> Interactive – Fourth quarter interactive revenues are projected to increase 9% over the same period last year. . . .
>
> Broadcasting/Entertainment
>
> First quarter 2008 is currently pacing 57% ahead of 2007. It is still early, but we are encouraged by the strong start to 2008. The national broadcast and cable network market for the first quarter is very tight and our stations should see some positive impact from this in their local markets. Combined with political spending and our stronger prime time lineups, we should continue to see positive revenue numbers.

The Tribune Board book for the December 4, 2007 meeting apprised Tribune Board members about speculation in the marketplace about the likelihood that the Step Two Transactions would close. The "Tribune Company Stock Performance Report," included in the Tribune Board book materials, observed as follows:[2192]

> With the possible close of the ESOP/Zell transaction just three weeks away, there has been a lot of speculation in the marketplace regarding shares of TRB, which traded as low as $27.25 on Nov. 27. The next day, however, shares of TRB rose more than 10% and closed at $30, following FCC Chairman Kevin Martin's announcement that he was circulating a proposal to grant Tribune the temporary waivers needed to close our transaction by the end of the year.

The minutes of the December 4, 2007 Tribune Board meeting indicate that Donald Grenesko reviewed projected fourth quarter results for both of Tribune's business segments and factors affecting such performance.[2193] The minutes also reveal that VRC representatives Bryan Browning, William Hughes, and Mose Rucker "made a comprehensive presentation regarding VRC's solvency analysis and the solvency opinion required to close the merger":[2194]

> Messrs. Browning, Hughes and Rucker referred to a written report provided in advance to the Board and described the seven month

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[2192] *Id.* at TRB0414822.

[2193] Ex. 727 at TRB0415676 (Tribune Board Meeting Minutes, dated December 4, 2007).

[2194] *Id.* at TRB0415677.

> process used by VRC to reach their preliminary conclusions regarding solvency. The presentation showed the various tests used by VRC in its solvency analysis, comparable transactions, case comparisons and the assumptions VRC relied upon in reaching its solvency determination. VRC also reviewed its qualifications and the process by which its preliminary solvency analysis would be reviewed for modification prior to VRC issuing a final solvency opinion. A lengthy discussion followed the presentation and Messrs. Browning, Hughes and Rucker answered questions from the Board. Messrs. Browning, Hughes, Rosenblum, Rucker and Whayne then left the meeting.

It appears from the minutes of the December 4, 2007 Tribune Board meeting that the Tribune Board received a presentation entitled "Tribune Company – Draft Board of Directors Presentation: Preliminary Solvency Analysis, December 4, 2007."[2195] This presentation discussed the results of VRC's valuation analysis and compared those results with VRC's opinions in connection with Step One. The following chart summarizes this comparison:

[2195] *See* Ex. 737 at TRB0272807-31 (VRC Preliminary Solvency Analysis, dated December 4, 2007).

COMPARISON BETWEEN VRC MID-RANGE VALUATIONS at STEP 1 and STEP 2 (1)			
Valuation Method	**Step One**	**Step Two**	**Change**
Comparable Companies	$ 12,497.6	$ 9,865.3	($ 2,632.3)
Comparable Transactions	$ 12,681.1	$ 11,081.5	($ 1,599.6)
Discounted Cash Flow (2)	$ 9,918.6	$ 9,084.2	($ 834.4)
Sum of Business Segments	$ 12,709.7	$ 9,925.3	($ 2,784.4)
Average Operating Enterprise Value	**$ 11,951.8**	**$ 9,989.1**	**($ 1,962.7)**
+ Equity Investments and Other Assets (3)(4)	$ 2,686.0	$ 3,312.1	$ 626.1
+ NPV of PHONES Tax Savings	$ 382.7	$ 0.0	($ 382.7)
+ NPV of S-Corp-ESOP Savings	$ 0.0	$ 2,024.7	$ 2,024.7
Adjusted Enterprise Value	**$ 15,020.4**	**$ 15,325.9**	**$ 305.5**
+ Cash	$ 188.0	$ 197.7	$ 9.7
- Debt	($ 9,463.8)	($ 13,188.1)	($ 3,724.3)
- Identified Contingent Liabilities	($ 97.1)	($ 86.8)	$ 10.3
Equity Value	**$ 5,647.5**	**$ 2,248.7**	**($ 3,398.8)**
% of Enterprise Value	**37.6%**	**14.7%**	**-22.9%**

