does clearly indicate that at least some amount of negative growth associated with secular changes in the industry was informing all three major print advertising revenue categories. Based on the preceding, the Examiner's financial advisors made the following estimates of secular decline (based upon full year end 2007 results):

ADVERTISING CATEGORIES

Year	National		Retail		Classified		Newspaper Print Total		Newspaper Online Total		Combined Newspaper Print and Online Total	
	$ Millions	% Change	$ Millions	% Change	$ Millions	% Change	$ Millions	% Change	$ Millions	% Change	$ Millions	% Change
2004	8,083	3.7%	22,012	3.1%	16,608	5.1%	46,703	3.9%	1,541	26.7%	48,244	4.5%
2005	7,910	-2.2%	22,187	0.8%	17,312	4.2%	47,408	1.5%	2,027	31.5%	49,435	2.5%
2006	7,505	-5.1%	22,121	-0.3%	16,986	-1.9%	46,611	-1.7%	2,664	31.4%	49,275	-0.3%
2007	7,005	-6.7%	21,018	-5.0%	14,186	-16.5%	42,209	-9.4%	3,166	18.8%	45,375	-7.9%
2008	5,996	-14.4%	18,769	-10.7%	9,975	-29.7%	34,740	-17.7%	3,109	-1.8%	37,848	-16.6%
2009	4,424	-26.2%	14,218	-24.2%	6,179	-38.1%	24,821	-28.6%	2,743	-11.8%	27,564	-27.2%

Source: http://www.naa.org/trendandnumbers/advertising-expenditures.aspx.

2. Overview of Tribune's Publishing Segment Revenues

With respect to the historical financial performance of Tribune's Publishing Segment, the Examiner's financial advisor used available detailed financial performance data contained in Tribune's monthly 2007 Brown Books indicating actual financial performance not only for the

---

should continue to trend in the 15-20% range for the foreseeable future. . . .", and (c) "Inorganic online revenue growth from launching new products and M&A activity." Interestingly, their optimism largely centered on interactive-type growth opportunities, not enhancements in traditional newspaper circulation or advertising. Credit Suisse explained the cyclical and secular customer behaviors driving the 2007 downturn in print advertising's three principal segments "national," "retail," and "classified" as follows (based upon year-to-date September 30, 2007 data):

- Retail – 49.4% of newspaper print advertising; down 4.6% year-to-date; we estimate 85% of the decline is due to cyclical factors such as (1) residential investment declining; 92) home supplied, furniture, and building material expenditure declining; and (3) financial service providers facing profitability issues; we estimate 15% of the decline is due to secular factors such as (1) retail consolidation; (2) ad-spend shifting to non-traditional media; and (3) the growing presence of online retailing.

- National – 17% of newspaper print advertising; down 4.6% year-to-date; we estimate 90% of the decline is due to cyclical factors such as (1) foreign and domestic auto manufacturers reacting to slowing auto demand; and (2) airline profitability coming under pressure due to rising energy prices; we estimate that 10% old the decline is due to secular factors such as auto manufacturers, airlines and telecom providers shifting ad-spend away from traditional media.

- Classified – 33.5% of newspaper print advertising; down 15.6% year to date; we estimate 50% of the decline within the automotive vertical is due to cyclical factors; we estimate 85% of the decline within real estate vertical is due to cyclical factors; we estimate that 15% of the decline within the help wanted vertical is due to cyclical factors.

Publishing Segment in the aggregate, but also for its individual segments and sub-segments (both with and without contribution of the interactive business to reported revenues).

Because Tribune's interactive business revenues and profitability combine advertising revenues generated by all three legacy categories of print advertising – retail, national, and classified (as well as some from "other"), Tribune internally reported financial results for its Publishing Segment sub-segments under two formats: one presenting segment results inclusive of the contributions of the interactive business, and one showing the interactive business on a stand-alone basis. The following table compares 2006 with 2007 revenue results on both these two bases: [20]

PUBLISHING SEGMENT REVENUE ($mm)				
Segment	FY 2006A Interactive Allocated	FY 2006A Interactive Not Allocated	FY 2007A Interactive Allocated	FY 2007A Interactive Not Allocated
Print Advertising				
Retail Advertising	$ 1,327.1	$ 1,304.1	$ 1,247.8	$ 1,219.9
National Advertising	$ 730.0	$ 714.4	$ 686.5	$ 663.8
Classified Advertising				
Recruitment	$ 346.2	$ 238.0	$ 280.9	$ 176.3
Real Estate	$ 375.9	$ 341.2	$ 285.0	$ 243.3
Auto	$ 261.8	$ 222.3	$ 228.8	$ 177.4
Other	$ 153.9	$ 149.0	$ 132.0	$ 127.5
Total Print Advertising	**$ 3,195.0**	**$ 2,969.0**	**$ 2,861.0**	**$ 2,608.2**
Circulation	$ 567.3	$ 567.3	$ 526.5	$ 526.5
Other	$ 256.1	$ 255.1	$ 277.0	$ 275.6
Interactive	$ 0.0	$ 227.0	$ 0.0	$ 254.2
Total Publishing Segment	**$ 4,018.4**	**$ 4,018.4**	**$ 3,664.6**	**$ 3,664.6**

Source: Ex. 642 (Brown Book for Period 12, 2007).

In the monthly 2007 Brown Books, Tribune also presented "forecasted" 2007 Publishing Segment financial performance based upon the annual operating plan approved by the Tribune Board in February 2007. Apparently, Tribune did not present its plan performance for its legacy print advertising segments on a basis that excluded revenues and profitability for the interactive business. Based on disclosure of 2007 interactive business plan revenues as set forth in the Brown Books, however, the Examiner's financial advisor calculated retail, national, and classified advertising revenue projections, exclusive of interactive business plan revenue projections. Comparisons of 2007 actual and 2007 planned advertising revenues, therefore, have

[20] The monthly 2007 Brown Books contained comparative data for the prior year. As such, 2006 information was also available. *See, e.g.,* Ex. 637 (Brown Book for Period 7, 2007).

been made on the basis of both inclusion and exclusive of interactive business revenue for each of Tribune's print advertising segments.

a. Retail Print Advertising Revenue.

The retail sub-segment of the Publishing Segment was the largest of Tribune's three print advertising categories. In 2006, it comprised approximately 42% of Tribune's total print advertising revenue, inclusive of interactive revenue (and approximately 44% of print advertising revenues, excluding interactive). Year 2007 Tribune retail advertising revenues were down by approximately 6% from 2006 levels, on both the basis of inclusion and exclusion of allocated interactive revenue. Revenues for both years were concentrated in four markets:

RETAIL REVENUE INCL. INTERACTIVE ($mm)			
Revenue	**2006A**	**2007A**	**%**
Los Angeles	$ 338.6	$ 314.8	-7.0%
Chicago	$ 322.9	$ 314.8	-2.5%
Newsday	$ 206.3	$ 183.8	-10.9%
South Florida	$ 132.8	$ 122.9	-7.5%
Subtotal	$ 1,000.7	$ 936.3	-6.4%
Retail Total	$ 1,327.1	$ 1,247.8	-6.0%
% of Retail Total	75.4%	75.0%	

Source: Ex. 642 (Brown Book for Period 12, 2007).

The actual 2007 retail advertising revenue decline was significantly in excess of the decline budgeted for by Tribune in connection with its February 2007 plan,[21] although the plan contemplated modest growth above 2006 actual results:

[21] Because retail interactive business advertising revenue did not figure heavily as a source of overall retail advertising, the 2007 retail plan revenues with and without the interactive business are quite close ($1,337 million and $1,308 million, respectively), and the deviation from the 2007 plan, exclusive of the interactive business (presented in the table below) is not appreciably different from the deviation observed from plan for retail inclusive of interactive business revenue (($1,219.9 million – $1,308.0 million) / $1,308.0 million = (6.7%)).

RETAIL REVENUE INCL. INTERACTIVE ($mm)			
Revenue	**2006A**	**2007 Plan**	**%**
Los Angeles	$ 338.6	$ 350.2	3.4%
Chicago	$ 322.9	$ 323.5	0.2%
Newsday	$ 206.3	$ 195.1	-5.5%
South Florida	$ 132.8	$ 133.8	0.7%
Subtotal	$ 1,000.7	$ 1,002.4	0.2%
Retail Total	$ 1,327.1	$ 1,337.0	0.7%
% of Retail Total	75.4%	75.0%	

Source: Ex. 642 (Brown Book for Period 12, 2007).

RETAIL REVENUE EXCL. INTERACTIVE ($mm)			
Revenue	**2007A**	**2007 Plan**	**% Variance to Plan**
Retail Total	$ 1,219.9	$ 1,308.0	-6.7%

Source: Ex. 642 (Brown Book for Period 12, 2007).

As previously discussed, given adverse 2007 monthly performance against its February 2007 plan, Tribune prepared revised revenue and operating cash flow projections toward the end of September 2007, presented that forecast to the Tribune Board in October 2007, and made no modifications to that forecast in the nearly three months between September 30, 2007 (when Tribune apparently provided the projections to VRC), and December 20, 2007, the date of VRC's Step Two solvency opinion. However, during that interval, and based on VRC's due diligence and related analysis, VRC apparently prepared its own set of projections, dated October 29, 2007, indicating fairly decisive departures from Tribune's forecast, almost always downward.[22] The October 29, 2007 VRC projections, as well as certain other projection information,[23] are summarized in the table below, as it pertains to Tribune's retail advertising revenues:

---

22 Through July 25, 2010, the Examiner has located only one additional set of VRC-prepared projections. Ex. 1090 (Tribune Case Valuation Projections). These December 20, 2007 forecasts show modest upward adjustments from October 29, 2007 levels but, generally speaking, remained below Tribune's projections. Based on the Examiner's review through July 25, 2010, the only other source for contemporaneous projections of Tribune's future performance that were detailed enough to allow for comparison at the sub-segment print advertising level, appears to have been projections authored by Craig Huber of Lehman Brothers. The Examiner noted that Mr. Huber was a "pessimistic" sell-side Tribune analyst.

23 As discussed in connection with the Examiner's evaluation VRC's Step One and Step Two solvency opinions, Tribune prepared detailed projection models (often referred to as "ESOP transaction" models at Step One, or "Tribune Company" models at Step Two) at various points throughout 2007. In connection with the issuance of its Step Two opinion letter dated December 20, 2007, VRC specifically identified an iteration of these models,

RETAIL PUBLISHING ASSUMPTION COMPARISON ($mm)							
	Actual		Projected				
Revenue Assumptions - Base Case	FY 2006A [1]	FY 2007A [1]	FY 2008E	FY 2009E	FY 2010E	FY 2011E	FY 2012E
Tribune October 28, 2007 Analysis	$ 1,304.1	$ 1,219.9	$ 1,231.5	$ 1,237.2	$ 1,242.5	$ 1,255.5	$ 1,267.4
Growth Rate		-6.5%	1.0%	0.5%	0.4%	1.0%	0.9%
VRC October 29, 2007 Analysis	$ 1,304.1	$ 1,219.9	$ 1,214.4	$ 1,202.3	$ 1,199.3	$ 1,196.3	$ 1,193.3
Growth Rate		-6.5%	-0.5%	-1.0%	-0.2%	-0.3%	-0.3%
VRC December 20, 2007 Analysis (Internal)	$ 1,304.1	$ 1,219.9	$ 1,218.7	$ 1,227.9	$ 1,237.1	$ 1,246.4	$ 1,255.7
Growth Rate		-6.5%	-0.1%	0.8%	0.7%	0.8%	0.7%
VRC December 20, 2007 Analysis (Opinion)	$ 1,304.1	$ 1,219.9	$ 1,231.5	$ 1,237.2	$ 1,242.5	$ 1,255.5	$ 1,267.4
Growth Rate		-6.5%	1.0%	0.5%	0.4%	1.0%	0.9%
Lehman Brothers (Craig A. Huber - 10/3/07) [2]	$ 1,327.2	$ 1,253.9	$ 1,216.3	$ 1,185.9	N/A	N/A	N/A
Growth Rate		-5.5%	-3.0%	-2.5%			
Lehman Brothers (Craig A. Huber - 11/16/07) [2]	$ 1,328.0	$ 1,244.8	$ 1,207.5	$ 1,177.3	N/A	N/A	N/A
Growth Rate		-6.3%	-3.0%	-2.5%			

[1] 2006 and 2007 actuals (excluding interactive business), *see* Ex. 642 (Brown Book for Period 12, 2007).

[2] Unlike Tribune and VRC, Lehman Brothers presents its segment projections inclusive of interactive business revenues.

the "model_negotiated_proposal_november21_2007.xls", as the management forecast model which VRC relied on for purposes of rendering VRC's Step Two solvency opinion.

This model corresponds with earlier versions of management's Step Two projections, and can be traced to a Tribune prepared projection model dated as early as September 30, 2007. This model, in turn, can be traced to projections dated October 28, 2007, which were the subject of a VRC "internal assessment" as memorialized in an October 29, 2007 VRC e-mail, and attached memoranda.

In connection with the issuance of its December 20, 2007 solvency opinion, VRC apparently prepared an additional assessment of the same Tribune projections that had remained unmodified by Tribune since the preparation of the September 30, 2007 model. Of note, these management projections (and the various iterations thereof) correspond with the five-year summary level projection presented to, and discussed with, the Tribune Board at its October 17, 2007 meeting.

As referred to in the table above, the "Tribune October 28, 2007 Analysis" refers to the projections originally developed by management on or before September 30, 2007, that remained unchanged through the Step Two Financing Closing Date, and were the subject of VRC's October 29, 2007 assessment memorandum. The "VRC October 29, 2007 Analysis" refers to VRC's alternative projection assumptions as set forth in that memorandum. The "VRC December 20, 2007 Analysis (Internal)" refers to an alternative set of forecasting assumptions set forth by VRC in a memorandum of that date.

In Tribune's "Five-Year Financial Outlook" dated October 2007 (the plan presented to the Tribune Board in October 2007), the basis for Tribune's retail advertising revenue projections were explained:[24]

> Retail will recover slightly in 2008 and experience low single digit growth through 2012.
>
> - Our major retail accounts will be flat in 2008 and grow slightly in 2009 to 2012.
> - This trend is tied to preprint and circulation declines.
> - Local retail should be slightly positive in 2008 to 2012.

Little if any direct support for these assertions has been located.[25] The assertions made by Tribune in connection with the October 2007 plan do, however, correspond with the projections provided to VRC in September 2007. It should be noted that VRC personnel had meetings with Tribune department heads early in September 2007 to initiate VRC's assessment of Tribune's projections, and, by the end of October 2007, VRC apparently had prepared its own forecast of revenues, which have been, with respect to retail print advertising, recapitulated in the table above. The VRC analysis also presented a pro forma estimate of 2007 results.

It is clear that, based on its October 29, 2007 assessment of Tribune's then-existing projections, VRC believed that forecasts of Tribune's future retail advertising revenue should reflect an element of negative growth to account for the industry's secular decline.[26]

---

[24] Ex. 657 (Tribune Five-Year Financial Outlook).

[25] During his sworn statement with the Examiner, Mr. Grenesko provided some insight into the differences between the February 2007 and September 2007 projections prepared by Tribune, but he did not provide specifics with regard to how the sub-segments were expected to perform. Rather he spoke of the projections in terms of Tribune's revenue channels (ROP, Preprint and Targeted Print). Mr. Grenesko stated:

> And I think we laid things out very succinctly in the five-year operating report that I think you all have received that we presented to the board and to the lenders and to VRC and to the rating agencies in the -- September and October of 2007, and that goes into a lot of detail as to what the -- what the publishing group had come up with, so you're correct in that we viewed the print side as continuing to trend down, and in fact I believe for the traditional ROP, this is the advertising that you see in the newspaper, we actually lowered the advertising rates going forward, the advertising growth going forward, so those revenues were trending down even more than what we had in February. Preprints, I think we also took those revenues down so that was on again on -- these are the inserts that you receive in the daily newspapers a couple times during the week and also on Sundays, so we had some growth in there in the early part of the year, took that kind of to be sort of flat. On the targeted print side, this is our free dailies, this would be like AM New York, and this would be the Red Eye here in Chicago. The group felt that they could really expand what we were doing in those two particular areas and also with our Spanish language newspaper called [Hoy!], and they were also looking at trying to come up with other targeted publications, something for perhaps like sports or working mothers, things of that nature, so that was the targeted piece that went up.

Examiner's Sworn Interview of Donald Grenesko, July 8, 2010, at 169:16-171:4.

[26] In its October 29, 2007 memorandum, VRC observed, in pertinent part:

Ultimately, for purposes of its October 29, 2007 analysis, VRC determined to project revenues for retail print advertising using negative growth rates falling between Tribune's projected growth rates and those of Lehman Brothers, primarily because "VRC has taken a conservative approach in its base case and have assumed that retail adv would not revert back to flat or positive results."[27] The negative growth rates for out years (*i.e.*, 2010 through 2012) ranging between (0.2%) and (0.3%) are conservative in comparison to those implied in Credit Suisse' analysis (0.75%).[28]

The Examiner's financial advisor believes that, as of December 20, 2007, a projected negative 0.5% long term growth rate expectation was reasonable, given that declining circulation due to secular deterioration of the newspaper industry (clearly evident from a review of Tribune's historical industry circulation performance as well as a review of the projections of both Tribune and VRC) should reasonably have been anticipated. For the near term projection of retail advertising revenues, the Examiner's financial advisor considers VRC's initial estimation of the nominal amount of retail revenue decline for 2008 and 2009 to be reasonable, given the additional deterioration experienced by Tribune during the fourth quarter 2007[29] and the full year 6% revenue decline in 2007 as discussed earlier herein.

---

3. Although management has implemented a number of innovative initiatives that may slow the rate of decline in retail adv., VRC believes that a more conservative [test] would be to keep retail adv. Less than zero, particularly, given the expected growth in interactive advertising, and the overall expected decrease in circulation for newspapers.

a. Management in their base case reflect these incremental changes and new offerings. VRC's more conservative case attempts to incorporate the overall trend which is that fewer people are reading newspapers which has [led to] decline in newspaper readership over the last few years. As a result, advertisers may be less inclined to advertise in them because of "fewer eye balls." Also price per thousand may be lower because newspapers [are not] viewed positively.

b. Management has also indicated that insert advertisers are being more selective in how they spend their advertising dollar. Management has indicated that many are delaying advertising runs and selectively choosing to run ads during holiday or special shopping seasons.

Ex. 1004 (Mednik E-Mail, dated October 31, 2007).

27 *Id*. at VRC0034774.

28 In rendering its Step Two solvency opinion, VRC nonetheless adopted management's projections.

29 Ex. 1091 (Tribune Company Summary of Revenues and Newspaper Advertising Volume, dated December 30, 2007).

RETAIL PUBLISHING PROJECTION COMPARISON EXCL. INTERACTIVE ($mm)							
Revenue	**FY 2006A [1]**	**FY 2007A [1]**	**FY 2008E**	**FY 2009E**	**FY 2010E**	**FY 2011E**	**FY 2012E**
VRC December 20, 2007 Analysis (Opinion)	$ 1,304.1	$ 1,219.9	$ 1,231.5	$ 1,237.2	$ 1,242.5	$ 1,255.5	$ 1,267.4
Growth Rate		-6.5%	1.0%	0.5%	0.4%	1.0%	0.9%
Examiner's Projections	$ 1,304.1	$ 1,219.9	$ 1,214.4	$ 1,202.3	$ 1,196.2	$ 1,190.3	$ 1,184.3
Growth Rate		-6.5%	-0.5%	-1.0%	-0.5%	-0.5%	-0.5%

[1] 2006 and 2007 actuals (excluding interactive business), *see* Ex. 642 (Brown Book for Period 12, 2007).

b. National Print Advertising Revenue.

The National advertising component was the smallest of Tribune's three print advertising categories, comprising approximately 22.8 % of total 2006 print advertising revenues (inclusive of the interactive business). National print advertising revenues, inclusive of the beneficial contributions of the interactive business, declined by approximately 6.0% during 2007 in relation to the prior year. However, 2007 national "print-only" advertising revenues were down, year-over-year, more significantly, declining by approximately 7.1%.[30]

NATIONAL REVENUE ($mm)			
Revenue	**2006A**	**2007A**	**%**
National Total (incl. interactive business)	$ 730.0	$ 686.5	-6.0%
National Total (excl. interactive business)	$ 714.4	$ 663.8	-7.1%

Source: Ex. 642 (Brown Book for Period 12, 2007).

[30] For purposes of this calculation, the Examiner's financial advisor eliminated interactive business revenues from the total national advertising revenues.

Even with the financially beneficial impact of interactive revenues incorporated into planned revenues, the decline budgeted for national advertising by Tribune in connection with its February 2007 Tribune Board-approved plan is apparent:[31]

NATIONAL REVENUE INCL. INTERACTIVE ($mm)

Revenue	2006A	2007 Plan	%
Los Angeles	$ 290.9	$ 288.1	-1.0%
Chicago	$ 171.3	$ 165.4	-3.5%
Newsday	$ 80.5	$ 80.8	0.4%
South Florida	$ 59.3	$ 60.9	2.8%
Subtotal	$ 602.0	$ 595.2	-1.1%
National Total	$ 730.0	$ 719.4	-1.5%
% of National Total	82.5%	82.7%	

Source: Ex. 642 (Brown Book for Period 12, 2007).

[31] When the anticipated positive financial influence of the interactive business is removed from the 2007 plan projected national advertising revenue, and the result is compared to the actual national advertising revenue reported for 2007 (exclusive of interactive), it is clear that national advertising (exclusive of the interactive business) performed marginally worse against plan (exclusive of the interactive business) than when compared on the basis of actual to plan inclusive of interactive (($663.8 million - $699.1 million) / $699.1 million = (5.1%)).

NATIONAL REVENUE EXCL. INTERACTIVE ($mm)

Revenue	2007A	2007 Plan	% Variance to Plan
National Total	$ 663.8	$ 699.1	-5.1%

Source: Ex. 642 (Brown Book for Period 12, 2007).

Actual results for 2007, reflecting total revenue of $686.5 million (including interactive revenue), were far short of the expectations held in February 2007 ($719.4 million), reflecting an unfavorable variance to plan of 4.6%.

In Tribune's revised "Five-Year Financial Outlook," presented to the board in October 2007, Tribune's updated national advertising revenue projections were explained:[32]

- National will be up slightly in 2008 and grow moderately in 2009 to 2012.
- Print advertising will decline slightly each year with all the growth coming from interactive during 2008 to 2012.

In his sworn statement, Mr. Grenesko indicated generally that run-of-press (or "ROP") advertising was forecast by Tribune to decline.[33] This makes sense when advertisers are migrating to alternative media as circulation declines. The above-referenced bullet point observation contained in the October 2007 Tribune Board materials is consistent with the negative growth projected for this sub-segment of print advertising.

A comparison of the differing growth expectations contemplated by management, VRC, and Lehman Brothers sell-side analyst Craig Huber[34] is set forth in the table below:

NATIONAL PUBLISHING ASSUMPTION COMPARISON ($mm)

	Actual		Projected				
Revenue Assumptions - Base Case	**FY 2006A [1]**	**FY 2007A [1]**	**FY 2008E**	**FY 2009E**	**FY 2010E**	**FY 2011E**	**FY 2012E**
Tribune October 28, 2007 Analysis	$ 714.4	$ 663.8	$ 651.6	$ 636.1	$ 620.1	$ 611.1	$ 598.7
Growth Rate		-7.1%	-1.8%	-2.4%	-2.5%	-1.5%	-2.0%
VRC October 29, 2007 Analysis	$ 714.4	$ 663.8	$ 648.4	$ 639.7	$ 623.6	$ 614.6	$ 602.1
Growth Rate		-7.1%	-2.3%	-1.3%	-2.5%	-1.4%	-2.0%
VRC December 20, 2007 Analysis (Internal)	$ 714.4	$ 663.8	$ 650.1	$ 634.5	$ 618.5	$ 609.6	$ 597.2
Growth Rate		-7.1%	-2.1%	-2.4%	-2.5%	-1.4%	-2.0%
VRC December 20, 2007 Analysis (Opinion)	$ 714.4	$ 663.8	$ 651.6	$ 636.1	$ 620.1	$ 611.1	$ 598.7
Growth Rate		-7.1%	-1.8%	-2.4%	-2.5%	-1.5%	-2.0%
Lehman Brothers (Craig A. Huber - 10/3/07) [2]	$ 729.8	$ 670.5	$ 637.0	$ 614.7	N/A	N/A	N/A
Growth Rate		-8.1%	-5.0%	-3.5%			
Lehman Brothers (Craig A. Huber - 11/16/07) [2]	$ 730.0	$ 682.0	$ 647.9	$ 625.2	N/A	N/A	N/A
Growth Rate		-6.6%	-5.0%	-3.5%			

[1] 2006 and 2007 actuals (excluding interactive business), *see* Ex. 642 (Brown Book for Period 12, 2007).
[2] Unlike Tribune and VRC, Lehman Brothers presents its segment projections inclusive of interactive business revenues.

32 Ex. 657 (Tribune Five-Year Financial Outlook).

33 Examiner's Sworn Interview of Donald Grenesko, July 8, 2010, at 169:16-170:8.

34 Again, Mr. Huber was reputedly one of, if not the most pessimistic sell-side analyst following Tribune at the time.

Mose Rucker of VRC made the following observations in his analysis of Tribune's forecasts of future national advertising revenue as memorialized in VRC's internal assumptions memorandum, dated October 29, 2007:[35]

> 1. National ADV has historically been the weakest growth segment of the Company's business.
>
> 2. VRC's analysis will attempt to test this on a consistent basis.
>
> a. The Company is expecting (-5.0% in '07) to (-2.0% in '12).
>
> i. VRC would assume that a more conservative base case beginning in '08 (-2.0%), '09 (-1.3%) to '12 (-00%) us (sic) unreasonable for the base case. VRC's analysis has lower growth rates beginning in '08 and attempts to adjust to market share losses to interactive.
>
> b. National Adv would be more negatively impacted by declines in circulation and growth in internet. Newspaper's share of advertising dollars has decreased. '04 to '05 (-8bps). From '05 to '06 sector lost 123 bps.
>
> c. Lehman estimates '08 (-5.0% in national ad) in recession and '09 (-3.5%). Note Lehman does not segregate interactive.

Irrespective of these observations, for purposes of its internally developed October 29, 2007 projections, VRC determined to project revenues for national print advertising using negative growth rates closely coinciding with Tribune's projected growth rates.[36] Because the projected rates are acknowledged to be related to the expected influence of the secular decline in Tribune's industry, the negative rates projected by Tribune and VRC inform the rate determination as indicated below:

---

[35] Ex. 1004 at VRC0034776-78 (Mednik E-Mail, dated October 31, 2007). When discussing growth rates in the October 29, 2007 memorandum, VRC is discussing those rates in the context of a comparison to Tribune's pro forma 2007 expectations. Because certain information presented in this Annex A to Volume Two is presented in terms of actual 2007 results, percentage growth rates may not agree as between VRC's discussed rates and those calculated based on actual results.

[36] VRC, seemingly anomalously, projected a negative growth rate in 2009 of (1.3%) in its October 29, 2007 internal memorandum, but reverted back to Tribune's (2.4%) rate of negative growth for 2009 in its December 20, 2007 analysis. *See* Ex. 1004 (Mednik E-Mail, dated October 31, 2007); Ex. 1045 (VRC Solvency Analysis, dated December 20, 2007).

NATIONAL PUBLISHING PROJECTION COMPARISON EXCL. INTERACTIVE ($mm)							
Revenue	**FY 2006A [1]**	**FY 2007A [1]**	**FY 2008E**	**FY 2009E**	**FY 2010E**	**FY 2011E**	**FY 2012E**
VRC December 20, 2007 Analysis (Opinion)	$ 714.4	$ 663.8	$ 651.6	$ 636.1	$ 620.1	$ 611.1	$ 598.7
Growth Rate		-7.1%	-1.8%	-2.4%	-2.5%	-1.5%	-2.0%
Examiner's Projections	$ 714.4	$ 663.8	$ 651.6	$ 636.1	$ 620.1	$ 611.1	$ 598.7
Growth Rate		-7.1%	-1.8%	-2.4%	-2.5%	-1.5%	-2.0%

[1] 2006 and 2007 actuals (excluding interactive business), *see* Ex. 642 (Brown Book for Period 12, 2007).

In considering the reasonableness of adopting Tribune's projection of growth rates for this sub-segment of Publishing Segment advertising revenues, the Examiner's financial advisor noted that the rate of revenue decline observed between 2006 and 2007 for the print-only portion of those revenues (negative 7.1%) was largely consistent with the observed rate of decline in circulation revenues over the same period of comparison (negative 7.2% as discussed later herein). Because the expected rates of circulation decline forecasted by Tribune for 2008 through 2012 (as incorporated into the October 2007 five-year plan) are consistent in both direction and magnitude with the growth rates projected for national retail (print only) advertising revenue, the Examiner's financial advisor deems the selected growth rates reasonable, if not conservative.[37]

[37] The projected rates of circulation decline are actually slightly more pronounced than the projected rates of decline adopted by the Examiner here. As such, even greater rates of decline than those selected by the Examiner might arguably be justified.

c. Classified Print Advertising Revenue.

Excluding the interactive business, the classified sub-segment of Publishing Segment comprised approximately 32% of Tribune's total 2006 print advertising revenues.[38] The rate of revenue decline experienced in "print-only" classified advertising was substantial between 2006 and 2007,[39,] and significantly exceeded the rate of decline in circulation revenues observed over a comparable period.

---

38 Ex. 740 at VRC0063427 (VRC Preliminary Solvency Analysis, dated November 30, 2007).

39 As has been discussed, the reporting of sub-segment revenues for Tribune's print advertising categories typically was done inclusive of revenues generated from the on-line advertising interactive business. Wherever possible, on the basis of additional financial data obtained, the Examiner's financial advisor attempted to separate the interactive business component from this consolidated presentation.

Including the interactive business, classified revenues declined by approximately 18.6% in 2007, from approximately $1.138 billion in 2006 to $926.7 million in 2007. This decline was far in excess of the decline anticipated by management when the Tribune Board approved the 2007 plan in February 2007. Because of data constraints, the table below presents classified revenue on an actual 2006 and 2007 plan basis inclusive of interactive business classified advertising revenues:

CLASSIFIED REVENUE INCL. INTERACTIVE ($mm)

Revenue	2006A	2007 Plan	%
Los Angeles	$ 275.1	$ 248.1	-9.8%
Chicago	$ 207.4	$ 201.2	-3.0%
Newsday	$ 160.0	$ 153.4	-4.1%
South Florida	$ 151.5	$ 130.3	-14.0%
Subtotal	$ 794.1	$ 733.0	-7.7%
Classified Total	$ 1,137.8	$ 1,061.9	-6.7%
% of Classified Total	69.8%	69.0%	

Source: Ex. 642 (Brown Book for Period 12, 2007).

When the interactive business is removed from the projected 2007 plan revenues, classified revenue, inclusive of the interactive business, and compared with 2007 actual classified revenue, without the interactive business, the resulting decline is substantial.

CLASSIFIED REVENUE EXCL. INTERACTIVE ($mm)			
Revenue	**2006A**	**2007A**	**%**
Los Angeles	$ 228.3	$ 168.7	-26.1%
Chicago	$ 167.6	$ 125.6	-25.1%
Newsday	$ 142.0	$ 127.0	-10.5%
South Florida	$ 134.2	$ 87.5	-34.8%
Subtotal	$ 672.1	$ 508.8	-24.3%
Classified Total	$ 950.5	$ 724.5	-23.8%
% of Classified Total	70.7%	70.2%	

Source: Ex. 642 (Brown Book for Period 12, 2007).

The substantial losses in classified advertising revenues between 2006 and 2007 were principally attributed to continued weakness in real estate advertising in Florida, losses in automotive advertising, and declining recruiting advertising revenues for on-line job services.[40]

When management revised its projections in connection with the development of the five-year plan presented to the Tribune Board in October 2007, continued weakness in classified advertising was expected to span all segments of the classified group including recruitment, real estate, auto, and other. According to the October 2007 plan, "Classified will be down 7% in 2008 as print declines in recruitment, real estate and auto will continue with a modest recovery in real estate assumed in 2009 and 2010, mostly in Florida. Moderate growth, all coming from online, will occur through 2012."[41] The 7% estimated decline referred to in connection with the assumptions informing the October 2007 plan corresponds to an approximately 18.6% observed decline as between actual 2007 and 2006 results presented on a comparable basis (i.e., including interactive). Clearly, by the end of 2007, when the dramatic unanticipated decline in classified advertising revenue was manifest, the degree of over-optimism informing the October 2007 plan should have been, in the Examiner's financial advisor's opinion, obvious. Despite evidence of the significant detrimental effects of the loss of advertising dollars associated with real estate, automotive and classified advertising due to, at least, in part, alternative advertising vehicles, Tribune expected classified print advertising revenues to decline considerably less significantly than previously observed in the near-term, and to largely be eliminated thereafter.

[40] Ex. 1004 at VRC0034779 (Mednik E-Mail, dated October 31, 2007).

[41] Ex. 657 (Tribune Five-Year Financial Outlook).

The table below contrasts the projections developed by VRC at various times with projections developed by Lehman Brothers' Craig Huber (who prepared detailed sub-segment level projections of operating performance for Tribune[42]) as well as Tribune's original forecast (which was the basis for the October 2007 plan presented to the Tribune Board, but which is shown in the table in the context of its recapitulation by VRC at October 29, 2007 within the context of the VRC memorandum of the same date):

CLASSIFIED PUBLISHING ASSUMPTION COMPARISON ($mm)

	Actual		Projected				
Revenue Assumptions - Base Case	**FY 2006A [1]**	**FY 2007A [1]**	**FY 2008E**	**FY 2009E**	**FY 2010E**	**FY 2011E**	**FY 2012E**
Tribune October 28, 2007 Analysis	$ 950.5	$ 724.5	$ 650.5	$ 637.2	$ 625.1	$ 604.5	$ 579.8
Growth Rate		-23.8%	-10.2%	-2.0%	-1.9%	-3.3%	-4.1%
VRC October 29, 2007 Analysis	$ 950.5	$ 724.5	$ 621.0	$ 591.5	$ 575.2	$ 559.4	$ 544.0
Growth Rate		-23.8%	-14.3%	-4.8%	-2.8%	-2.7%	-2.8%
VRC December 20, 2007 Analysis (Internal)	$ 950.5	$ 724.5	$ 630.2	$ 614.5	$ 599.1	$ 579.4	$ 555.6
Growth Rate		-23.8%	-13.0%	-2.5%	-2.5%	-3.3%	-4.1%
VRC December 20, 2007 Analysis (Opinion)	$ 950.5	$ 724.5	$ 650.5	$ 637.2	$ 625.1	$ 604.5	$ 579.8
Growth Rate		-23.8%	-10.2%	-2.0%	-1.9%	-3.3%	-4.1%
Lehman Brothers (Craig A. Huber - 10/3/07) [2]	$ 1,161.5	$ 946.0	$ 827.7	$ 765.6	N/A	N/A	N/A
Growth Rate		-18.6%	-12.5%	-7.5%			
Lehman Brothers (Craig A. Huber - 11/16/07) [2]	$ 1,156.2	$ 946.2	$ 827.9	$ 765.8	N/A	N/A	N/A
Growth Rate		-18.2%	-12.5%	-7.5%			

[1] 2006 and 2007 actuals (excluding interactive business), *see* Ex. 642 (Brown Book for Period 12, 2007).
[2] Unlike Tribune and VRC, Lehman Brothers presents its segment projections inclusive of interactive business revenues.

42 Mr. Huber's projections of the sub-segment publishing categories include the positive growth and margin influence of Tribune's interactive business.

For purposes of its October 29, 2007 memorandum, VRC determined to project revenues for classified print advertising using negative growth rates exceeding Tribune's projected rate of decline for 2008 and 2009, but VRC moderated the rates of declining growth in the remaining years in comparison to Tribune's projections. The Examiner's financial advisor believes that, given the susceptibility of this particular class of print advertising to the growing reliance of customers on internet-based services (which, as discussed below, is a factor incorporated in a significant way into the expectations of operating performance forecast for the interactive business), the most reasonable expectations with which to project declining classified revenues should have been based on the most negative rates of growth identified by VRC during its review of Tribune's projection models:

CLASSIFIED PUBLISHING PROJECTION COMPARISON EXCL. INTERACTIVE ($mm)

Revenue	FY 2006A [1]	FY 2007A [1]	FY 2008E	FY 2009E	FY 2010E	FY 2011E	FY 2012E
VRC December 20, 2007 Analysis (Opinion)	$ 950.5	$ 724.5	$ 650.5	$ 637.2	$ 625.1	$ 604.5	$ 579.8
Growth Rate		-23.8%	-10.2%	-2.0%	-1.9%	-3.3%	-4.1%
Examiner's Projections	$ 950.5	$ 724.5	$ 620.9	$ 591.1	$ 574.6	$ 555.6	$ 532.8
Growth Rate		-23.8%	-14.3%	-4.8%	-2.8%	-3.3%	-4.1%

[1] 2006 and 2007 actuals (excluding interactive business), *see* Ex. 642 (Brown Book for Period 12, 2007).

The Examiner's financial advisor believes this assumption to be highly conservative, in that the rates of decline forecasted for the near term are significantly less than the observed rate of decline in print advertising revenues occurring between 2006 and 2007, and because later year rates of projected decline are only modestly in excess of the rates of circulation decline contemplated by management in its October 2007 plan.

d. "Other" Publishing Revenue.

In Tribune's 2007 Form 10-K, the businesses comprising Tribune's "Other" Publishing Segment category was described as follows: [43]

> Primarily includes revenues from advertising placement services; the syndication of columns, features, information and comics to newspapers; commercial operations; delivery of other publications; direct mail operations; cable television news programming; distribution of entertainment listings; and other publishing related activities.

The Publishing Segment's "Other" category was a focus of Tribune's near term growth for the Publishing Segment because of certain newly identified (and partially actually realized) opportunities to deploy its excess production and delivery capacity profitably.

The opportunity to leverage Tribune's logistical capacity was described in Tribune's October 2007 plan:[44]

---

[43] Ex. 4 at 9 (Tribune 2007 Form 10-K).

[44] Ex. 657 (Tribune Five-Year Financial Outlook).

> In the third quarter of 2007, Chicago Tribune signed an agreement with the Sun-Times Media Group to take over the home delivery of their publications. This commercial delivery arrangement will yield $30 million of revenue and $8 million of operating cash flow in 2008.

Longer term, Tribune expected significant growth in its other businesses. Management contemplated that:[45]

> New commercial delivery agreements, like the Sun-Times arrangement, along with growth in direct mail, commercial printing and higher revenues at Tribune Media Services, will increase other revenues by 17% in 2008 an about 6% to 7% per year thereafter.