(1) Ex. 737 at TRB0272814 (VRC Preliminary Solvency Analysis, dated December 4, 2007). VRC used values from its May 17, 2007 solvency analysis for purposes of its comparison. *See* Ex. 283 at 10 (VRC Solvency Analysis, dated May 17, 2007).
(2) Includes the value of radio.
(3) Includes Tribune's latest estimate of the net proceeds from the sale of the Cubs and Comcast.
(4) Includes after tax value of certain real estate that can either be sold or capitalized into value.

Although the Tribune Board meeting minutes show that a "lengthy discussion" followed VRC's presentation at the December 4, 2007 meeting and that VRC representatives answered questions posed by the Tribune Board,[2196] no additional details were provided regarding the nature of that discussion.

Each of the Special Committee and the Tribune Board met on December 18, 2007. At the Tribune Board meeting, Mr. Bigelow and Mr. Grenesko first presented management's overview regarding VRC's solvency analysis.[2197] VRC representatives Mr. Rucker and

[2196] Ex. 727 at TRB0415677 (Tribune Board Meeting Minutes, dated December 4, 2007).

[2197] Ex. 11 at TRB0415685 (Tribune Board Meeting Minutes, dated December 18, 2007).

Mr. Browning then reviewed VRC's solvency analysis with the Tribune Board.[2198] The VRC presentation materials show VRC's reliance on four "key assumptions" in rendering its opinion in connection with the Step Two Transactions:

- The Step Two analysis assumed that the buyer would have a structure similar to the structure contemplated in the Step Two Transactions (an S-Corporation, owned entirely by an ESOP, which receives federal income tax deferrals or another structure resulting in equivalent favorable federal income tax treatment to Tribune);[2199]
- VRC relied on management's Base Case and Downside Case;[2200]
- VRC assumed substantial tax savings from the S-Corporation/ESOP structure using the Base Case forecast;[2201] and
- VRC assumed that the Tribune Entities could refinance guaranteed debt after the expiration of the credit agreements.[2202]

According to the December 18, 2007 Tribune Board meeting minutes, management "confirmed its belief that VRC's analysis and the underlying assumptions and projections are reasonable, if not conservative:"[2203]

[2198] *Id.*

[2199] This differs from the assumption underlying the Step One opinion, which defined "Fair Value" and "Present Fair Saleable Value" as follows:

> Fair Value – The amount at which the aggregate or total assets of the subject entity (including goodwill) would change hands between a willing buyer and a willing seller, within a commercially reasonable period of time, each having reasonable knowledge of the relevant facts, neither being under any compulsion to act.
>
> Present Fair Saleable Value – The amount that may be realized by a willing seller from a willing buyer if the subject entity's aggregate or total assets (including goodwill) are sold with reasonable promptness. *See* Ex. 268 at TRB0149969 (VRC Step One Solvency Opinion, dated May 9, 2007). This is unsurprising, in that VRC's Step One opinion did not give effect to the Step Two Financing or the Merger.

[2200] These cases were based on management projections developed in the fall of 2007.

[2201] As explained elsewhere in the Report, the Examiner has concluded that this assumption was not reasonable. *See* Report at § IV.B.5.d.(10).

[2202] *See* Report at § III.3.g.

[2203] Ex. 11 at TRB0415685 (Tribune Board Meeting Minutes, dated December 18, 2007).

> Diligence questions that had been posed by the banks to VRC and to management were previously made available to the Board. The Board (directly and through its counsel and financial advisors) posed its own questions to VRC and to management and received answers thereto. Without limitation, (i) VRC confirmed that its opinion was the result of its independent, professional advice without improper influence of management, (ii) VRC confirmed that it engaged in a significant testing of both management's base case and downside cases, (iii) VRC confirmed that it had received all the information it had requested from the Company; (iv) VRC described its internal opinion review process as rigorous and confirmed that its fee would be the same whether it opined favorably or unfavorably as to solvency and (v) VRC explained the changes in its approach to PHONES valuation and that such change was not, in any event, outcome determinative. After completion of VRC's review and presentation and all questions and answers, VRC rendered its opinion, and said that it would provide a written opinion brought down to closing. Management then advised the Board that management stands ready to deliver the closing certificate contemplated by the Credit Agreement as to solvency and that such certificate will be based upon its own analysis, as further supported by the VRC opinion and analysis.