Temporally proximate to the October 2007 Tribune Board meeting, a September 2007 document entitled "Transforming Tribune Publishing & Interactive" (which was apparently provided to the Lead Banks on October 1, 2007), identified opportunities for growth in businesses comprising the Publishing Segment's "Other" category. One of the three areas of contemplated Tribune success in meeting the "competitive challenges facing the newspaper industry," included "[o]ptimization of current operations (maximizing manufacturing productively, increasing news sharing efforts, consolidation of operations, outsourcing)."[46] Later in the presentation to the Lead Banks, Tribune recounted its plans to:[47]

- Take advantage of our local print and distribution infrastructures wherever possible.
  - Chicago Tribune/Sun Times distribution deal
  - Others under discussion
    - Los Angeles Times/LANG/Orange County Register
    - Baltimore Sun/Washington Post
    - Sun-Sentinel/Palm Beach Post/Miami Herald

This effort by Tribune to provide contract printing and delivery requirements of its competitors and, presumably, other national newspapers currently outsourcing their production and delivery needs, is the "flip side of the coin" discussed by Credit Suisse in its Industry Report. In that report, Credit Suisse argued that:[48]

---

[45] *Id.*

[46] Ex. 1092 (Transforming Tribune Publishing & Interactive, dated October 1, 2007).

[47] *Id.*

[48] Ex. 1082 (Credit Suisse Newspaper Sector Report, dated December 11, 2007).

> From a longer term operational standpoint, newspaper managements must continue to explore a wide range of tactics to boost efficiency and offset potential print audience declines. Reducing exposure to traditional print production and distribution through outsourcing and in-market cross media partnerships offer potential savings as news content consumption continues to shift toward the digital platform.

At his sworn interview with the Examiner, Mr. Grenesko observed the particular elements of growth anticipated for the Publishing Segment's Other category of businesses: [49]

> And then the final thing that I think there's another -- there's another line for revenues, and here we were getting into a lot more in terms of trying to work with other newspaper companies, so we were—made a concerted effort to work within all of our Tribune newspapers, for example, sharing content across all of our newspapers for book reviews, you don't need book reviewers in every market. You can use one and that's usually pretty good for all of our newspapers, but then with other newspaper companies, we were looking at how can we reduce our costs going forward. So, for example, we had come up with a plan and actually had signed a deal with the Sun-Times for home subscriptions, so here, we were going to deliver the Sun-Times and they wouldn't have to have that whole fleet of cars and all the distributors for home delivery, so that was a significant improvement both in revenues and in cash flow to the Tribune Company and to the Chicago Tribune. In addition, we were looking at other types of deals like that in our other markets, so, for example, in Baltimore, they were talking to the Washington Post about similar type of home delivery opportunities and also joint printing. LA Times was talking to the Orange County Register, and in our south Florida paper they were talking to the Miami Herald, same types of situations, so when you put all of these together, that's why there was a change in the growth rates in publishing in the fall of year compared to the beginning part of year.

Between early 2007 and the October 2007 Tribune Board meeting, Tribune had recognized an incremental opportunity to redeploy its excess logistics capacity in connection with its Sun-Times delivery contract. It contemplated being able to do the same thing prospectively with other regional capacity as well. The key to understanding the potential for longer term opportunities that contracts like the Sun-Times contract represent, however, is that the overcapacity that Tribune was able to deploy had its roots in the secular shift away from newspapers. More and more capacity would become available as the shift away from print to digital media continued.

Tribune may reasonably have expected to be able to compete effectively with the other large print and distribution systems across the country to obtain and retain a share of a diminishing market for newspaper production and delivery. However, any efforts to do so would

---

[49] Examiner's Sworn Interview with Donald Grenesko, July 8, 2010, at 172:3-173:14.

be in competition with other newspaper companies which would be anticipated to have similarly increasing unused capacity of varying vintages.

Although not an area discussed in memorandum form, VRC prepared projections of Tribune's revenue performance as presented in VRC's October 29, 2009 model, which downwardly revised the very significant growth rates proposed by Tribune management, even taking into account the newly executed $30 million contract with the Sun Times:

OTHER PUBLISHING ASSUMPTION COMPARISON ($mm)							
	Actual		Projected				
Revenue Assumptions - Base Case	FY 2006A [1]	FY 2007A [1]	FY 2008E	FY 2009E	FY 2010E	FY 2011E	FY 2012E
Tribune October 28, 2007 Analysis	$ 255.1	$ 275.6	$ 317.1	$ 339.7	$ 364.7	$ 388.1	$ 411.2
Growth Rate		8.0%	15.1%	7.1%	7.4%	6.4%	6.0%
VRC October 29, 2007 Analysis	$ 255.1	$ 275.6	$ 297.6	$ 312.5	$ 328.1	$ 344.5	$ 361.8
Growth Rate		8.0%	8.0%	5.0%	5.0%	5.0%	5.0%
VRC December 20, 2007 Analysis (Internal)	$ 255.1	$ 275.6	$ 305.7	$ 324.1	$ 343.5	$ 361.6	$ 380.6
Growth Rate		8.0%	10.9%	6.0%	6.0%	5.3%	5.3%
VRC December 20, 2007 Analysis (Opinion)	$ 255.1	$ 275.6	$ 317.1	$ 339.7	$ 364.7	$ 388.1	$ 411.2
Growth Rate		8.0%	15.1%	7.1%	7.4%	6.4%	6.0%
Lehman Brothers (Craig A. Huber - 10/3/07) [2]	$ 256.5	$ 263.4	$ 269.9	$ 276.7	N/A	N/A	N/A
Growth Rate		2.7%	2.5%	2.5%			
Lehman Brothers (Craig A. Huber - 11/16/07) [2]	$ 256.4	$ 267.8	$ 274.5	$ 281.3	N/A	N/A	N/A
Growth Rate		4.4%	2.5%	2.5%			

[1] 2006 and 2007 actuals (excluding interactive business), *see* Ex. 642 (Brown Book for Period 12, 2007).

[2] Unlike Tribune and VRC, Lehman Brothers presents its segment projections inclusive of interactive business revenues.

In its projections, Tribune asserted sizable growth for 2008 and beyond. The Examiner's financial advisor understands that the Sun-Times contract was anticipated to add about $30 million to revenue in 2008. Therefore, the Examiner's financial advisor endorses VRC's (internal) December 20, 2007 model growth of 10.9% for purposes of projecting 2008 revenues because that rate conservatively captures the expected $30 million benefit.

The Examiner's financial advisor believes, however, that competitive factors, along with the general decline of the legacy print newspaper market, would thereafter curtail exceptional growth over the interim period. Therefore, the Examiner's financial advisor has projected more moderate growth, declining to 1.0% by 2012, to conservatively reflect optimism for this "Other" component of the Publishing Segment, despite its ties to the declining print newspaper business, and excess capacity that those declines would invariably be expected to create:

OTHER PUBLISHING PROJECTION COMPARISON EXCL. INTERACTIVE ($mm)							
Revenue	**FY 2006A [1]**	**FY 2007A [1]**	**FY 2008E**	**FY 2009E**	**FY 2010E**	**FY 2011E**	**FY 2012E**
VRC December 20, 2007 Analysis (Opinion)	$ 255.1	$ 275.6	$ 317.1	$ 339.7	$ 364.7	$ 388.1	$ 411.2
Growth Rate		8.0%	15.1%	7.1%	7.4%	6.4%	6.0%
Examiner's Projections	$ 255.1	$ 275.6	$ 305.7	$ 324.0	$ 340.2	$ 350.5	$ 354.0
Growth Rate		8.0%	10.9%	6.0%	5.0%	3.0%	1.0%

[1] 2006 and 2007 actuals (excluding interactive business), *see* Ex. 642 (Brown Book for Period 12, 2007).

3. Circulation Revenue.

As has been discussed, Tribune's circulation revenues had been declining, and were expected to continue to decline, in concert with historically observed and generally anticipated declining circulation numbers. Year-over-year, 2006 to 2007 declines ranged between approximately 5.0% to nearly 9.0% across the four largest Tribune newspaper markets:

CIRCULATION REVENUE ($mm)			
Revenue	**2006A**	**2007A**	**%**
Los Angeles	$ 168.5	$ 153.5	-8.9%
Chicago	$ 118.1	$ 111.2	-5.9%
Newsday	$ 84.3	$ 78.3	-7.1%
South Florida	$ 33.1	$ 31.5	-4.8%
Subtotal	$ 404.0	$ 374.5	-7.3%
Circulation Total	$ 567.3	$ 526.5	-7.2%
% of Circulation Total	71.2%	71.1%	

Source: Ex. 642 (Brown Book for Period 12, 2007).

Tribune's projected circulation revenues appear to acknowledge and reflect declining print newspaper readership, a direct manifestation of the secular decline in the industry. There is near unanimity among Tribune, VRC and Mr. Huber with respect to Tribune's prospects as to circulation revenues in the near term. The Examiner's financial advisor finds no reason to substantively modify Tribune's projections as a result:

CIRCULATION PUBLISHING ASSUMPTION COMPARISON ($mm)

	Actual		Projected				
Revenue Assumptions - Base Case	**FY 2006A [1]**	**FY 2007A [1]**	**FY 2008E**	**FY 2009E**	**FY 2010E**	**FY 2011E**	**FY 2012E**
Tribune October 28, 2007 Analysis	$ 567.3	$ 526.5	$ 511.1	$ 495.4	$ 479.9	$ 464.6	$ 449.8
Growth Rate		-7.2%	-2.9%	-3.1%	-3.1%	-3.2%	-3.2%
VRC October 29, 2007 Analysis	$ 567.3	$ 526.5	$ 509.1	$ 492.8	$ 477.1	$ 461.8	$ 447.1
Growth Rate		-7.2%	-3.3%	-3.2%	-3.2%	-3.2%	-3.2%
VRC December 20, 2007 Analysis (Internal)	$ 567.3	$ 526.5	$ 509.1	$ 492.8	$ 477.1	$ 461.8	$ 447.1
Growth Rate		-7.2%	-3.3%	-3.2%	-3.2%	-3.2%	-3.2%
VRC December 20, 2007 Analysis (Opinion)	$ 567.3	$ 526.5	$ 511.1	$ 495.4	$ 479.9	$ 464.6	$ 449.8
Growth Rate		-7.2%	-2.9%	-3.1%	-3.1%	-3.2%	-3.2%
Lehman Brothers (Craig A. Huber - 10/3/07) [2]	$ 568.9	$ 526.3	$ 505.2	$ 490.1	N/A	N/A	N/A
Growth Rate		-7.5%	-4.0%	-3.0%			
Lehman Brothers (Craig A. Huber - 11/16/07) [2]	$ 568.9	$ 526.2	$ 502.6	$ 485.0	N/A	N/A	N/A
Growth Rate		-7.5%	-4.5%	-3.5%			

[1] 2006 and 2007 actuals (excluding interactive business), *see* Ex. 642 (Brown Book for Period 12, 2007).
[2] Unlike Tribune and VRC, Lehman Brothers presents its segment projections inclusive of interactive business revenues.

The Examiner's financial advisor projected Tribune's circulation revenues as follows:

CIRCULATION PUBLISHING PROJECTION COMPARISON EXCL. INTERACTIVE ($mm)

Revenue	**FY 2006A [1]**	**FY 2007A [1]**	**FY 2008E**	**FY 2009E**	**FY 2010E**	**FY 2011E**	**FY 2012E**
VRC December 20, 2007 Analysis (Opinion)	$ 567.3	$ 526.5	$ 511.1	$ 495.4	$ 479.9	$ 464.6	$ 449.8
Growth Rate		-7.2%	-2.9%	-3.1%	-3.1%	-3.2%	-3.2%
Examiner's Projections	$ 567.3	$ 526.5	$ 511.1	$ 495.4	$ 479.9	$ 464.6	$ 449.8
Growth Rate		-7.2%	-2.9%	-3.1%	-3.1%	-3.2%	-3.2%

[1] 2006 and 2007 actuals (excluding interactive business), *see* Ex. 642 (Brown Book for Period 12, 2007).

4. Overall Publishing Segment Margin.

The Examiner's financial advisor reviewed historical margins for the Publishing Segment as context for assessing the margins projected by Tribune and VRC:

TRIBUNE PUBLISHING SEGMENT SUMMARY ($000)

Publishing	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**
Operating Revenue	$ 1,472,823	$ 1,536,684	$ 1,621,347	$ 3,485,277	$ 3,903,431	$ 3,940,478	$ 4,036,920	$ 4,129,850	$ 4,096,850	$ 4,092,562
Growth Rate		*4.3%*	*5.5%*	*115.0%*	*12.0%*	*0.9%*	*2.4%*	*2.3%*	*-0.8%*	*-0.1%*
Operating Expenses	$ 1,118,238	$ 1,159,547	$ 1,227,035	$ 2,836,951	$ 3,392,827	$ 3,089,097	$ 3,151,614	$ 3,272,600	$ 3,285,435	$ 3,317,774
EBITDA	$ 428,362	$ 456,831	$ 484,164	$ 897,682	$ 830,783	$ 1,025,487	$ 1,061,589	$ 1,036,279	$ 986,232	$ 949,051
EBITDA Margin	*29.1%*	*29.7%*	*29.9%*	*25.8%*	*21.3%*	*26.0%*	*26.3%*	*25.1%*	*24.1%*	*23.2%*
Growth Rate		*6.6%*	*6.0%*	*85.4%*	*-7.5%*	*23.4%*	*3.5%*	*-2.4%*	*-4.8%*	*-3.8%*

Notes/Source:
Ex. 742 at VRC0063427 (VRC Preliminary Solvency Analysis, dated November 30, 2007).
The record includes historical results for Tribune that show slight discrepancies from the numbers reported above. *See* Ex. 1101 at VRC0003371-0003548 (Litman e-mail, dated September 26, 2007).

The Examiner's financial advisor notes that VRC, in its October 29, 2007 valuation model, projected margins that were below those projected by Tribune for the Publishing

Segment. Such downward adjustments were not explained in the VRC accompanying memoranda:[50]

PUBLISHING SEGMENT OPERATING MARGIN COMPARISON						
	FY 2007PF	FY 2008E	FY 2009E	FY 2010E	FY 2011E	FY 2012E
Tribune October 28, 2007 Analysis	22.2%	21.4%	21.7%	22.0%	22.3%	22.5%
VRC October 29, 2007 Analysis	22.2%	20.7%	21.0%	21.2%	21.6%	21.9%

Because the Examiner's financial advisor segregated the interactive business from the rest of the Publishing Segment in order to quantify the value of cash flows of the interactive business separately, an adjustment to remove the beneficial impact of the higher margin contribution of the interactive business to overall Publishing Segment margins is necessary for projecting Publishing Segment cash flows to be discounted to present value in applying a DCF valuation methodology. The table below presents forecasted Publishing Segment margins, normalized to adjust for the removal of the influence of the contribution of the interactive business to the Publishing Segment margin:[51]

PUBLISHING SEGMENT OCF MARGIN (Adjusted to eliminate OCF of interactive business) ($mm)					
Operating Cash Flow Assumptions - Base Case	FY 2008E	FY 2009E	FY 2010E	FY 2011E	FY 2012E
Projected Publishing OCF	$ 786.1	$ 814.2	$ 844.2	$ 874.8	$ 906.3
OCF Margin	21.4%	21.7%	22.0%	22.3%	22.5%
Projected Interactive Revenue	$ 318.0	$ 406.3	$ 507.9	$ 603.8	$ 712.5
Growth Rate	21.4%	27.8%	25.0%	18.9%	18.0%
Estimated Interactive OCF	$ 126.6	$ 160.1	$ 203.7	$ 242.7	$ 287.9
OCF Margin	39.8%	39.4%	40.1%	40.2%	40.4%
Resulting Publishing OCF	$ 659.5	$ 654.1	$ 640.5	$ 632.1	$ 618.5
OCF Margin	19.6%	19.6%	19.2%	19.0%	18.7%

---

50 Ex. 1004 (Mednik E-Mail, dated October 31, 2007). It is possible that VRC believed that a downward revision to the overall Publishing Segment margins was necessary because VRC downwardly revised the estimated growth in their projection of the interactive business (a sub-segment of the Publishing Segment with higher profitability than the others).

51 Tribune's forecasted interactive business operating cash flow (EBITDA) margin was derived based on revenue and operating cash flow projections contained in the Step Two interactive business model. Ex. 956 (Tribune Interactive 2006-2012 Projections). Mr. Amsden has represented that this was the relevant interactive business model that ultimately informed the five-Year October 2007 projections presented to the Tribune Board. Examiner's Interview of Harry Amsden, July 16, 2010. The resulting operating cash flow margin was applied to Tribune's Step Two interactive business revenue projections, as contained in the Tribune October 28, 2007 analysis, in order to compute annual interactive-specific EBITDA projections, which were then subtracted from respective consolidated Publishing Segment forecasted EBITDA as projected in that model, so as to isolate Tribune's implied Publishing Segment cash flow operating margin exclusive of the interactive business. Ex. 1004 at VRC0034787 (Mednik E-Mail, dated October 31, 2007). Although there are minor reconcilable discrepancies between the revenue projections in the Step Two interactive model and those in the Tribune October 28, 2007 analysis, the Examiner's financial advisor believes that this calculation is a reasonable proxy for the Publishing Segment operating cash flow margin excluding the interactive business, given the insufficiency of projection detail for the interactive business.

The Examiner's financial advisor has used the resulting adjusted Publishing Segment margins (ranging from 19.6% in 2008 to 18.7% in 2012) to estimate operating cash flows associated with the revenues projected for each of the divisions of the Publishing Segment, including the sub-segments of print advertising.

5. Consolidated Publishing Segment Projection of Revenues and Operating Cash Flow.

Based on the analyses described herein with respect to each of Tribune's publishing sub-segments,[52] the Examiner's financial advisor revised management's projections of revenue from that which VRC relied on for purposes of its Step Two solvency opinion, for the discrete period projection horizon of 2008 through 2012, resulting in the following projections of revenue and EBITDA:

EXAMINER'S PUBLISHING SEGMENT REVENUE PROJECTIONS EXCL. INTERACTIVE ($mm)

Publishing Revenue	2007A	2008	2009	2010	2011	2012
Retail	$ 1,219.9	$ 1,214.4	$ 1,202.3	$ 1,196.2	$ 1,190.3	$ 1,184.3
Growth Rate		*-0.5%*	*-1.0%*	*-0.5%*	*-0.5%*	*-0.5%*
National	$ 663.8	$ 651.6	$ 636.1	$ 620.1	$ 611.1	$ 598.7
Growth Rate		*-1.8%*	*-2.4%*	*-2.5%*	*-1.5%*	*-2.0%*
Classified	$ 724.5	$ 620.9	$ 591.1	$ 574.6	$ 555.6	$ 532.8
Growth Rate		*-14.3%*	*-4.8%*	*-2.8%*	*-3.3%*	*-4.1%*
Circulation	$ 526.5	$ 511.1	$ 495.4	$ 479.9	$ 464.6	$ 449.8
Growth Rate		*-2.9%*	*-3.1%*	*-3.1%*	*-3.2%*	*-3.2%*
Other	$ 275.6	$ 305.7	$ 324.0	$ 340.2	$ 350.5	$ 354.0
Growth Rate		*10.9%*	*6.0%*	*5.0%*	*3.0%*	*1.0%*
Total (excl. interactive)	$ 3,410.4	$ 3,303.7	$ 3,248.9	$ 3,211.0	$ 3,172.1	$ 3,119.6

[52] Excluding the interactive business, which is addressed separately herein.

EXAMINER'S PUBLISHING ASSUMPTIONS EXCL. INTERACTIVE ($mm)	2008	2009	2010	2011	2012
Publishing Revenue Projections	$ 3,303.7	$ 3,248.9	$ 3,211.0	$ 3,172.2	$ 3,119.6
Publishing OCF [1]	$ 648.1	$ 635.1	$ 617.3	$ 603.5	$ 583.5
Growth Rate		-2.0%	-2.8%	-2.2%	-3.3%
OCF Margin	19.6%	19.6%	19.2%	19.0%	18.7%

[1] Excludes corporate expense allocation.

When compared to revenue expectations informing VRC's Step Two solvency opinion, the Examiner's financial advisor downwardly revised Publishing Segment revenue expectations as follows:

PUBLISHING SEGMENT PROJECTION COMPARISON EXCL. INTERACTIVE ($mm)						
Revenue	**2007A**	**2008**	**2009**	**2010**	**2011**	**2012**
Examiner	$ 3,410.4	$ 3,303.7	$ 3,248.9	$ 3,211.0	$ 3,172.2	$ 3,119.6
Growth Rate		-3.1%	-1.7%	-1.2%	-1.2%	-1.7%
VRC December 20, 2007 Analysis	$ 3,430.7	$ 3,361.9	$ 3,345.7	$ 3,332.4	$ 3,323.8	$ 3,306.8
Growth Rate		-2.0%	-0.5%	-0.4%	-0.3%	-0.5%
Difference	($ 20.3)	($ 58.2)	($ 96.8)	($ 121.4)	($ 151.7)	($ 187.2)
% Difference	-0.6%	-1.8%	-3.0%	-3.8%	-4.8%	-6.0%

D. Broadcasting Segment.

1. DCF Model Assumptions.

At the end of 2007, Tribune's Broadcasting Segment, inclusive of the Chicago Cubs,[53] accounted for approximately 28% of Tribune's consolidated operating revenues.[54] Tribune's Broadcasting Segment assets included CW Television network affiliates located in major metropolitan areas (including Chicago, New York, Los Angeles, and several other cities), as well as Fox Network and MyNetwork TV affiliates in various U.S. cities. Its assets also included ownership of a single radio station, WGN-AM, based in Chicago, and Tribune Entertainment, a company which distributed its own, as well as licensed, programming. Although comprising a smaller percentage of Tribune's revenue, Tribune's Broadcasting Segment was significantly more

[53] Management anticipated selling the Chicago Cubs. Accordingly, in connection with projections of prospective financial performance for the Broadcasting Segment, management "normalized" its financial forecasts to eliminate the revenue and EBITDA contributions of its ownership interest in the Chicago Cubs. Due to an expectation of selling the Chicago Cubs, the discussion of historical and forecasted performance of the Broadcasting Segment focuses on Tribune's other Broadcasting Segment assets.

[54] Ex. 4 at 15 (Tribune 2007 Form 10-K).

profitable than Tribune's Publishing Segment, earning operating margins of approximately 27.5% and 25.55% during 2006 and 2007, respectively[55] (inclusive of the Chicago Cubs, which contributed margins lower than those earned by the consolidated Broadcasting Segment).

Between 2003 and 2007, Broadcasting Segment revenues ranged between approximately $1.4 and $1.5 billion annually, reflecting year-over-prior-year increases in election years (2004 and 2006) and decreases in year-over-prior-year results in non-election years. The low point during this period occurred in 2007, with Tribune reporting approximately $1.398 billion in revenues (an approximately 1.9% decrease from the $1.425 billion in revenues reported for 2006, despite the fact that 2006 results contained 53 weeks of data in contrast to 52 weeks in 2007).

2. Discussion and Projections Related to Broadcasting Segment Revenue and Profitability.

Against the backdrop of Tribune's historical financial performance and adverse performance during 2007 in relation to its February 2007 operating plan, management revised its forecast in Fall 2007 and presented a revised five-year outlook to the Tribune Board in October 2007. The revised outlook contemplated modest downward adjustments to earlier revenue expectations, particularly because the February 2007 projections included forecasts of revenue for the Tribune Entertainment business, which, for purposes of management's October 2007 projections, were excluded from forecasted revenues due to a contemplated sale of those operations.[56] Both projections excluded the Chicago Cubs:[57]

BROADCASTING SEGMENT PROJECTION COMPARISON ($ mm)

	2008E	2009E	2010E	2011E	2012E
Revenue:					
February, 2007 Projections	$ 1,293	$ 1,297	$ 1,339	$ 1,338	$ 1,336
October, 2007 Projections	1,257	1,264	1,307	1,317	1,352
Difference	$ 37	$ 33	$ 32	$ 21	$ (16)
% Difference	2.82%	2.54%	2.39%	1.57%	-1.20%

Sources:
Ex. 71 (ESOP Transaction Model - Revised Operating Plan Case, dated February 8, 2007); Ex. 657 at TRB0252894 (Tribune Five-Year Financial Outlook).

---

55 *Id.*

56 The February 2007 projection model support does not allow for a segregation of amounts projected for Tribune Entertainment, although other evidence reviewed by the Examiner indicates that Tribune Entertainment had historically contributed approximately $20 million in annual revenues. *See* Ex. 242 at TRB0094597 and TRB0094581 (Rating Agency Presentation, dated March 2007).

57 The Chicago Cubs had been identified as a Tribune asset being held out for sale.

The revised October 2007 plan presented to the Tribune Board contained additional detail regarding the composition of, and growth rates anticipated to be achieved for the primary sub-segments of Tribune's Broadcasting Segment, although the presentation of that data did not contain annual detail.[58]

BROADCASTING SEGMENT GROUP FINANCIAL OUTLOOK - BASE CASE ($mm)						
	52 wks 2006	2007	2008	2012	'07 - '08	'07 - '12 CAGR
Operating Revenue						
TV Stations	$ 1,014	$ 980	$ 1,068	$ 1,141	8.9%	3.1%
Superstation	$ 145	$ 143	$ 145	$ 167	1.6%	3.1%
Radio	$ 41	$ 38	$ 41	$ 44	8.7%	3.1%
Group Office/Other	$ 1	$ 3	$ 2	$ 0		
Total Revenue	**$ 1,201**	**$ 1,164**	**$ 1,256**	**$ 1,352**	**7.9%**	**3.0%**
Operating Expenses						
TV Stations	$ 709	$ 704	$ 722	$ 768	2.5%	1.8%
Superstation	$ 52	$ 49	$ 54	$ 64	9.6%	5.3%
Radio	$ 27	$ 26	$ 27	$ 30	4.4%	3.0%
Group Office/Other	$ 0	$ 1	$ 5	$ 6		
Total Expenses	**$ 788**	**$ 780**	**$ 808**	**$ 868**	**3.5%**	**2.1%**
Operating Cash Flow						
TV Stations	$ 305	$ 276	$ 345	$ 372	25.1%	6.2%
Superstation	$ 93	$ 94	$ 91	$ 103	-2.6%	1.9%
Radio	$ 14	$ 12	$ 14	$ 14	17.8%	3.1%
Group Office/Other	$ 2	$ 2	($ 2)	($ 5)		
Total Operating Cash Flow	**$ 414**	**$ 384**	**$ 448**	**$ 484**	**17.0%**	**4.8%**

Management provided a written explanation of the principal assumptions underlying the revenue and expense growth rates used in developing the above summarized forecast. The materials shared with the Tribune Board contained the following observations with regard to those assumptions:[59]

- Television spot market, excluding political, grows 2.3% in 2008 and 1.1% annually in 2008 to 2012.
- Political advertising continues to be robust resulting in total market revenue growth of 6% to 7% in even years and declines of 4% to 5% in odd years.
- Tribune's share of political revenue increases to an average 6.4%, up from 6.1%, due to improved local news ratings

58 Ex. 657 (Tribune Five Year Financial Outlook). The Tribune Board presentation truncated the presentation of these sub-segment details so that only the first and fifth years of Tribune's projection were shown, along with the resulting five-year compound annual growth rates. A *consolidated* presentation of the overall Broadcasting Segment forecast was, however, detailed for each year of the five-year projection horizon.

59 *Id.*

and expanded local news broadcasts. Political revenue is expected to be $31.5 million in 2008, approximately 3% of total advertising revenue.

- Tribune stations' gross advertising revenue increases 9.9% in 2008, in line with industry consensus for spot television growth of 9% to 10%. Gross advertising revenue averages 1.6% annual growth thereafter.

- Tribune stations' aggregate revenue share increases three-tenths of a share point in 2008 to 13.2% and averages 13.6% in 2008 to 2012. Revenue share increases are driven primarily by improved audience shares in prime (CW and Fox) and new syndicated programming in access and late-fringe (*Two and a Half Men* and *Family Guy*).

In addition, management indicated that WGN operating revenues were projected to increase 2% in 2008, and 3.5% annually thereafter, "primarily due to increased distribution fees as Verizon and AT&T rollout their national video services."[60]

Management's projections also contemplated cost increases, although the annual rates of cost increase were significantly less than the rates of projected annual revenue growth. Broadly speaking, Tribune management forecasted significant revenue growth with an even more significant improvement in operating cash flow over the projection period.[61]

---

[60] *Id.*

[61] The 2008 growth rates estimated by management in the October 2007 plan were based on calculations reflecting management's estimate of full year 2007 results at a time when only partial year results were known. Because subsequent comparisons of 2008 projected performance are made against actual 2007 results, growth rates and comparative statistics may differ.

The Examiner's financial advisor observed that Tribune's actual 2007 operating margins declined significantly in 2007 in relation to 2006 (both in terms of actual full year reported results and as contemplated by management in the October plan, in which 2007 results were presented on a pro forma basis). The Examiner's financial advisor investigated the reasons for this declining performance. This evaluation was deemed important by the Examiner's financial advisor, in significant part, because management expected to be able to mitigate this observed decline prospectively, in that forecasted 2008 operating cash flow was contemplated to increase by approximately 16% above 2007 (pro forma) levels, despite an expectation that 2008 revenues would (on a relative bases) experience more modest growth, and because margins for the remainder of management's projection horizon (*i.e.*, for 2009 through 2012) were forecasted to exceed the expected 2007 margins, on a percentage of revenue basis.

The Investigation revealed that 2007 results (pro forma and actual) were negatively affected by certain non-recurring charges, which had a depressing effect on operating profit and EBITDA margins and would therefore not be anticipated to occur prospectively. Tribune's 2007 Form 10-K contained both a presentation of quantitative differences in operating profits as between 2006 and 2007 (reflected in the table below), as well as an explanation of the decline.

The following table (replicated from information contained in materials prepared by Duff & Phelps) places the October 2007 projected Broadcasting Segment operating performance into a longer term historical perspective and reflects actual 2007 operating performance. The amounts shown were normalized to omit the operating performance of the Chicago Cubs, and the amounts reflect EBITDA (as opposed to operating profit):[62]

TRIBUNE 2007 FORM 10-K ($ mm)					
		2007		2006	% Change 07 - 06
Operating Revenues					
Television	$	1,136	$	1,178	-4%
Radio/Entertainment	$	262	$	247	6%
Total Operating Revenues	$	1,398	$	1,425	-2%
Operating Expenses					
Television	$	814	$	820	-1%
Radio/Entertainment	$	227	$	213	6%
Total Operating Expenses	$	1,041	$	1,033	1%
Operating Profit					
Television	$	322	$	358	-10%
Radio/Entertainment	$	35	$	34	5%
Total Operating Profit	$	357	$	392	-9%

The Examiner notes that Tribune's 2007 Form 10-K reported segment results on a GAAP basis, and discussed segment results in terms of operating profit inclusive of non-cash charges. Thus, amounts discussed will not comport with, for example, non-GAAP EBITDA, or other "operating cash flow" statistics discussed elsewhere herein.

In Tribune's 2007 Form 10-K, the reported 9% decline in 2007 operating profit in relation to 2006 was nonetheless discussed.

> Operating profit for broadcasting and entertainment decreased 9%, or $35 million, in 2007. Operating profit for 2007 was reduced by a $12 million charge for accelerated stock-based compensation expense and certain one-time compensation payments resulting from completion of the Leveraged ESOP Transactions in December 2007, a charge of $6 million for the write-down of program assets at Tribune Entertainment, and a $3 million charge related to the Company's new management equity incentive plan. Television operating profit declined 10%, or $36 million, in 2007 due to lower revenues and higher compensation costs, partially offset by lower programming expenses. Radio/entertainment operating profit increased 5%, or $1 million, due to higher revenues at the Chicago Cubs, partially offset by lower revenues at WGN Radio and the $6 million write-down of Tribune Entertainment program assets.

Ex. 4 (Tribune 2007 Form 10-K).

Thus, some of the observed decline in operating profit was attributable to non-cash charges (e.g., a charge for non-cash stock based compensation and an asset write-down), and certain other one-time cash expenses (i.e., payments made in connection with the Merger) that would be non-recurring prospectively. Other reasons for profitability declines arguably could be systemic (e.g., higher compensation costs) to Tribune.

[62] The Examiner has assumed the accuracy of this information without independent verification.

BROADCASTING SEGMENT OPERATING PERFORMANCE W/O CHICAGO CUBS ($mm)

	2002	2003	2004	2005	2006	2007PF	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
Operating Revenue	$ 1,218	$ 1,309	$ 1,335	$ 1,245	$ 1,222	$ 1,194	$ 1,257	$ 1,264	$ 1,307	$ 1,317	$ 1,352	$ 1,387	$ 1,424	$ 1,461	$ 1,500	$ 1,539
Growth Rate		*7.5%*	*2.0%*	*-6.7%*	*-1.8%*	*-2.3%*	*5.3%*	*0.6%*	*3.4%*	*0.8%*	*2.7%*	*2.6%*	*2.7%*	*2.6%*	*2.7%*	*2.6%*
Operating Expenses	$ 726	$ 774	$ 775	$ 793	$ 805	$ 797	$ 808	$ 800	$ 827	$ 852	$ 868	$ 891	$ 914	$ 938	$ 963	$ 988
EBITDA	$ 491	$ 535	$ 560	$ 452	$ 417	$ 397	$ 448	$ 464	$ 479	$ 465	$ 484	$ 497	$ 510	$ 523	$ 537	$ 551
EBITDA Margin	*40.3%*	*40.9%*	*41.9%*	*36.3%*	*34.1%*	*33.2%*	*35.6%*	*36.7%*	*36.6%*	*35.3%*	*35.8%*	*35.8%*	*35.8%*	*35.8%*	*35.8%*	*35.8%*
Growth Rate		*9.0%*	*4.7%*	*-19.3%*	*-7.7%*	*-4.8%*	*12.8%*	*3.6%*	*3.2%*	*-2.9%*	*4.1%*	*2.7%*	*2.6%*	*2.5%*	*2.7%*	*2.6%*

Source: Ex. 1102 at D-2 (Duff & Phelps Appendices to Valuation Analysis, dated December 31, 2007).

What is very clear from the table is that management forecasted a dramatic improvement in revenue for 2008 in relation to the then existing pro forma expectation for 2007, and an even more significant improvement in 2008 forecasted EBITDA. Based on a review of the above-summarized historical performance and observations made by VRC analysts charged with investigating Tribune's Broadcasting Segment, changes in levels of revenue would reasonably be anticipated to have a significant impact on operating cash flow margins, because so much of the Broadcasting Segment's cost structure is only modestly variable within relevant ranges.[63] Therefore, increases (or decreases) in Broadcasting Segment revenue would be expected to result in significantly improved (or reduced) margins. This phenomenon is also is evident from a review of the operating cash flow performance summarized above, when, for example, between 2005 and 2007 (a period when revenue declined approximately $51 million, from $1.245 billion to $1.194 billion) Tribune's operating margin declined from 36.3% to 33.2%.

In a memo to the file memorializing VRC's April 17, 2007 discussion with Tribune management and summarizing VRC's research and assessment of Tribune's Broadcasting Segment projections, VRC analyst Doug Peterson provided a list of telling industry observations.[64]

1. 'For traditional local media operators, we believe a new mantra has emerged: innovate or die' (S&P).

2. Increased broadband penetration in households and wireless substitution has caused the need for television content to be available through the Internet, mobile phone, MP3 players, game consoles and other portable media devises.

3. Several leading media companies are streaming free, ad-supported, full episodes of hit prime-time shows across various media platforms.

---

[63] In a summary of his conversation with Tribune personnel dated April 17, 2007, VRC analyst Ron Ewing noted that Tribune personnel represented to him that a "3% dip in revenue converts to about a 10% to 15% dip in cash flow." Ex. 1093 at VRC003765 (VRC Memorandum Summarizing Broadcast Management Interview of April 17, 2007).

[64] Ex. 1094 at VRC0037569-70 (VRC Memorandum Reviewing and Commenting on Broadcast Management Interview of April 17, 2007).

4. Operating profit margins on incremental online advertising are high and will contribute nicely to profitability once infrastructure costs of online platforms are covered.

5. The 2006-2007 upfront selling season for the major networks – ABC, CBS, FOX, NBC, UPN and WB (UPN and WB became CW in Sept. 2006) – finished with combined sales down 1% to 2% versus the prior year. This marked the third consecutive year-to-year decline in upfront advertising sales.

   a. Cable rose 3% to 4%

   b. A major TV advertiser – J&J – decided to sit out the upfront selling season negotiations.

6. With the continuation of media fragmentation, a greater portion of traditional ad budgets is expected to shift to the Internet and other emerging platforms. Broadcast networks are including multi-platform pitches.

7. CBS's UPN network and Time Warner's WB network merged on September 18, 2006, to launch the CW network. By combining their schedules and program lineups, the new network is expected to become a stronger network with greater market coverage and audience size. This is expected to increase the networks pull with advertisers.

8. News Corp. launched My Network TV, but this network has not done well.

9. The mature television and radio broadcasting subsector faces disruptive technologies and increased regulatory surveillance . . . .

Although the provenance of the observations contained in the VRC memo cannot be ascertained (save the "innovate or die" admonition), the many warnings and cautionary observations contained therein overwhelm the few positives. All positives speak, at best, about largely temporary and highly volatile benefits associated with recent share gains and improved product offerings. At worst, the warnings resemble the litany of woes ascribed to the Publishing Segment. The common threads running through much of the list are the maturity of the market and the increasing risk as other, more cost effective, useful, or desirable platforms for media advertising are developed.

In contrast to the recitation of challenges and risks, Mr. Peterson's memo also included Tribune management's observations regarding factors tending to mitigate, at least temporarily, some of the concerns facing Tribune and the industry. In particular, in rebuttal to negatively interpreting Tribune's and the industry's recent downward revenue and profitability trends,

Tribune management argued that the recent performance was misleading for projection purposes since:[65]

> Historical performance did not include the CW network, but rather the WB network, which … had stale programming and had increased competition from UPN. Combining the best programming of WB and UPN provides a stronger platform.

Broadcasting Segment management also pointed to the expectation that "the CW network will generate superior ratings performance and advertising than the WB given the stronger programming and the elimination of a broadcast network, the latter of which will result in a decline in supply of broadcast TV advertising options in explaining the rationale for the expected revenue growth then contemplated."[66]

In addition, Tribune management apparently blamed the introduction, by Nielson, of Local People Meters ("LPMs") for negative Tribune ratings. According to management:[67]

> LPMs have been attributed to about a 3% loss in revenues after introduction to a market. Their strongest demographic—18 to 34 or younger—are less inclined to perform the tasks need to be properly accounted for actual viewership. As a result, ratings measures were impacted significantly.

While apparently admitting the *appearance* of optimism in the then-existing Tribune forecast, management explained that revenues were "projected to grow at a 3.0% CAGR from 2006 to 2010," and that such projections were not unreasonable when factoring election and Olympic year spending.[68]

With regard to rapidly increasing margins associated with projected revenue growth, Mr. Peterson noted that:[69]

> According to management, their expense projections have closely tracked actual performance in years past. As a result, they have a high degree of confidence in these expense projections which, coupled with their detailed revenue projections, give them a high degree of confidence in their OCF projections.

The question of the variability of the Broadcasting Segment's cost structure was further addressed in a memorandum prepared by Ron Ewing, a VRC analyst who also participated in the April 17, 2007 discussion with management. In the memo, he recounts management's observation that, in a recession scenario, "[r]evenue can be expected to drop from 3% to 5%;

---

[65] *Id* at VRC0037568.

[66] *Id*.

[67] *Id*.

[68] *Id*.