The December 18, 2007 Tribune Board and Special Committee meetings are discussed elsewhere in the Report.[2204]

3. Knowledge and Actions of Participants in Step Two Solvency Opinion and Examiner's Evaluation of Step Two Solvency Opinion.

a. VRC's Analysis Prior to the Issuance of the Step Two Solvency Opinion and VRC's Interactions with Management.

VRC first considered the implications of the closing of the Step Two Transactions on the question of solvency early in the Tribune engagement.[2205] In fact, VRC developed valuation and cash flow forecasting models designed to preliminarily assess Step Two solvency and capital adequacy before it issued its May 9, 2007 and May 24, 2007 Step One solvency opinions.[2206]

[2204] *See* Report at § III.G.1.

[2205] Ex. 264 at 194:25-195:10 (Rule 2004 Examination of Mose Rucker, December 3, 2009); Ex. 262 at 118:10-16 (Rule 2004 Examination of Bryan Browning, December 4, 2009).

[2206] Ex. 264 at 54:25-55:2 (Rule 2004 Examination of Mose Rucker, December 3, 2009).

For example, on April 24, 2007, Mose Rucker at VRC circulated a draft solvency analysis to other VRC employees incorporating both the effects of the expected Step One Debt as well as the effects of the anticipated Step Two Debt (in addition to presenting an analysis incorporating only the Step One Debt).[2207] This analysis was performed in connection with VRC rendering an opinion regarding Tribune's solvency and capital adequacy as of Step One, both on a stand-alone basis as well as on a pro forma basis, that incorporated the impact of the Step Two Debt as of the date of the initial Step One solvency opinion.[2208]

After providing its May 9, 2007 and May 24, 2007 Step One solvency opinions, VRC continued its due diligence regarding Step Two. As it did in connection with Step One, VRC received information from, and presented drafts of its solvency and capital adequacy analysis to, Tribune management in the months between the closing of the Step One Financing Transactions and the Step Two Transactions.[2209] As with VRC's Step One solvency opinions, and consistent with the terms of VRC's engagement letter, Tribune's management supplied projections and financial information on which VRC, in significant part, based its Step Two solvency opinion.[2210] In addition, as discussed more fully below, management made representations to

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[2207] Ex. 270 at VRC0048044 (Rucker E-Mail, dated April 24, 2007).

[2208] Ex. 264 at 68:15-69:15 (Rule 2004 Examination of Mose Rucker, December 3, 2009). Mr. Browning testified in his Rule 2004 examination that "we wanted to make sure that in rendering the first opinion, that there weren't any red flags for the second opinion." Ex. 262 at 60:14-17 (Rule 2004 Examination of Bryan Browning, December 4, 2009). He also stated that "it would make it very complicated if we render an opinion for first step and then can't render it in the second step." *Id.* at 60:23-61:2.

[2209] For example, VRC participated in a two day meeting with Tribune management on September 19 and 20, 2007. Ex. 655 (Tribune Company Valuation Research Corp. Due Diligence Agenda); Ex. 656 (Tribune Company Corporate Finance Handouts, dated September 19, 2007). Examiner's Sworn Interview of Mose Rucker and Bryan Browning, June 30, 2010, at 44:2-14 ("Yes, we had extensive sessions, two all-day sessions with the heads of, I think, every major company, every major paper, division at the company. And we went through and we discussed some of the initiatives that they were putting in place, that they thought would allow them to recapture those markets. So we had very extensive due diligence meetings with almost every major head of divisions at the company."). *See*, *e.g.*, Ex. 948 (Mednik E-Mail, dated June 13, 2007) (forwarding to Chandler Bigelow VRC's preliminary Step Two solvency analysis); Ex. 949 (Bigelow E-Mail, dated September 27, 2007) (forwarding historical financial information to VRC).

[2210] Ex. 728 at TRB0294012 (VRC Step Two Solvency Opinion, dated December 20, 2007).

VRC on Tribune's behalf and served as an intermediary for several questions posed by the Lead Banks to VRC (some of which management found "much more detailed" than VRC's inquiries).[2211]

In undertaking its Step Two solvency analysis, VRC initially worked from management's February 2007 projection model as updated in April 2007 and May 2007 (incorporating certain anticipated changes to financing terms and asset sales).[2212] According to an e-mail from Harry Amsden of Tribune dated August 2, 2007, Tribune's effort to update its projections for Step Two purposes began in early August 2007.[2213] Although Mr. Amsden's e-mail addresses efforts by Tribune managers in the Publishing Segment to update the "5-year (2007-2011) financial model" that the Publishing Segment had developed in early 2007 for Step One purposes, Mr. Bigelow indicated that the Broadcasting Segment "will be embarking on a similar project."[2214]

Notably, Mr. Amsden's e-mail discussed a significant change in the format and level of detail required for the Step Two projections. Mr. Amsden prefaced his instruction to the Publishing Segment team by recalling that, at the time of the Step One Financing, "we were able to satisfy [VRC's] needs with only a group level model." However, Mr. Amsden continued:[2215]

> This time [VRC] will also need additional detail for our 6 largest business units, and also [Tribune interactive] as a whole and [Tribune Media Services], as this round of work will be more comprehensive. In addition, they will want to talk to each of you, likely here in Chicago, about the portion of the model that relates to your business unit.

[2211] Ex. 950 (Amsden E-Mail, dated September 27, 2007) ("We have done two conference calls with the bankers so far this week. The bankers have asked much more detailed financial questions than VRC did.").

[2212] The content and development of management's February, April, and May 2007 models are described more fully elsewhere. *See* Report at § III.C.1.

[2213] Ex. 654 (Bigelow E-Mail, dated August 2, 2007). The Amsden e-mail was forwarded by Chandler Bigelow to David Eldersveld, Naomi Sachs, and Heidi Fischer on August 2, 2007.

[2214] *Id.*

[2215] *Id.*

In the e-mail, Mr. Amsden established a schedule for the process. According to Mr. Amsden, in the near term his team was expecting to "develop overall group targets for 2008-2012," as well as to provide the business units "with the standard assumptions that we built into the model from a group perspective so that [the business units] can understand the starting point we [give] you and what we factored in."[2216] At that point, each business unit was to receive its section of the model in order to assess whether adjustments to the model would be required. By August 29, 2007, the units were expected to return the revised model with commentary on any identified initiatives and required adjustments.

After allowing for a brief window for review and additional feedback, the plan was to "turn the group model into corporate by just after Labor Day."[2217] Next, according to Mr. Amsden:[2218]

> Corporate will then consolidate the models into one and turn them over to VRC by September 10th or so. . . . VRC will then need several weeks for their work. Likely your visit to Chicago to meet with them would be in the second half of September some time and would not require more than a day here.

In an e-mail dated August 28, 2007, Mr. Amsden updated the Publishing Segment team regarding progress on efforts regarding the five-year model.[2219] He noted that an additional set of meetings was to be scheduled for late September 2007 with both VRC and "the 4 banks involved in the financing for the final stage of the buyout," and that he hoped to use "as much of the same materials/presentation as possible for both meetings," indicating a significant overlap in

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[2216] *Id.*

[2217] *Id.*

[2218] *Id.*

[2219] Ex. 951 (Amsden E-Mail, dated August 28, 2007). For purposes of the Step Two effort, the business units were asked to project performance "three years out" rather than five. Ex. 66 at 204:5 (Rule 2004 Examination of Harry Amsden, December 16, 2009). According to Mr. Amsden, his group office team then "worked on the last two [years] on an overall basis." *Id.* at 204:6-7; Ex. 952 at TRB0468697 (Tribune Publishing 5-Year Model Preparation).

interest with respect to "2007 and 2008-2012 also."[2220] Other information discussed in the e-mail indicates that the effort being made on the five-year model appeared to be on schedule.[2221]