[69] *Id*.

some of the lost revenue can be offset in cost."[70] The observation implicitly recognizes that costs are relatively fixed in nature, since only *some* of the lost revenue can be offset through cost reductions.[71] Moreover, elsewhere in the memo, VRC observes that management numerically confirmed the notion of low variability of costs: "[a] 3% dip in revenue converts to about a 10% to 15% dip in cash flow…."[72]

In a VRC memorandum dated October 29, 2007, commenting on management's revised October 2007 projections, VRC's Leonid Mednik observed the following with respect to management's forecast of 2008 revenue and the substantial rate of revenue growth anticipated therein:[73]

> VRC believes that a revenue growth rate of 7.9% is overestimated. The base case growth rate is considerably higher than the five year CAGR of 1.9% or the long term (1998 through 2006) CAGR of 3.9%. Although the Broadcasting unit should benefit from additional political ad spending the company's largest stations are located in markets that do not expect significant increases.
>
> Additionally, the average analyst estimate of growth for the year is 3.8%. This is considerably lower than what the Company is projecting for 2008. Some of these analysts' projections may not include the recent success of CW shows and as such additional credit should be given to the Company.
>
> VRC believes a more appropriate growth rate should be the midpoint of the Company's projected growth rate and the average analyst estimate. Therefore, VRC believes an appropriate growth rate is 5.8%.

---

70 *Id.* at VRC0037565.

71 *Id.*

72 *Id*.

73 Ex. 1004 at VRC0034758 (Mednik E-Mail, dated October 31, 2007).

Mr. Mednik's observations regarding management's expectation of revenue growth for 2008 were based upon a pro forma estimate of 2007 performance, and therefore do not capture all the data that were available as of December 20, 2007, the date of VRC's Step Two solvency opinion. The table below reflects Tribune's projections as Mr. Mednik saw them in late October 2007.

BROADCASTING SEGMENT ASSUMPTION COMPARISON ($mm)						
Revenue Assumptions - Base Case	**FY 2007PF**	**FY 2008E**	**FY 2009E**	**FY 2010E**	**FY 2011E**	**FY 2012E**
Tribune October 28, 2007 Analysis	$ 1,164.1	$ 1,256.5	$ 1,264.1	$ 1,306.6	$ 1,317.2	$ 1,351.8
Growth Rate	-4.7%	7.9%	0.6%	3.4%	0.8%	2.6%

In the following table, the Examiner's financial advisor presents *actual* 2007 Broadcasting Segment revenue results as well as recalculated growth rates implied by management's 2008 projection of revenue.

BROADCASTING SEGMENT ASSUMPTION COMPARISON ($mm)							
	Actual		**Projected**				
Revenue Assumptions - Base Case	**FY 2006A [1]**	**FY 2007A [1]**	**FY 2008E**	**FY 2009E**	**FY 2010E**	**FY 2011E**	**FY 2012E**
Tribune October 28, 2007 Analysis	$ 1,223.1	$ 1,177.6	$ 1,256.5	$ 1,264.1	$ 1,306.6	$ 1,317.2	$ 1,351.8
Growth Rate		-3.7%	6.7%	0.6%	3.4%	0.8%	2.6%

[1] 2006 and 2007, *see* Ex. 642 (Brown Book for Period 12, 2007).

The Broadcasting Segment's improved performance in the later months of 2007 resulted in actual revenues in excess of those estimated earlier in the year and relied on by VRC in making its judgment about the reasonableness of the growth rates to apply to 2007 revenues in order to project 2008 revenues. As a result, the growth implied by management's 2008 revenue projection reflects an expected 6.7% increase, lower than the 7.9% originally calculated. The Examiner's financial advisor is inclined to accept, as reasonable, management's projection of revenue for 2008 ($1.2565 billion) based on the detailed nature of management's rationale for near term revenue improvement, despite the apparent optimism with regard to the success of the new programming as well as the prospects for CW on which they are founded.

Regarding the remaining interim periods of the projection horizon (2009 through 2012), Tribune management projected revenue according to expectations not only of systemic growth in base revenues, but also taking into account expectations of the revenue enhancing effects of incremental political advertising spending during election years. Practically speaking, management's approach to establishing the timing of revenues is superior to the conceptually adequate application of a compound period growth rate that smoothes revenues, because it more accurately confines period cash flows to the periods in which they are specifically expected to be produced.

The Examiner's financial advisor finds, however, that management's projected revenue growth of between 0.6% (2009) and 0.8% (2011) is unreasonable in that it appears that, from a historical perspective, Tribune experienced *declining* growth in years following election years

2005 (6.7%) and 2007 (3.7%). The Report therefore assumes no growth in revenues in the years following election years:

BROADCASTING SEGMENT PROJECTION COMPARISON ($mm)							
Revenue	**FY 2006A [1]**	**FY 2007A [1]**	**FY 2008E**	**FY 2009E**	**FY 2010E**	**FY 2011E**	**FY 2012E**
VRC December 20, 2007 Analysis	$ 1,223.1	$ 1,177.6	$ 1,256.5	$ 1,264.1	$ 1,306.6	$ 1,317.2	$ 1,351.8
Growth Rate		-3.7%	6.7%	0.6%	3.4%	0.8%	2.6%
Examiner's Projections	$ 1,223.1	$ 1,177.6	$ 1,256.5	$ 1,256.5	$ 1,299.2	$ 1,299.2	$ 1,333.0
Growth Rate		-3.7%	6.7%	0.0%	3.4%	0.0%	2.6%

[1] 2006 and 2007 actuals, *see* Ex. 642 (Brown Book for Period 12, 2007).

VRC's Shakespeare James prepared a memo, dated October 29, 2007, addressing the expense assumptions for the Broadcasting Segment that informed management's forecasted operating cash flow margins. In the memorandum, he noted:[74]

> VRC (Base Case Analysis): VRC has noted that the Company has historically achieved an average expense ratio of 69.7% over the last ten years. However, the Company is projecting margins of 64.3% for 2008, 63.3% for 2009, 63.3% for 2010, 64.7% for 2011, and 64.2% for 2012. This difference is due to the costs savings the Company is hoping to achieve in implementing new technology.
>
> VRC has assumed a margin at the midpoint of the base case and the historical 10 year average to conservatively reflect achieving only a part of the planned $200 million dollars in cost savings that the company hopes to achieve in 2007 and 2008. VRC has derived an expense ratio of 65.2% for 2008, 64.7% for 2009, 64.7% for 2010, 65.4% for 2011 and 65.1% for 2012.

In view of the historical EBITDA margin performance, and the low cost variability over relevant revenue ranges, the Examiner's financial advisor finds that the adjustments proposed by VRC are inconsistent with reasonable expectations of improving margin performance in circumstances of projected revenue growth. The Examiner's financial advisor, therefore, has adopted management's October 2007 projections of EBITDA margin for purposes of calculating operating cash flows for the Broadcasting Segment.

On the basis of the discussion contained herein, the Examiner's financial advisor projected the following revenue for the Broadcasting Segment for the interim period projection horizon 2008 through 2012:

BROADCASTING SEGMENT REVENUE ($mm)						
Revenue	**FY 2007A**	**FY 2008E**	**FY 2009E**	**FY 2010E**	**FY 2011E**	**FY 2012E**
Examiner's Projections	$ 1,177.6	$ 1,256.5	$ 1,256.5	$ 1,299.2	$ 1,299.2	$ 1,333.0

74 *Id*.

As reflected in the table below, the Examiner's financial advisor developed projections of Broadcasting Segment revenues for purposes of the DCF Valuation Analysis which were not substantially dissimilar from management's October 2007 projections on which VRC's analysis relied:

BROADCASTING SEGMENT PROJECTION COMPARISON ($mm)						
Revenue	**FY 2007A**	**FY 2008E**	**FY 2009E**	**FY 2010E**	**FY 2011E**	**FY 2012E**
Examiner's Projections	$ 1,177.6	$ 1,256.5	$ 1,256.5	$ 1,299.2	$ 1,299.2	$ 1,333.0
VRC December 20, 2007 Analysis	$ 1,177.6	$ 1,256.5	$ 1,264.1	$ 1,306.6	$ 1,317.2	$ 1,351.8
Difference	$ 0.0	$ 0.0	($ 7.6)	($ 7.4)	($ 18.0)	($ 18.8)
% Difference	0.0%	0.0%	-0.6%	-0.6%	-1.4%	-1.4%

Those projections translate into EBITDA expectations as follows:

BROADCASTING SEGMENT OCF ($mm)					
OCF	**FY 2008E**	**FY 2009E**	**FY 2010E**	**FY 2011E**	**FY 2012E**
Examiner's Projections	$ 448.5	$ 461.1	$ 476.5	$ 458.7	$ 477.1
Margin:	35.7%	36.7%	36.7%	35.3%	35.8%

As would be expected, the Examiner's financial advisor projected EBITDA amounts largely consistent with those that Tribune anticipated:

BROADCASTING SEGMENT PROJECTION COMPARISON ($mm)					
OCF	**FY 2008E**	**FY 2009E**	**FY 2010E**	**FY 2011E**	**FY 2012E**
Examiner's Projections	$ 448.5	$ 461.1	$ 476.5	$ 458.7	$ 477.1
VRC December 20, 2007 Analysis	$ 448.5	$ 463.9	$ 479.3	$ 465.0	$ 483.8
Difference	($ 0.0)	($ 2.8)	($ 2.7)	($ 6.3)	($ 6.7)
% Difference	0.0%	-0.6%	-0.6%	-1.4%	-1.4%

E. Interactive Business.

1. DCF Model Assumptions.

Tribune's interactive business is part of its Publishing Segment. As is the case for Tribune's traditional newspaper publishing business, advertising is the primary source of revenue for the interactive business, and these revenues are incorporated into reported advertising revenues for the Publishing Segment both internally,[75] as well as externally. Tribune's interactive business includes web sites associated with each of Tribune's newspapers, as well as Tribune's ownership interests in CareerBuilder (an online recruiting company), Classified Ventures (a network of automotive and real estate classified advertising websites), ShopLocal (which provides search-based interactive retail promotions), Topix.net (an online news and information aggregation website) and Metromix (a network of local online entertainment guides targeting young adults), although Tribune does not consolidate financial results for its equity ownership interests in these companies for financial statement presentation purposes.

Revenues for Tribune's interactive business were growing rapidly in years prior to 2007, and continued to grow during 2007, despite softness in Tribunes' traditional Publishing Segment print advertising and circulation revenue during the year. In 2005, interactive business revenues approximated $176 million. In 2006, interactive business revenues increased to approximately $225 million, up approximately 28% year-over-year. In 2007, interactive business revenues grew to approximately $252 million, reflective of continuing growth, albeit at a slower 12% rate, year-over-year.[76]

The interactive business represented a high-growth component of Tribune's expected future performance as reflected in the projections relied on by VRC in connection with the issuance of its Step One solvency opinions in May 2007, as well as the projections relied on by VRC in issuing its December 20, 2007 Step Two solvency opinion. Harry Amsden, who coordinated the development of Tribune's five-year model (which became the basis for VRC's May 2007 DCF valuation of Tribune), indicated that the interactive business developed its own five-year plan, which was incorporated into Tribune's projection model without modification.[77] This fact was confirmed during the Examiner's interview of Timothy Landon, the CEO of Tribune's interactive business from 2004 through early 2008.[78]

---

75 Tribune does, in connection with monthly Brown Book reporting, present financial information in a manner such that interactive results can be separately identified.

76 Ex. 4 at 63 (Tribune 2007 Form 10-K).

77 Ex. 66 at 27:12-15 and 58:5-12 (2004 Examination of Harry Amsden, December 16, 2009); *see also* Ex. 952 at TRB0468697 (Tribune Publishing 5-Year Model Preparation).

78 Examiner's Interview of Timothy Landon, June 22, 2010. VRC's May 2007 DCF model, and the related underlying management projections, did not separately present projected performance for the interactive business. The Examiner, however, obtained from Mr. Amsden an early version of the interactive model (estimated by Mr. Amsden to be from December 2006). Based on Mr. Amsden's representation and a comparison of that model's forecasted revenues to the projected interactive revenues contained in an April 2007 Tribune presentation to the lenders, that model appears to be a reasonable proxy for the final five-year "interactive plan" alluded to by Mr. Amsden at his Rule 2004 examination. Ex. 66 (Rule 2004 Examination of

Harry Amsden, December 16, 2009). In the model, operating cash flows are projected for "TI core revenue" and interactive "investment revenue" as follows:

LATE DECEMBER 2006 MODEL OF INTERACTIVE REVENUES ($mm)						
	Growth	2007	2008	2009	2010	2011
TI Core Revenue	12%	$ 273	$ 311	$ 353	$ 391	$ 424
Investment Revenue #1	25%	8	9	11	14	17
Investment Revenue #2	25%		10	13	16	20
Investment Revenue #3	25%		-	10	13	16
Investment Revenue #4	25%		-	-	10	13
Investment Revenue #5	25%		-	-	-	10
Total Revenue		$ 281	$ 330	$ 387	$ 443	$ 499
			17%	17%	15%	13%

Source:
Ex. 1073 (Print Interactive Splits).

Ex. 1095 (Tribune Interactive Model, dated approximately December 2006).

Although the "core" revenues related to established lines of internet-based advertising business that were projected to grow at an annual rate of 12%, the revenue forecast for "investment" was apparently an estimation of revenues related to investment opportunities that Tribune had not yet identified. These revenues were projected to grow at annual rates of 25%.

In his explanation of the changes that occurred in management's approach to projecting the financial performance of the interactive business between the closing of Step One and Step Two, Mr. Amsden supplied a reconciliation of the two models for review by the Examiner. Ex. 1066 (Interactive Step One and Step Two Comparison). That reconciliation is represented below:

TRIBUNE PUBLISHING COMPARISON OF INTERACTIVE MODELS STEP ONE V. STEP TWO ($mm)						
		2007	**2008**	**2009**	**2010**	**2011**
Interactive Revenues:						
Step One Model Detail:						
Core revenue	A	$273	$311	$353	$391	$424
Investment revenue	B	8	19	34	52	75
Total interactive revenues	C	$281	$330	$387	$443	$499
Step Two Model Detail:						
Existing Business	D	$262	$278	$310	$343	$381
Internal Development	E	0	31	75	123	157
Acquisitions	F	0	5	19	38	62
Total interactive revenues	G	$262	$314	$404	$504	$600
Less: Internal Development		$0	($31)	($75)	($123)	($157)
Adjusted interactive revenues		$262	$283	$329	$381	$443
Differences Between Models:						
Core/existing business line	D-A	($11)	($33)	($43)	($48)	($43)
Investment/acquisition line	F-B	($8)	($14)	($15)	($14)	($13)
Internal Development	E	$0	$31	$75	$123	$157
Differences in revenue between models		($19)	($16)	$17	$61	$101

Source:
Ex. 1066 (Interactive Step One and Step Two Comparison).

On the basis of the foregoing, the difference between projected revenues at Step One and at Step Two for the period 2007 through 2011 appears to be the result of Tribune reducing its expectations of revenue generation associated with its existing interactive business and other prospective acquisitions and investments in favor of introducing expectations of revenues associated with new products and services resulting from Tribune's own "internal development" of new revenue-generating products and services. When asked about the origin of the revenue expectations associated with interactive "internal development" (accounting for a net increase in projected revenues in 2011, for example, of approximately $101 million), Mr. Amsden indicated that Tribune's "transformative change" effort initiated prior to the Step One Financing Closing Date was the impetus for management's conclusion that Tribune needed to focus on interactive product development internally in contrast to its funding of externally developed products and services through investments in, for example, joint ventures. Examiner's Interview of Harry Amsden, July 16, 2010.

With respect to the impact of adding substantial incremental internally-developed revenue to projected interactive operating cash flow between Step One and Step Two, Mr. Amsden shared the comparison restated below:

INTERACTIVE OPERATING CASH FLOW COMPARISON - STEP ONE V. STEP TWO MODEL ($mm)

	52 Week 2006	2007	2008	2009	2010	2011
Interactive Operating Cash Flow						
Step 1 Model	$124	$145	$161	$190	$218	$247
Step 2 Model	126	121	125	159	202	241
Difference	$2	($24)	($36)	($31)	($16)	($6)

Source:
Ex. 1066 (Interactive Step One and Step Two Comparison).

Ex. 1066 (Interactive Step One and Step Two Comparison).

The comparison shows that, as a result of substituting revenues from internal development (having lower margins) for revenues associated with existing interactive businesses and planned acquisitions between Step One and Step Two, operating cash flow was actually reduced between the Step One and Step Two interactive business models over the interim projection period.

It is important to note, however, that the benefit from introducing the cash flows related to the "internal development" efforts newly initiated between Steps One and Step Two came as a result of reallocation of investment capital away from Tribune's joint venture investment strategy (as distinguished from its interactive business acquisitions strategy). Interestingly, the reallocation of capital to the interactive business's newly formulated "internal development" efforts came without any loss of Tribune value normally associated with projected cash flow. Rather, because (for cash flow projection purposes) Tribune treated its joint venture investments as investments that would grow in value through capital appreciation rather than in terms of periodic cash flow distributed to Tribune, the negative impact on Tribune's value appears to have been negligible.

When asked how the negative impact on Tribune could be gauged, Mr. Amsden explained that the impact could be seen through the elimination of the projected profit expected to be retained by the future joint venture equity investments that Tribune would now have to forgo in favor of investment in the "internal development" of interactive products and services. Examiner's Interview of Harry Amsden, July 16, 2010. The reallocated investment capital is contrasted with the projected equity value forgone in the table below:

Ultimately, the projection model relied on by VRC for purposes of its Step Two solvency opinion separately identified projected interactive business revenues, although the projection model did not specifically identify projected EBITDA associated therewith. The Tribune projections relied on by VRC in connection with the issuance of its Step Two solvency opinion reflected an anticipation of significant growth in interactive business revenues, although such expectations were upwardly revised from Step One projections for purposes of the management forecast relied on by VRC for its Step Two solvency analysis. The Step Two projections forecasted interactive revenues growing from approximately $262 million in 2007, to more than $600 million by 2011, and $708 million by 2012, reflecting a five year compound annual growth rate of approximately 22%.

A comparison of the interactive revenues informing VRC's May 2007 and December 2007 DCF models is set forth in the following table:

PROJECTED NOMINAL RETURN ON FORGONE EQUITY INVESTMENTS ($mm)

	2005 Actual	2006 Proj (52 wks)	2007	2008	2009	2010	2011
Tribune Share of Entity Profit							
CareerBuilder	$ (15)	$ (8)	$ 4	$ 11	$ 21	$ 32	$ 43
Classified Ventures	(2)	0	1	6	8	11	14
ShopLocal	(5)	(11)	(9)	(6)	-	4	6
Topix.com	(1)	(2)	(3)	(1)	-	1	2
Open Networks	-	-	(3)	(4)	(1)	2	3
Other	(1)	1	0	1	2	4	9
Subtotal	$ (22)	$ (21)	$ (11)	$ 5	$ 30	$ 54	$ 77
Step One Joint Venture Funding			$ 33	$ 33	$ 33	$ 33	$ 33
Step Two Joint Venture Funding			24	4	6	2	-
Invested Capital Reallocated to "Internal Development"			$ 9	$ 29	$ 27	$ 31	$ 33

Source:
Ex. 1066 (Interactive Step One and Step Two Comparison).
Ex. 1073 (Print Interactive Splits).

In sum, it appears that between Step One and Step Two, management downwardly revised its expectations with regard to revenues expected from existing and acquired lines of the interactive business, but added newly developed projections of revenues from "internal development" efforts. Capital for the newly identified development projects would come from the reallocation of investment capital slated in Step One for investment in joint venture projects. Moreover, the lost benefits associated with the reallocation away from its joint ventures were negligible because little equity value was expected from such investments during the interim projection period, and the benefits were entirely non-cash in nature in any event. Examiner's Interview of Harry Amsden, July 16, 2010.

INTERACTIVE ADVERTISING REVENUE PROJECTIONS ($mm)								
Revenue Projections	**2006A [c]**	**2007P**	**2008P**	**2009P**	**2010P**	**2011P**	**2012P**	**CAGR**
May 2007 Interactive Advertising Projections [a]	**227.0**	**273.0**	**322.0**	**376.0**	**435.0**	**500.0**	**N/A**	16.3%
May 2007 Projections Growth Rate		*20.3%*	*17.9%*	*16.8%*	*15.7%*	*14.9%*		
December 2007 Projections [b]	**227.0**	**262.0**	**318.0**	**406.3**	**507.9**	**603.8**	**712.5**	22.2%
December 2007 Projections Growth Rate		*15.4%*	*21.4%*	*27.8%*	*25.0%*	*18.9%*	*18.0%*	
Change in Same Year Interactive Advertising Projections		*-4.0%*	*-1.2%*	*8.1%*	*16.8%*	*20.8%*	*N/A*	

Sources:
[a] Ex. 242 (Rating Agency Presentation, dated March 2007).
[b] Ex. 913 at VRC0019336 (Valuation Summary).
[c] Ex. 642 (Brown Book for Period 12, 2007).

The juxtaposition of projected revenues for 2008 through 2011 from VRC's December 2007 model with projected revenues for the same years apparently informing VRC's May 2007 DCF model (as based on management projections and the ratings agency presentation at that time), indicate a modest downward revision followed by substantial "improvement" in amounts projected in subsequent years. As shown in the above table, by 2011, VRC's December 2007 DCF model was based on projected levels of interactive revenue exceeding the May 2007 projection by more than 20%.

Evidence reviewed by the Examiner's financial advisor contains a five-year projection of operating cash flow performance for Tribune's interactive business that compares, within close tolerances at the revenue line, to the December 2007 projections for the interactive business.[79] This stand-alone model indicates substantial expected operating cash flow margins for each element of the interactive business. In addition, the model specifies performance expectations for four elements of the interactive business, including the "Existing Business," "Internal Development," "Acquisitions," and "Equity" investment components.[80] Notably, the interactive business' "Equity Investment" value, for purposes of VRC's solvency test, is addressed through the valuation of the Tribune Entities' ownership interests in such investments as stand-alone investments and, therefore, outside of the DCF projected operating cash flows. Thus, the cash flow expectations related to these investments are not addressed in the context of Tribune's interactive business. As discussed below, however, the annual cash flows expected from Tribune's equity investments were used to project cash flow for VRC's "Cash Flow Test" purposes, because the assets were not designated by Tribune or VRC as assets held for sale.

The stand-alone interactive business projection model reflects the following expectations:[81]

79 *See* Ex. 956 (Tribune Interactive 2006-2012 Projections).

80 *Id*. at VRC0026119.

81 *Id*.

TRIBUNE INTERACTIVE BUSINESS ($mm)								
	2006	2007	2008	2009	2010	2011	2012	5-Year CAGR
Revenue								
Existing Business	$ 227.0	$ 262.0	$ 278.0	$ 310.0	$ 343.0	$ 381.0	$ 424.0	10%
Growth		15%	6%	12%	11%	11%	11%	
Internal Development	$ 0.0	$ 0.0	$ 31.0	$ 75.0	$ 123.0	$ 157.0	$ 195.0	
Acquisitions	$ 0.0	$ 0.0	$ 5.0	$ 19.0	$ 38.0	$ 62.0	$ 89.0	
Total Revenue	**$ 227.0**	**$ 262.0**	**$ 314.0**	**$ 404.0**	**$ 504.0**	**$ 600.0**	**$ 708.0**	**22%**
Growth			*20%*	*29%*	*25%*	*19%*	*18%*	
Operating Cash Flow								
Existing Business	$ 126.0	$ 131.0	$ 131.0	$ 144.0	$ 159.0	$ 178.0	$ 200.0	9%
Growth		4%	0%	10%	10%	12%	12%	
Internal Development	$ 0.0	($ 10.0)	($ 8.0)	$ 11.0	$ 34.0	$ 47.0	$ 60.0	
Acquisitions	$ 0.0	$ 0.0	$ 1.0	$ 4.0	$ 9.0	$ 16.0	$ 26.0	
Total Operating Cash Flow	**$ 126.0**	**$ 121.0**	**$ 125.0**	**$ 159.0**	**$ 202.0**	**$ 241.0**	**$ 286.0**	**19%**
Growth		*-4%*	*3%*	*27%*	*27%*	*19%*	*19%*	
Operating Margin								
Existing Business	*55%*	*50%*	*47%*	*46%*	*46%*	*47%*	*47%*	*-1%*
Total Business	*55%*	*46%*	*40%*	*39%*	*40%*	*40%*	*40%*	*-3%*

Source: Ex. 956 (Tribune Interactive 2006-2012 Projections).

Tribune's "existing business" segment revenue was projected to grow at a five-year compound annual growth rate of approximately 10% and was comprised of two sub-segments: "classified" and "non-classified." The "non-classified" online advertising revenue portion (which accounted for only approximately 20% of total existing business revenue in 2007), was projected to grow at a 4% compound annual growth rate over the five year projection period. "Classified" online advertising, however, was projected to grow at a five-year compound annual growth rate of approximately 11%. Notably, the "Recruitment" portion of "classified" online advertising, which was, according to the model, expected to represent approximately 52% of total "classified" revenue in 2007, was projected to grow at only a 3% compound annual growth rate over five years, representing only approximately 36% of "classified" online advertising revenue by 2012. The "Recruitment" element of Tribune's existing interactive business was apparently driven by sales to existing advertisers through an "up-sale" process, whereby Tribune offered advertisers the opportunity to advertise in their newspapers' online editions for an incremental fee. Up-sale revenue was expected to be very high margin revenue for the interactive business, because little incremental cost was involved with placing customers' ads in the online version of Tribune's newspapers. According to notes to the Tribune interactive stand-alone model, "Recruitment" revenues were expected to stagnate due to "lower print up sales [and] higher online only" sales.[82] Because "recruitment" revenue was expected to flatten, most of the growth in "classified" online advertising was expected to be driven by automotive online advertising and real estate online advertising.[83] As projected in the interactive stand-alone model, the interactive business' overall profitability was anticipated to be significant:

---

82 *Id*.

83 *Id.* at VRC0026119-21.

TRIBUNE INTERACTIVE BUSINESS ($mm)	2006	2007	2008	2009	2010	2011	2012
Existing Business							
Revenue	$ 227.0	$ 262.0	$ 278.0	$ 310.0	$ 343.0	$ 381.0	$ 424.0
Operating Cash Flow Margin	*55.5%*	*50.0%*	*47.1%*	*46.5%*	*46.4%*	*46.7%*	*47.2%*
Internal Development							
Revenue	$ 0.0	$ 0.0	$ 31.0	$ 75.0	$ 123.0	$ 157.0	$ 195.0
Operating Cash Flow Margin	*0.0%*	*n/a*	*-25.8%*	*14.7%*	*27.6%*	*29.9%*	*30.8%*
Acquisitions							
Revenue	$ 0.0	$ 0.0	$ 5.0	$ 19.0	$ 38.0	$ 62.0	$ 89.0
Operating Cash Flow Margin	*0.0%*	*0.0%*	*20.0%*	*21.1%*	*23.7%*	*25.8%*	*29.2%*

Source: Ex. 956 (Tribune Interactive 2006-2012 Projections).

Furthermore, the established component of Tribune's interactive business in 2007 was not expected to fuel all of the interactive business' projected significant growth over the projection period. In fact, by the end of the projection period in 2012, existing business revenues were expected to contribute only approximately 60% of total interactive business revenue. This means that a significant portion of the interactive business' revenue growth over the projection period was expected to come from new internal development and acquisitions.

Tribune's "Five-Year Financial Outlook," presented at the October 17, 2007 Tribune Board meeting, described Tribune's plans to transition its business to interactive:[84]

- The mix of ad revenue from 2007 to 2012 moves more toward interactive and targeted print as we transform the company to a more diversified business that is less dependent on core newspaper revenues. . . .

- Interactive revenue is projected to grow 22% annually from 2007 to 2012. Declines in recruitment revenues due to lower combined print/online ads will be mostly offset by growth in online retail and national [advertising]. The launch of interactive real estate, aggressive product development, at both TI Central and LA, as well as the rollout of other new products will contribute to growth. Planned interactive acquisitions are expected to contribute 3% to the annual revenue growth.

84 Ex. 657 (Tribune Five-Year Financial Outlook).

According to notes contained in the interactive business stand-alone model, and as discussed above, "internal development" growth was expected to come from "Central and LATI product development," based on substantial capital investment and additional hirings, while revenues projected for the interactive business' "acquisitions" component were linked to additional cash investments in new opportunities that apparently had not been specifically identified at the time of the projections.[85] The interactive business' stand-alone model indicates a consistent investment in new acquisitions of $50 million per year beginning in 2008, indicating that no specific acquisitions had been identified at the time the projections were developed.[86] When asked at his Rule 2004 examination if he could recall specifically any of the areas that the interactive business expected to "get into over this five year period," Mr. Amsden indicated that he could recall a few things including "expanding [Tribune's] presence in online real estate and obviously also looking at possible areas in shopping or search."[87]

In connection with VRC's October 29, 2007 assessment of Tribune's projections, VRC analyst Mose Rucker proposed significant downward revisions to the revenues projected by Tribune for the interactive business.

INTERACTIVE REVENUE COMPARISON OF TRIBUNE AND VRC OCTOBER MODELS ($mm)

Interactive Revenues	2007P	2008	2009	2010	2011	2012
Tribune October 28, 2007 Analysis [1]	$ 262	$ 318	$ 406	$ 508	$ 604	$ 713
Growth		*21.4%*	*27.8%*	*25.0%*	*18.9%*	*18.0%*
VRC October 29, 2007 Analysis [2]	$ 262	$ 309	$ 358	$ 408	$ 461	$ 521
Growth		*17.9%*	*15.9%*	*13.9%*	*13.0%*	*13.0%*
Difference	$ -	$ 9	$ 48	$ 100	$ 143	$ 192
% Difference	*0.0%*	*2.9%*	*11.9%*	*19.7%*	*23.7%*	*26.9%*

[1] Ex. 1004 at VRC0034787 (Mednik E-Mail, dated October 31, 2007).

[2] Ex. 1004 at VRC0034798 (Mednik E-Mail, dated October 31, 2007).

Mr. Rucker made the following observations with respect to his assessment of the financial prospects of Tribune's interactive business:[88]

> Given that the interactive business is approximately $225 mm and highly competitive. [sic] It is highly likely that the rate of growth will continue to decline.
>
> a. in many respects, interactive has been the beneficiary of the decline in newspaper advertising.
>
> b. Many of the Company's competitors and industry

85 Ex. 956 at VRC0026119 (Tribune Interactive 2006-2012 Projections).

86 *Id.*

87 Ex. 66 at 68:23-69:7 (Rule 2004 Examination of Harry Amsden, December 16, 2009).

88 Ex. 1004 at VRC0034784-85 (Mednik E-Mail, dated October 31, 2007).

participants are pursuing the same strategies as TRB in the online adv. Market. Thus, although the industry as a whole will continue to grow it is likely that individual participants growth rates will decline.

c. Additionally, the interactive business will continue to benefit from the decline in TRB's core newspaper business.

The downward revisions were made by VRC, despite acknowledgment of potentially mitigating factors, which, according to Mr. Rucker included, "the amount of capital that TRB is anticipating on investing in the interactive segment," and the fact that "management has been very positive on Metro Mix new offering."[89]

Nevertheless, in connection with its October 29, 2007 assessment, VRC determined to downwardly adjust the revenue growth rates projected by Tribune based on "the risks associated with growing the Company's interactive business…" and the competitiveness of the business, as well as Oppenheimer and Credit Suisse estimates of industry growth, both of which were below management's projected rates of growth.[90]

The Examiner's financial advisor notes that in discussions about Tribune's interactive business with Tribune management, the notion that Tribune's interactive business was riskier than Tribune's other businesses was readily acknowledged. Moreover, both Mr. Landon and Mr. Amsden indicated that the projections upon which VRC built its DCF valuation model, in so far as the interactive business was concerned, included expectations of future financial performance for highly speculative and uncertain endeavors, with a significant probability of failure.[91]

The projected revenues related to the interactive business's "internal development" effort would only be realized in the aftermath of significant incremental capital investment and was based upon ideas and concepts that, at the time of the projections, remained unidentified in all but the most general way. Moreover, the acquisitions contemplated in the interactive business model were largely speculative in that no specific investment had been contemplated and the returns related thereto were developed on only the most generic of valuation assumptions.[92] The speculation informing the projections developed by management is therefore substantial. As a result, the risk associated with achieving the revenue and cash flows projected by Tribune is considerably higher than the risk associated with projecting financial performance for Tribune's other, well-established business units.

For this reason, the Examiner's financial advisor has determined to value Tribune's interactive business in isolation from Tribune's other businesses. This has been done by

---

[89] *Id.* at VRC0034785.

[90] *Id.* at VRC0034784.

[91] Examiner's Interview of Timothy Landon, June 22, 2010; Examiner's Interview of Harry Amsden, July 2, 2010.

[92] During his interview with the Examiner, Mr. Amsden indicated the application of generic investment margins to the interactive acquisition amounts. *Id*.

removing the unadjusted revenue amounts specifically identified by Tribune and VRC as relating to the interactive business from Tribune's projected revenues. To estimate the operating cash flow associated with these forecasted revenues, the Examiner's financial advisor relied on the EBITDA projections contained in the stand-alone projection model for the interactive business discussed in detail herein.

In addition, it is noted that, for purposes of the valuation of Tribune's interactive business, an additional five years of interim period projections are incorporated into the model to provide for a reasonable declination of revenue growth into steady state. The resulting revenue and operating cash flows are presented below:

EXAMINER'S INTERACTIVE BUSINESS PROJECTIONS ($mm)	2008P	2009P	2010P	2011P	2012P	2013P	2014P	2015P	2016P	2017P
Revenue	$ 318.0	$ 406.3	$ 507.9	$ 603.8	$ 712.5	$ 819.3	$ 917.7	$ 1,000.2	$ 1,060.3	$ 1,102.7
% Growth		*27.8%*	*25.0%*	*18.9%*	*18.0%*	*15.0%*	*12.0%*	*9.0%*	*6.0%*	*4.0%*
EBITDA	$ 126.6	$ 159.9	$ 203.5	$ 242.5	$ 287.8	$ 327.7	$ 367.1	$ 400.1	$ 424.1	$ 441.1
% Margin	*39.8%*	*39.4%*	*40.1%*	*40.2%*	*40.4%*	*40.0%*	*40.0%*	*40.0%*	*40.0%*	*40.0%*

F. Summary of Forecasted Revenue and EBITDA

On a consolidated basis, the projections of revenue and EBITDA, when contrasted with Tribune's October 2007 projections (relied upon by VRC in its Step Two solvency analysis) over the 2008 through 2012 projection horizon, reflect downward adjustments, mostly attributable to different assumptions regarding growth in Tribune's traditional (*i.e.*, non-interactive) publishing business:

EXAMINER VS. TRIBUNE/VRC REVENUE PROJECTION COMPARISON ($mm)					
Consolidated Revenues (Incl. Interactive)	**2008**	**2009**	**2010**	**2011**	**2012**
Examiner	$ 4,878.2	$ 4,911.7	$ 5,018.1	$ 5,075.1	$ 5,165.1
VRC December 20, 2007 Analysis	$ 4,936.4	$ 5,016.1	$ 5,146.8	$ 5,244.8	$ 5,371.1
Difference	$ (58.2)	$ (104.4)	$ (128.7)	$ (169.7)	$ (206.0)

Differences in expected EBITDA contribution are also apparent:

EXAMINER VS. TRIBUNE/VRC EBITDA PROJECTION COMPARISON ($mm)					
Consolidated EBITDA (Incl. Interactive)	**2008**	**2009**	**2010**	**2011**	**2012**
Examiner	$ 1,178.8	$ 1,211.7	$ 1,251.7	$ 1,258.5	$ 1,301.4
VRC December 20, 2007 Analysis	$ 1,193.3	$ 1,236.8	$ 1,282.1	$ 1,298.6	$ 1,348.8
Difference	$ (14.5)	$ (25.1)	$ (30.4)	$ (40.1)	$ (47.4)

G. Conversion of Interim Period Projected EBITDA to Cash Flow for Discounting Purposes.

Forecasts of discrete period EBITDA account for only a portion of an enterprise's expectation of cash availability. Accordingly, certain adjustments are required to convert EBITDA (or *operating* cash flow) to cash flow for discounting purposes. These adjustments relate to taxes on earnings (a use of cash), capital expenditures (a use of cash) and changes in working capital (either a source, or use of cash, depending on circumstances).[93]

In order to convert EBITDA to cash flow, the following adjustments are generally required. First, depreciation and amortization expense (not deducted when calculating EBITDA) is deducted from EBITDA in order to calculate taxable income, or EBIT. Taxes, calculated by multiplying the applicable tax rate times EBIT, are then deducted from EBITDA. The amount of depreciation and amortization expense is then added back to the after tax amount determined above, in recognition of the fact that depreciation and amortization, although sheltering income for tax purposes, are not cash expenditures (but are rather an accounting convention). Next, capital expenditures, a use of cash, are deducted, and net investments in working capital are added (or subtracted) as circumstances dictate. The net cash flow so determined is the cash flow discounted to present value in a DCF-based valuation analysis.

Because projections of EBITDA were developed separately for the Publishing Segment, the Broadcasting Segment, and Tribune's interactive business, adjustments to EBITDA necessary to convert EBITDA to cash flow for discounting purposes was undertaken as described below.

1. Corporate Expense and Other Costs.

The Examiner's financial advisor reduced forecasted EBITDA to deduct expenses associated with corporate operations not accounted for in the forecasted EBITDA amounts determined above. Corporate expenses have been estimated at 0.91% of forecasted revenue. This percentage was established based upon observed relationships over a six year interval of analysis.[94]

---

[93] In the extant circumstances, an additional adjustment was required. Because Tribune incurs certain corporate expenses not attributable to segment financial results, these expenses need to be deducted from forecasted segment EBITDA when determining cash flows for discounting purposes.

[94] By contrast, for purposes of its DCF model, VRC projected corporate expenses at a static and constant $41.3 million per year over its entire projection horizon. VRC, however, made an additional adjustment in its determination of period cash flows. For valuation purposes, VRC deducted $10 million annually in connection with the line item "severance." According to Tribune's 2007 Form 10-K, Tribune incurred "$40 million of severance and related expenses for the elimination of approximately 700 positions, a $33 million charge for accelerated stock-based compensation expense and certain one-time compensation payments resulting from completion of the Leveraged ESOP Transactions in December 2007." Ex. 4 at 59 (Tribune 2007 Form 10-K). In addition, Tribune disclosed that "Publishing operating profit in 2006 reflected $15 million of stock-based compensation expense, a $20 million charge for severance and other payments associated with the new union

ANALYSIS OF TRIBUNE CORPORATE EXPENSES (1997 - 2006) ($000)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Total Consolidated Revenues	$ 2,502,418	$ 2,657,453	$ 2,876,022	$ 4,850,023	$ 5,161,900	$ 5,285,277	$ 5,494,416	$ 5,631,431	$ 5,511,283	$ 5,517,708
Corporate Expenses	$ 32,016	$ 32,674	$ 36,795	$ 59,240	$ 39,056	$ 43,383	$ 51,292	$ 50,583	$ 50,412	$ 61,550
Corporate Expense as % of Revenue	1.3%	1.2%	1.3%	1.2%	0.8%	0.8%	0.9%	0.9%	0.9%	1.1%
								Average:	**1997 - 2006**	**1.04%**
								Average:	**2001 - 2006**	**0.91%**

Source: Nominal figures from Ex. 740 at VRC0061026 (VRC Internal Review Document, Tribune Company Preliminary Solvency Analysis, dated December 3, 2007).

2. Tax Expense (Depreciation and Amortization).

Forecasted EBITDA was impacted by applying the corporate tax rate employed by VRC in its DCF analysis (39%) to forecasted EBITDA (after deduction of corporate expenses) by reducing that amount by annual estimates of depreciation and amortization. The resulting tax expense was deducted from forecasted EBITDA. Then, the depreciation and amortization amount was added back to determine after tax cash flow.

Annual depreciation and amortization amounts used by the Examiner's financial advisor to determine taxable income were based on estimated annual depreciation and amortization expense projected by Tribune (as relied upon by VRC in its Step Two solvency analysis), as allocated among the interactive business, the Publishing Segment (excluding the interactive business), and the Broadcasting Segment.

The same calculation of after-tax cash flow performed for the Publishing Segment (excluding the interactive business) and Broadcasting Segment was performed for the interactive business. Operating cash flow (adjusted for corporate expense for the interactive business) was reduced by an appropriate amount of depreciation and amortization calculated, based on depreciation schedules developed by the Examiner's financial advisor that are specific to the interactive business.

The Examiner's financial advisor applied a 39% corporate rate of taxation to the resulting amount, and the resulting tax expense was deducted to determine after-tax income for the interactive business. Then, the depreciation and amortization amount originally deducted was added back to after-tax income in order to calculate after-tax cash flow from operations.[95]

---

contracts at *Newsday*, $8 million of severance expense for the elimination of approximately 300 positions. . . ." *Id.* at 60.

The Examiner's financial advisor believes that, in circumstances of secular decline in which Tribune finds itself with respect to its legacy print business, it is not unreasonable to assume that costs associated with downsizing and rationalization of resources will recur with regularity. The Examiner's financial advisor, therefore, has included a deduction of severance costs in the calculation of period cash flows. No similar costs were deducted in arriving at free cash flows for the interactive business.

95 Appropriate depreciation and amortization amounts for the interactive business were estimated by the Examiner's financial advisor based upon assumptions including straight line depreciation of new investment over a five year depreciation horizon and the capital investments scheduled according to the structure of the

3. Working Capital

The Examiner's financial advisor considered an adjustment to forecasted EBITDA associated with incremental investments in working capital necessary to determine cash flow. These kinds of adjustments are typically made in recognition of the fact that, under circumstances of growth, companies typically have increasing amounts of earned revenue tied up in receivables, or other forms of current assets, net of current liabilities.

The Examiner's financial advisor has determined to make no adjustment to period cash flows related to incremental investments in working capital investment with respect to the consolidated Tribune business (other than the interactive business), because the revenues projected for Tribune over the interim period projection horizon are neither growing nor declining in any appreciable way. This means that no incremental or additional cash will become "unavailable" as a result of, for example, increasing accounts receivable balances.

REVENUE GROWTH RATES					
	2008P	2009P	2010P	2011P	2012P
Consolidated (Ex. Interactive Business)	-0.6%	-1.2%	0.1%	-0.9%	-0.4%
Interactive Business	25.1%	27.8%	25.0%	18.9%	18.0%

With respect to the valuation of the interactive business, however, the significant growth in revenues projected over the interim projection period would almost certainly require some degree of additional investment in working capital. Nevertheless, the Examiner's financial advisor has determined not to estimate such incremental investment. This results in a conservative estimation of the value of the interactive business because additional working capital investment would reduce cash flows discounted to present value.

4. Capital Expenditures.

The Examiner's financial advisor deducted the capital expenditures expected to be made by Tribune, as reflected in its October 2007 projections, from forecasted interim period cash flows.[96]

Step Two interactive business model. Ex. 956 (Tribune Interactive 2006-2012 Projections); Ex. 1066 (Interactive Step One and Step Two Comparison).

[96] VRC assumed a constant rate of capital asset investment in the projections for the publishing (without interactive) and broadcasting businesses. Although it is an inappropriate assumption for purposes of VRC's analysis (because growth in revenues was projected in the models VRC relied upon in its study), a projection of maintenance levels of capital investment is appropriate under the circumstances of the Examiner's financial advisor's projection due to an expectation of *de minimis* growth in projected revenues.

The Examiner's financial advisor deducted the amounts designated by Tribune as required capital investment within the Step Two interactive business model from projected period cash flows for the interactive business.

5. Conclusion.

The tables below present the interim period calculations made to convert period operating cash flows to free cash flows for Tribune's interactive business, as well as Tribune's consolidated publishing businesses (excluding the interactive business) for purposes of the DCF methodology.

CONVERSION OF CONSOLIDATED EBITDA TO CASH FLOW ($mm)					
	2008P	2009P	2010P	2011P	2012P
Operating Cash Flow	$ 1,096.6	$ 1,096.5	$ 1,093.8	$ 1,062.2	$ 1,060 6
Less: Corporate Expenses	41.5	41.0	41.0	40.7	40 5
Adjusted EBITDA	1,055.1	1,055.5	1,052.8	1,021.5	1,020.1
Depreciation & Amortization	233.7	237.7	237.7	237.7	237 7
Less: Interactive Depreciation & Amortization	13.0	24.5	42.0	60.5	80 0
Adjusted Depreciation & Amortization	$ 220.7	$ 213.2	$ 195.7	$ 177.2	$ 157 7
Pre-Tax Income	$ 834.4	$ 842.3	$ 857.1	$ 844.3	$ 862.4
Cash Taxes (39%)	325.4	328.5	334.3	329.3	336 3
After-Tax Income	$ 509.0	$ 513.8	$ 522.8	$ 515.0	$ 526.1
Adjusted Depreciation & Amortization	$ 220.7	$ 213.2	$ 195.7	$ 177.2	$ 157 7
Net Change in Working Capital	-	-	-	-	-
Severance Payments	(10.0)	(10.0)	(10.0)	(10.0)	(10 0)
Capital Expenditures	(132.2)	(128.3)	(128.5)	(128.5)	(137 7)
Enterprise Cash Flow	$ 587.5	$ 588.7	$ 580.0	$ 553.7	$ 536.1

CONVERSION OF INTERACTIVE BUSINESS EBITDA TO CASH FLOW ($mm)										
	2008P	2009P	2010P	2011P	2012P	2013P	2014P	2015P	2016P	2017P
Operating Cash Flow	$ 126.6	$ 159.9	$ 203.5	$ 242.5	$ 287.8	$ 327.7	$ 367.1	$ 400.1	$ 424.1	$ 441.1
Less: Corporate Expenses	2.9	3.7	4.6	5.5	6.5	7.5	8.4	9.1	9.7	10.0
Adjusted EBITDA	123.7	156.2	198.9	237.0	281.3	320.2	358.8	391.0	414.5	431.1
Depreciation & Amortization	13.0	24.5	42.0	60.5	80.0	92.0	95.5	98.0	99.5	100.0
Pre-Tax Income	$ 110.7	$ 131.7	$ 156.9	$ 176.5	$ 201.3	$ 228.2	$ 263.3	$ 293.0	$ 315.0	$ 331.1
Cash Taxes (39%)	43.2	51.4	61.2	68.8	78.5	89.0	102.7	114.3	122.8	129.1
After-Tax Income	$ 67.5	$ 80.3	$ 95.7	$ 107.7	$ 122.8	$ 139.2	$ 160.6	$ 178.7	$ 192.1	$ 202.0
Depreciation & Amortization	$ 13.0	$ 24.5	$ 42.0	$ 60.5	$ 80.0	$ 92.0	$ 95.5	$ 98.0	$ 99.5	$ 100.0
Net Change in Working Capital	-	-	-	-	-	-	-	-	-	-
Capital Expenditures	(80.0)	(85.0)	(90.0)	(95.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)
Enterprise Cash Flow	$ 0.5	$ 19.8	$ 47.7	$ 73.2	$ 102.8	$ 131.2	$ 156.1	$ 176.7	$ 191.6	$ 202.0

H. Evaluation and Selection of Long-Term Expected Growth Rates.

After developing projections of discrete period cash flows based on the above-described projection parameters, the Examiner's financial advisor next evaluated long-term growth rates to be applied to financial forecasts for both the interactive and traditional business components of Tribune, after 2012 (in the case of the Publishing Segment (excluding the interactive business) and Broadcasting Segment) and after 2017 (with respect to the interactive business).

Although differences between expectations regarding the level of EBITDA forecasted to be earned over a period of discretely projected financial results (*e.g.*, five or ten years) will clearly have valuation implications (*e.g.*, lower forecasted cash flows translate into lower values when discounted to present value at a consistent discount rate), the importance of selected terminal period growth rates (used to calculate a terminal value that, when added to the present value of discretely forecasted annual cash flows, establishes a total enterprise or asset value) cannot be overemphasized. Because, in many circumstances, the terminal value represents the vast majority of an enterprise's value, and because assumptions regarding perpetuity growth rates are highly significant to that determination, perpetuity growth rates need to be carefully assessed for reasonableness when performing a valuation analysis.[97]

Accordingly, in developing a reasonable expectation of terminal period (or perpetuity) growth rates, it is critically important to properly evaluate the long-term financial prospects of the firm being valued at the end of the interim projection period. This is not a difficult set of considerations to manage when considering the legacy publishing and broadcasting businesses of Tribune.

As has been discussed in detail, Tribune's legacy print advertising and circulation business had been declining, through the Step Two Financing Closing Date, and they were almost universally expected to continue to experience a slow decline due to secular shifts in consumer preferences, resulting in the migration of consumers toward other media delivery alternatives. The projections for this segment of Tribune's business, in accordance with the estimates developed by the Examiner's financial advisor, reflect a modest decline in revenues on a Publishing Segment consolidated basis over time. The projected interim period revenue and operating cash flows, as well as corresponding related rates of negative growth projected by the Examiner's financial advisor, are shown in the following table:

[97] A simple example illustrates the point by applying the generally accepted Gordon Growth valuation methodology to determining terminal values. At an assumed baseline forecast of $100 in cash flow and a 10% discount rate, the sensitivity of valuation conclusions to differing growth rate assumptions can be illustrated as follows:

At an assumed 2% growth rate, a terminal value of $1,250 is established as:

$$\frac{100}{.10 - .02}$$

At a zero percent growth rate, a terminal value of $1,000 is calculated as:

$$\frac{100}{.10 - 0}$$

Accordingly, a change of 2% in the expectation of long-term growth rates results in a 20% difference in enterprise value (before further discounting that value to present value for the number of periods of discretely projected cash flows that occur before the terminal value is realized).

EXAMINER'S PUBLISHING REVENUE AND OCF (EXCLUDING INTERACTIVE) ($mm)					
	2008P	2009P	2010P	2011P	2012P
Revenue	$ 3,303.7	$ 3,248.9	$ 3,211.0	$ 3,172.1	$ 3,119.6
Revenue Growth	-3.1%	-1.7%	-1.2%	-1.2%	-1.7%
Operating Cash Flow	$ 648.1	$ 635.1	$ 617.3	$ 603.5	$ 583.5
Operating Cash Flow Growth		-2.0%	-2.8%	-2.2%	-3.3%

On the other hand, the Broadcasting Segment competed in a market that appeared, as of the Step Two Financing Closing Date, to be on the cusp of a similar downward trend in growth. Despite this sobering prospect, as acknowledged by VRC analysts, Tribune management strongly advocated optimism in their projections and VRC relied upon these Tribune management projections. Nonetheless, the Examiner's financial advisor largely used Tribune's projections of operating cash flows for this segment. As a result, the revenues and cash flows projected for the business unit reflect modest, and lumpy,[98] upward growth.

When combined, the two competing trends tend to offset one another at both the projected revenue and EBITDA levels.

EXAMINER'S CONSOLIDATED REVENUE AND OCF (EXCLUDING INTERACTIVE) ($mm)					
	2008P	2009P	2010P	2011P	2012P
Revenue	$ 4,560.2	$ 4,505.4	$ 4,510.2	$ 4,471.3	$ 4,452.6
Revenue Growth	-0.6%	-1.2%	0.1%	-0.9%	-0.4%
Operating Cash Flow	$ 1,096.6	$ 1,096.5	$ 1,093.8	$ 1,062.2	$ 1,060.6
Operating Cash Growth		0.0%	-0.2%	-2.9%	-0.2%

For purposes of this analysis, the Examiner's financial advisor selected a terminal period growth rate based on a weighted average of the revenue growth rates informing the Publishing Segment (excluding the interactive business) and Broadcasting Segment. The growth rate for the Publishing Segment is the 2012 revenue weighted growth rate based on all five of its segments (retail, national, classified, circulation and other) of -1.63%. The growth rate observed for the Broadcasting Segment is the four year compound annual growth rate (accounting for the cyclicality in growth rates resulting from the influence of alternating election years) calculated from 2008 to 2012 of 1.49%.[99]

---

[98] Political spending influences associated with election years explain this phenomenon in large part.

[99] The four year CAGR for the Broadcasting Segment was calculated as follows:

BROADCASTING SEGMENT 4-YEAR CAGR			
	2008P	2012P	CAGR
Revenue	$ 1,256.5	$ 1,333.0	1.49%

When these revenue growth rates are averaged on the basis of relative 2012 Publishing Segment and Broadcasting Segment free cash flows, the result is a terminal period weighted average growth rate of -0.10%. The Examiner's financial advisor thus stabilized the long-term growth rate at zero. It is believed that this growth rate an appropriate rate for use in the calculation of terminal period value.[100]

The Examiner's financial advisor also determined an appropriate terminal period growth rate for purposes of calculating a terminal period value for the interactive business. This quantification was done separately as a result of the decision to evaluate the interactive business on a stand-alone basis and was, therefore, based on the substantially different revenue and EBITDA growth expectations characterizing the interactive business. As mentioned in the discussion of the estimation of revenue and operating cash flow parameters for the interactive business, the Examiner's financial advisor extended the interim period of analysis to ten years in order to more appropriately gradually reduce the interactive business growth over time, as would be expected.

In connection with making those projections, the growth in revenue forecast for the final period of the interim period model (2017) was estimated at 4.0%. This final interim period growth rate is an appropriate, if conservative, rate with which to inform a terminal period valuation of the interactive business because it is likely consistent with the upper limit of an expected riskless rate of return (real rate + rate of inflation) which, for example, Professor Aswath Damodaran indicates is reasonable when estimating terminal values for companies.[101]

I. Discount Rate Selection

Next, the Examiner's financial advisor determined appropriate weighted average costs of capital, or discount rates, to be applied to forecasted cash flows. Because the Examiner's financial advisor believes that the risks attendant to Tribune's emerging interactive business are highly differentiable from its traditional business segments (publishing and broadcasting),

---

[100] In his book, INVESTMENT VALUATION, Professor Damodaran discusses selection of an appropriate terminal period growth rate in the context of application of a stable growth model for determining the terminal value for a company. Although the stable growth rate cannot exceed the growth rate of the economy in which it a firm operates, it can be lower. There is nothing that prevents one from assuming that mature firms will become a smaller part of the economy and it may, in fact, be the more reasonable assumption to make. ASWATH DAMODARAN, INVESTMENT VALUATION 304-05 (2d Ed. 2002).

[101] "The fact that a stable growth rate is constant forever, however, puts strong constraints on how high it can be. Since no firm can grow forever at a rate higher that the growth rate of the economy in which it operates, the constant growth rate cannot be greater than the overall growth rate of the economy . . . Setting the stable growth rate to be less than or equal to the growth rate of the economy is not only the consistent thing to do but it also ensures that the growth rate will be less than the discount rate. . . . In the long term, the real riskless rate will converge on the real growth rate of the economy, and the nominal riskless rate will approach the nominal growth rate of the economy. In fact, a simple rule of thumb on the stable growth rate is that it generally should not exceed the riskless rate used in the valuation." *Id.* at 305-06. VRC used a riskless growth rate (risk-free rate) of 4.5% in determining the cost of equity for purposes of estimating a cost of capital for Tribune. This riskless rate is consistent with the yield on the 20-year constant maturity treasury bond (4.50%) at December 20, 2007.

substantially different discount rates were applied when discounting projected cash flows to present value for each.

For purposes of calculating the present value of Tribune's operating assets as of December 20, 2007, the Examiner's financial advisor discounted both the forecasted interim period cash flows and determined terminal values for the Publishing Segment (excluding the interactive business) and the Broadcasting Segment at 8.0%. For purposes of calculating the present value of Tribune's interactive business cash flows, the Examiner's financial advisor adopted a 15.0% discount rate. The justification for use of these selected rates is described below.

For purposes of discounting non-interactive projected cash flow to present value, the mid-point of VRC's concluded consolidated Tribune weighted average cost of capital (7.5% to 8.5%) was adopted.

This rate was deemed reasonable based on the consideration of several factors, including a review of VRC work papers corresponding to its determination of an applicable weighted average cost of capital for Tribune, which arguably reflected the adoption of assumptions causing its determination of a weighted average cost of capital (WACC) range to be downwardly influenced.

In its computation of a range of WACCs, VRC used a standard Capital Asset Pricing Model (CAPM) approach to quantify Tribune's cost of equity. VRC looked to cohort firms it determined to be comparable to Tribune to gather relevant CAPM inputs. Based on information from the cohort group, VRC obtained estimates for "beta" and capital structure weighting.[102] Using these estimates, VRC quantified a cost of equity of 9.2%. In addition, VRC estimated a pre-tax cost of debt to be 6.4% for the cohort group. VRC then applied these two estimates to the cohort average equity and debt weightings to arrive at a determination of an 8.0% WACC.

The CAPM approach used by VRC to quantify its estimated cost of equity is not, in and of itself, problematic. The CAPM is well regarded by valuation practitioners as a reasonable methodology for computing a firm's cost of equity. Rather, VRC's WACC is likely downwardly influenced as a result of the specific variables that informed its analysis. For example, VRC relied on an equity risk premium of 5.5% in computing its WACC. Although the basis for this estimate is not explicitly noted by VRC, other contemporaneous sources indicate a significantly higher estimate of the equity risk premium. Morningstar (formerly known as Ibbotson, and a recognized source for this type of data), for example, concludes a long-term equity risk premium estimate to be 7.1%.[103] Here, if one were to replace VRC's 5.5% equity risk premium with this

---

[102] VRC obtained the levered beta for each cohort firm which it then delevered using the particular debt weighting, equity weighting, and tax rate for each individual firm. VRC then relevered the delevered beta using the average industry capital structure.

[103] *See* Morningstar's SBBI 2007 Valuation Yearbook at 262. It should be noted that some practitioners, including Shannon Pratt and Roger Grabowski, have stated they feel that using Ibbotson/Morningstar's data over the entire data series (back to 1926) "likely overstate expected returns." SHANNON PRATT AND ROGER GRABOWSKI, COST OF CAPITAL 641 (2008). Nonetheless, other authoritative sources, including Ibbotson/Morningstar, have noted that it is wholly appropriate, and in fact preferred, to consider the entire data series.

figure, the resultant WACC conclusion would increase by approximately 1%, from 8.0% to 9.0%,[104] holding all else constant.

In addition, VRC did not incorporate any size premium in its cost of equity determination. Based on Ibbotson/ Morningstar data, VRC could have justifiably also included a size premium ranging from 0.65% to 0.85% to reflect the higher historical returns associated with investments in firms of comparable size to Tribune (as of December 31, 2006).[105]

The Examiner's financial advisor also considered that VRC did not modify its selected range of discount rates between the issuance of its Step One and Step Two solvency opinions, despite Tribune's actual performance below its February 2007 plan. This fact, which was partially the manifestation of continuing secular declines in the industry in excess of those contemplated by the projections, likely increased Tribune's risk profile between the Step One Financing Closing Date and the Step Two Financing Closing Date.

The Examiner's financial advisor determined to increase the discount rate applicable to the interactive business cash flow forecast from the rate applied by VRC to the consolidated business (7.5% to 8.5%) based on an evaluation of the risks associated with both achieving the cash flows projected in connection with existing lines of the interactive business, as well as the more uncertain expectations of revenue and profitability to be engendered by management's contemplated "transformative" development of new products and services, and the acquisition of new and emerging businesses. In making this evaluation, the Examiner's financial advisor considered that company personnel explicitly acknowledged the significant degree of risk attendant to the levels of projected revenue and profitability contemplated for Tribune's interactive business. For example, Mr. Landon described the riskiness of Tribune's interactive

---

> Some analysts estimate the expected equity risk premium using a shorter, more recent time period on the basis that recent events are more likely to be repeated in the near future; furthermore, they believe that the 1920s, 1930s and 1940s contain too many unusual events. This view is suspect because all periods contain "unusual" events. Some of the most unusual events of this century took place quite recently, including the inflation of the 1970s and early 1980s, the October 1987 stock market crash, the collapse of the high-yield bond market, the major contraction and consolidation of the thrift industry, the collapse of the Soviet Union, the development of the European Economic Community – all of these happened in the last 20 year . . . the 78 year period starting in 1926 is representative of what can happen. . . . Restricting attention to a shorter historical period underestimates the amount of change that could occur in a long future period. . . . Investors probably expect "unusual" events to occur from time to time, and their return expectations reflect this.

Ibbotson Associates' Stocks, Bonds, Bills and Inflation Valuation 2004 Yearbook at 76-77.

[104] Calculated as follows: 7.1% - 5.5% = 1.6% x 67.4% equity weighting per VRC = increase of 1.08%. VRC's concluded WACC = 8.0% + 1.0% = 9.0%.

[105] *See* Morningstar's SBBI 2007 Valuation Yearbook at 262. Here, Ibbotson/Morningstar presents the excess returns associated with the different size deciles (as measured by equity market capitalization). Based on Tribune's pre-Step Two Closing market capitalization, it would fall into the second or third size decile reflecting a potential incremental premium of 0.65% to 0.81%.

business as generally consistent with the riskiness of start-up companies with expectations of significant revenue growth and operating margins that may not be realized.[106]

In chapter 7 of "*Early Stage Technologies – Valuation and Pricing*," Richard Razgaitis discusses discount and hurdle rates[107] used by technology investors to evaluate potential investments, and summarizes his experience with "buyer's general perceptions of the required rate of return, or the associated risk, of commercializing …technology."[108] The following excerpt comes from an exhibit in Mr. Razgaitis' book, tying certain risk attributes (on two dimensions of risk) that typically inform technology investments to hurdle rates used in technology license negotiations.

Characterization of Risk	**Approximate Risk Adjusted Hurdle Rate**
Very low risk, such as incorporating a new but well-understood technology into making a product presently made and sold in response to existing demand.	15-20%; discernibly above the corporation's goals for return on investment to its shareholders.
Low risk, such as making a product with new features using well-understood technology into a presently served and understood customer segment with evidence of demand for features	20-30%
Moderate risk, such as making a new product using well-understood technology to a customer segment presently served by other products made by the corporation and with evidence of demand for such a new product.	25-35%

106 Examiner's Interview of Timothy Landon, June 22, 2010.

107 "Hurdle rates" are the rates of return required by investors to incent them to invest in a particular project or business. The hurdle rate is determined by investors based upon the level of perceived risk associated with the cash flow projections for the investment.

108 RICHARD RAZGAITIS, EARLY STAGE TECHNOLOGIES—VALUATION AND PRICING 131 (1999).

Characterization of Risk	Approximate Risk Adjusted Hurdle Rate
High-risk, such as making a new product using a not well understood technology and marketing it to an existing segment of a well-understood technology to a new market segment.	35-45%

It is apparent that, with respect to the acquisitions and internal development strategies of Tribune's interactive business, significant rates of discount attach. New products that leverage the success of antecedent technologies (e.g., the recruitment business models like CareerBuilder.com which launch platforms related to travel, lifestyle and other components of the old line newspaper information set), seem to fit in Mr. Razgaitis' "moderate risk" category of business characteristics: "[M]aking a new product using well understood technology to a customer segment presently served by other products made by the corporation and with evidence of demand for such a product."

The Examiner's financial advisor determined to apply a discount rate of 15% to the cash flows projected for the interactive business because of the blend of the established business and speculative start-up characteristics that the interactive business possesses. The Examiner's financial advisor believes that a discount rate of 15% is conservative given the parallels between the nature of the businesses, potential products, and new services, on which a significant portion of projected cash flows are based, and the characteristics of moderate risk businesses described by Mr. Razgaitis.[109]

J. Conclusion Regarding the Value of Non-Operating Assets at Step Two.

As of December 20, 2007, VRC ascribed a value to Tribune's equity investments and other non-operating assets of $3.416 billion.[110] Of this amount, $2.144 billion was ascribed to Tribune's equity investments.[111] The Examiner's financial advisor determined that approximately

[109] *Id.* In addition, it should be noted that Duff and Phelps developed a DCF value for Classified Ventures, an established internet-based business owned in part by Tribune. In estimating value, Duff and Phelps applied a range of discount rates of between 12.25% and 14.25%. The Examiner's financial advisor concludes that such rates properly reflect the floor of the range of reasonable discount rates to apply to the interactive business, because a significant portion of its future projected revenues and profitability is based on the achievement of speculative cash flows undefined as to source, or origin.

[110] According to VRC, this amount included (in addition to its determined value of Tribune's equity investments) the after tax value of potential real estate sales, the value of the Time Warner stock associated with the PHONES Notes, and (although not explicitly stated) the anticipated after-tax proceeds associated with the contemplated sale of the Chicago Cubs and Comcast SportsNet.

[111] *See* Ex. 740 at VRC0061008 (VRC Internal Review Document, Tribune Company Preliminary Solvency Analysis, dated December 3, 2007). The amount reflects the mid-range value of Tribune's ownership interest in its equity investments.

88% of that value was ascribed by VRC to Tribune's 31.3% ownership interest in TV Food Network and its 40.8% interest in CareerBuilder, with the remainder corresponding to VRC's determined value of Tribune's other equity ownership interests.[112] Based on this concentration of value, the Examiner's financial advisor evaluated VRC's basis for establishing values for these two investments, and made adjustments to VRC's determined values as necessary and appropriate for each. VRC used both DCF and multiples-based approaches to value TV Food Network and CareerBuilder. Based on the Examiner's financial advisor's review of VRC work papers supporting its valuation of Tribune's ownership interest in both TV Food Network and CareerBuilder, the following errors were noted and corrected:

1. VRC failed to incorporate (despite a justifiable need to have done so) size premiums into its cost of equity calculations[113] when estimating discount rates used by VRC to value Tribune's equity ownership interests using a DCF methodology. This error resulted in VRC using unreasonably low discount rates in its calculation of DCF values for both CareerBuilder and TV Food Network, resulting in overstated values for both these investments.

2. VRC arguably used unreasonably low equity risk premiums in computing costs of equity as part of its discount rate determination, thereby further understating the discount rate used in its DCF models resulting in an additional overstatement in the value conclusions for both CareerBuilder and TV Food Network.[114]

---

[112] *See id.* ($1.151 billion TV Food Network + $743 million CareerBuilder)/($2.144 billion total) = 88.3%.

[113] *See* Ex. 1096 at VRC0022174 (TV Food Network Valuation); Ex. 1097 (CareerBuilder Market Multiple Method Valuation).

[114] Specifically, VRC utilized an equity risk premium of 5.5% in computing its cost of equity for both CareerBuilder and TV Food Network. The Morningstar SBBI 2007 Valuation Yearbook notes the "Long-horizon expected equity risk premium" to be 7.1%. *See* Morningstar's SBBI 2007 Valuation Yearbook at 262. Morningstar discusses some of the controversy associated with estimating the equity risk premium. The controversy, in part, stems from the selection of the interval of analysis over which to compute on average equity risk premium. "Since the expected equity risk premium must be estimated, there is much controversy regarding how the estimation should be conducted…The range of equity risk premium estimates used in practice is surprisingly large. Using a low equity risk premium as opposed to a high estimate can have a significant impact on the estimated value of a stream of cash flows." Morningstar's SBBI 2007 Valuation Yearbook at 71. With respect to the issue of interval selection, Morningstar advocates using the longer-term equity risk premium. "The 81-year period starting with 1926 is representative of what can happen: it includes high and low returns, volatile and quite markets, war and peace, inflation and deflation, and prosperity and depression. Restricting attention to a shorter historical period underestimates the amount of change that could occur in a long future period. Finally, because historical event-types (not specific events) tend to repeat themselves, long-run capital market return studies can reveal a great deal about the future. Investors probably expect 'unusual' events to occur from time to time, and their return expectations reflect this." Morningstar's SBBI 2007 Valuation Yearbook at pages 82-83.

3. VRC relied on an EBITDA exit multiple to quantify the terminal values for both CareerBuilder and TV Food Network in connection with determining its DCF values for each. For VRC's calculation of CareerBuilder's terminal value, the exit multiple it used (13.0x EBITDA) implied an unreasonably high terminal growth rate approximating 9%, significantly overstating the value of CareerBuilder calculated by VRC.[115]

4. VRC used a risk free rate of 5% in estimating a discount rate for both CareerBuilder and TV Food Network. This risk free rate is *overstated*, thus underestimating value conclusions for both CareerBuilder and TV Food Network.[116]

5. In connection with its valuation of TV Food Network and CareerBuilder using multiples-based valuation approaches (both trading and transaction) VRC relied on multiples that were calculated using metrics of non-comparable cohort firms or transactions, resulting in over quantifications of value ascribed to CareerBuilder and TV Food Network.[117]

---

[115] The implied terminal growth rate informing VRC's terminal value calculation for TV Food Network was approximately 4%, a more reasonable value.

The inability of a firm to grow into perpetuity at a rate faster than the economy is noted by Professor Aswath Damodaran in his book, *Investment Valuation* at 305: "The fact that the stable growth rate is constant forever, however, puts strong constraints on how high it can be. Since no firm can grow forever at a rate higher than the growth rate of the economy in which it operates, the constant growth rate cannot be greater than the overall growth rate of the economy."

[116] The risk free rate (as measured by the yield on the 20-year constant maturity Treasury) as of December 20, 2007 was 4.5%. See http://www.federalreserve.gov/releases/h15/data/Business_day/H15_TCMNOM_Y20.txt

[117] For example, at Step Two, VRC looked to Amazon.com, Ebay, Google, IAC/Interactive Corp., Monster Worldwide, Yahoo, and Dice Holdings, Inc. to help inform the revenue multiples it applied to CareerBuilder's LTM, CFY, and NFY revenues. Ex. 1099 at VRC0022185 (VRC CareerBuilder Valuation). Most of these firms identified by VRC are substantially larger and more diversified than CareerBuilder (Google had, according to VRC, an enterprise value of $199.8 billion while Ebay had an enterprise value of $45.0 billion. *See id*. at VRC0022182. Although the Examiner notes that VRC stated that it is "[f]ocused primarily on the Monster.com" for purposes of its Step One valuation Ex. 1098 at VRC0024370 (VRC Valuation, Preliminary Draft) and seemingly its Step Two valuation, the range of revenue multiples used by VRC in its quantification at Step Two was nonetheless influenced by the inclusion of these other firms. For example, at Step Two, VRC used a range of revenue multiples from 2x to 4.20x despite the fact that VRC's computed multiples for Monster ranged from 2.6x to 3.4x. *Id*. at VRC0022185.

In its Step Two valuation of CareerBuilder, VRC noted in its work papers "Multiples lower compared to prior valuation (half a turn on low end and full for high end) since monster is down from 4.6x to 3.4x. We realize our company is better than MNST in terms of business model, but still our company's normalized expected EBITDA margins are quite lower than MNST. Also lower multiple is justified by the % of overall value increase . . . ." Ex. 1090 at VRC0019336_EI_NATIVES.XLS (Tribune Base Case Valuation Projections). *See also* Ex. 1099 at VRC0022186 (VRC CareerBuilder Valuation). In its Step Two valuation of CareerBuilder,

After adjusting to correct for these differences, the value VRC ascribed to CareerBuilder declines from $1.821 billion to approximately $1.205 billion, a decrease of approximately 33%. This reduced the value of Tribune's ownership interest in CareerBuilder from $743 million to approximately $492 million, a decline of $251 million.[118] Similarly, the value associated with TV Food Network also declined from $3.679 billion to $3.227 billion, a decrease of approximately 12.2%. This reduced the value of Tribune's ownership interest in TV Food Network from $1.151 billion to $1.010 billion, a decline of approximately $141 million.

Based on the foregoing, the Examiner's financial advisor reaches the following overall conclusions with respect to Tribune's solvency at the Step Two Financing Closing Date:[119]

VRC used revenue multiples ranging from 2.99x to 4.20x, despite the fact that VRC's analysis showed revenue multiples for Monster ranging from 2.6x to 3.4x. *Id*. at VRC0022185. A review of Bloomberg data indicates that the LTM revenue multiple for Monster (as of 9/30/07) was approximately 2.86x, well below the range of figures relied upon by VRC for purposes of its valuation.

In valuing TV Food Network, VRC utilized a discounted cash flow valuation approach as well as comparable transaction multiples. For its transaction analysis, VRC evaluated three transactions from which it quantified EBITA (not EBITDA) and revenue multiples. VRC then applied these multiples to TV Food Network's operating statistics to determine a range of values. Ex. 1096 at VRC0022172 (TV Food Network Valuation). It is unclear why VRC elected to use EBITA as opposed to EBITDA. It is also unclear why VRC elected to only look at only three transactions, particularly when the transactions had such a wide range of dispersion. Of the three transactions reviewed by VRC, the revenue multiples ranged from 3.9x to 8.5x and the EBITDA multiples from 14.8x to 27.7x. With such a wide range of values, VRC could have ascribed virtually almost any value to TV Food Network it chose. Based on this wide dispersion, the frequent strategic underpinnings of such transactions, and other observations noted below, the Examiner's financial advisor has afforded VRC's comparable transaction method low relative weight in comparison to the discounted cash flow method. Furthermore, it appears that VRC applied its NFY EBITA multiple to the wrong TV Food Network statistic, thereby overstating value (VRC computed a NFY EBITA statistic of $273.1 million in its DCF model but chose to use an NFY EBITA value of $288.3 million to in its transaction multiple).

[118] It is worth noting that a string of e-mails on December 4, 2007 between VRC employees Alpesh Patel and Bryan Browning appear to call into question the underlying accuracy of VRC's valuation of CareerBuilder:

> "Bryan, how'd the meeting go? Question regarding Deerfield has the deal closed?" (E-Mail from Alpesh Patel) "Good and I'm not sure. I will call you in a little while." (E-Mail response from Bryan Browning) "Bryan, you got cut off. I didn't hear the last 30 secs of what you said." (E-Mail from Alpesh Patel) "How did you know it was 30 seconds?" (E-Mail response from Bryan Browning) "*My judgment for time is as accurate as CareerBuilder's value*. haha" (E-Mail from Alpesh Patel). "Of course" (E-Mail response from Bryan Browning).

Ex. 1069 (Patel E-Mail, dated December 5, 2007) (emphasis added).

Tribune sold a 10% stake in CareerBuilder to Gannett in September 2008 for $135 million. Ex. 1067 (Gannett Press Release, dated September 3, 2008). Although ostensibly this transaction would value 100% of CareerBuilder at $1.35 billion, Gannett's acquisition of Tribune's 10% stake afforded the firm a 50.8% controlling interest in CareerBuilder. As such, this transaction does not seem inconsistent with the value ascribed by the Examiner's financial advisor, due to the control attributes gained by Gannett in its purchase.

[119] Readers are advised that in the course of its final quality control review performed by the Examiner's financial advisor shortly before issuance of the Report the Examiner's financial advisor determined that, in connection with the DCF Valuation Analysis discussed as herein and in the Report at § IV.B.5.d.(10), the amount of corporate expense projected for purposes of determining the enterprise value of Tribune was modestly under-quantified. In addition, the Examiner's financial advisor determined that the amount of Tribune's annual capital expenditure investment was, for purposes of calculating Tribune's enterprise value, underestimated for the Publishing Segment in 2012. Adjusting these two model parameters resulted in an increase in enterprise value

SOLVENCY CONCLUSION ($ mm)		
	December-07	
Operating Asset Value	**$7,798.8**	
+ Equity Investments and Other Assets	$3,024.4	[1]
Adjusted Enterprise Value	**$10,823.2**	
+ Cash	$197.7	[2]
- Debt	($12,898.8)	[2]
- Identified Contingent Liabilities	($86.8)	[2]
= Solvency/(Insolvency)	**($1,964.7)**	

Notes and Sources:

[1] VRC valued Tribune's equity investments at $3.416 billion. *See* Ex. 1045 (VRC Solvency Analysis, dated December 20, 2007). The Examiner's financial advisor reduced this amount by approximately $392 million to reflect the conclusion that VRC overstated the value ascribed to Career Builder and TV FoodNetwork.

[2] *See* Ex. 1045 (VRC Solvency Analysis, dated December 20, 2007). The Examiner's financial advisor has adopted VRC's numbers for cash, debt, and identified contingent liabilities.

Based on the Examiner's financial advisor's preceding DCF and equity investment value conclusions, it is worth noting that even if one were to accept *all* of the other value conclusions and methodologies[120] set forth in VRC's December 20, 2007 solvency analysis (with the exception of attributing value to the S-Corporation/ESOP tax attribute, which the Examiner concludes is incorrect),[121] it would still be the case that Tribune was insolvent at the Step Two Financing Closing Date in both the low- and mid-range cases, and that in the high-case Tribune

of $24.9 million, from $7,798.8 million to $7,823.7 million (0.3%). *See also* Report at § IV.B.5.d.(10). The Examiner's financial advisor did not have sufficient time before issuance of the Report to run these changes through the various models underlying the financial analysis contained in the Report. These changes are not material to the Examiner's conclusions reached in the Report.

120 As noted earlier in this Annex A, the Examiner's financial advisor has concluded that the use of market-based valuation methodologies (*e.g.*, EBITDA multiples) would result in less meaningful valuation conclusions in Tribune's case. The Examiner's financial advisor has therefore not included these market-based valuation methodologies in its solvency analysis.

121 *See* Report at § IV.B.5.d.(10).

had a solvency "cushion" of only approximately 2.1% of its total calculated enterprise value.[122] This is demonstrated in the chart below:

VALUATION SUMMARY ($ mm) [1]			
Valuation Method	**Low**	**Mid**	**High**
Comparable Companies	$ 9,248.1	$ 9,865.3	$ 10,482.5
Comparable Transactions	$ 10,782.0	$ 11,081.5	$ 11,381.0
Discounted Cash Flow	**$ 7,798.8**	**$ 7,798.8**	**$ 7,798.8**
Sum of Business Segments	$ 9,316.8	$ 9,909.7	$ 10,502.5
Average Operating Asset Value	**$ 9,286.4**	**$ 9,663.8**	**$ 10,041.2**
+ Equity Investments and Other Assets	**$ 3,024.4**	**$ 3,024.4**	**$ 3,024.4**
+ NPV of S-Corp-ESOP Tax Savings	**$ 0.0**	**$ 0.0**	**$ 0.0**
Adjusted Enterprise Value	**$ 12,310.8**	**$ 12,688.2**	**$ 13,065.6**
+ Cash	$ 197.7	$ 197.7	$ 197.7
- Debt	($ 12,898.8)	($ 12,898.8)	($ 12,898.8)
- Identified Contingent Liabilities	($ 86.8)	($ 86 8)	($ 86.8)
Equity Value	**($ 477.1)**	**($ 99.7)**	**$ 277.7**
% of Enterprise Value	**-3.9%**	**-0.8%**	**2.1%**

[1] Examiner's financial advisor's modifications to VRC's December 20, 2007 solvency analysis appear in red.
See Ex. 1045 at 7 (VRC Solvency Analysis, dated December 20, 2007).

122 Calculated as follows: $277.7 million equity value divided by $13,065.6 billion total Tribune enterprise value in the high case.