In response to a query regarding Tribune's new projections, Mr. Bigelow updated Mose Rucker of VRC in a September 4, 2007 e-mail regarding Tribune's progress on the projections, and confirmed meetings with VRC on September 19 and 20, 2007.[2222] On September 17, 2007, with the meetings between Tribune and VRC imminent, Mr. Bigelow (again in response to Mr. Rucker's prompting), advised Mr. Rucker that Tribune continued to work on the "financial model and handouts for the meeting," but that nothing would be available for VRC's review in advance of the meeting.[2223]

It appears that Tribune management met with VRC beginning on September 19, 2007 and that a base case five-year financial model was discussed, but that certain other elements of interest to VRC, including sensitivity cases and other additional information, were planned for later delivery.[2224] The meetings set in motion an effort by VRC to gather and assess information in the weeks following the September 19 and 20, 2007 meetings.[2225]

By September 30, 2007, Tribune had apparently finalized its projection model pertaining to operating cash flows from its principle business units, since the first five years of projected

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[2220] Ex. 951 (Amsden E-Mail, dated August 28, 2007).

[2221] *Id.*

[2222] Ex. 893 (Bigelow E-Mail, dated September 4, 2007).

[2223] Ex. 894 (Bigelow E-Mail, dated September 17, 2007).

[2224] It appears that Tribune's five year model was not available in final form on the first day of the meeting based on an 8:11 a.m. e-mail sent by Chandler Bigelow to Mr. Rucker on the second day of meetings in which Mr. Bigelow promised to deliver a "PDF . . . of yesterday's handouts updated to synch with the attached five year model." Ex. 895 (Bigelow E-Mail, dated September 20, 2007). Moreover, the financial model attached to the 8:11 AM e-mail apparently was flawed in some way since Mr. Bigelow followed up this e-mail with another to Mr. Rucker at 10:28 AM asking that Mr. Rucker "delete the previous email and attachment" and accept the "correct model" which was titled Tribune Financial Model Sept 20.xls. Ex. 896 (Bigelow E-Mail, dated September 20, 2007).

[2225] *See* Ex. 953 (Bigelow E-Mail, dated September 20, 2007); Ex. 897 (Bigelow E-Mail, dated September 21, 2007).

performance informing its September 30, 2007 model correspond with the five-year forecast that was subsequently presented to the Tribune Board in October 2007, as well as with the ten years of forecasted operating cash flows informing the November 21, 2007 set of Tribune projections on which VRC ultimately relied in connection with its December 20, 2007 solvency opinion. Management, in fact, presented this new five-year forecast, entitled "Tribune Five Year Financial Outlook," to the Tribune Board at its October 17, 2007 meeting.[2226] In addition to containing a base case five-year forecast, the October 2007 forecast included "a number of scenarios off of [Tribune's] base case," including a downside case built around the expectations of Craig Huber of Lehman Brothers, reputedly the most pessimistic analyst covering Tribune at the time.[2227] VRC used these revised numbers to complete its analysis.[2228]

b. VRC's December 4, 2007 Solvency Presentation.

On the basis of its due diligence, at the December 4, 2007 Tribune Board meeting Mr. Browning, Mr. Rucker, and Mr. Hughes of VRC "made a comprehensive presentation regarding VRC's solvency analysis and the solvency opinion required to close the [M]erger."[2229] VRC's December 4, 2007 analysis used the same general approaches to calculating Tribune's equity value and assessing Tribune's capital adequacy that VRC used at Step One. However, notably different from the comparable presentation made to the Tribune Board at Step One,

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[2226] Ex. 657 (Tribune Five-Year Financial Outlook, dated October 2007). *See* Report at § III.H.2.

[2227] Examiner's Sworn Interview of Chandler Bigelow, June 17, 2010, at 151:3-12; Ex. 657 at TRB0414726-32 (Tribune Five-Year Financial Outlook). *See also* Examiner's Sworn Interview of Chandler Bigelow, June 17, 2010, at 153:17-21 ("Craig Huber was out there with a model, very pessimistic, and we thought, hey, one of the most effective ways to really stress test the business is let's take Craig's numbers.").

[2228] Examiner's Sworn Interview of Chandler Bigelow, June 17, 2010, at 155:9-156:5; Ex. 1004 (Mednik E-Mail, dated October 31, 2007).

[2229] Ex. 727 at TRB415677 (Tribune Board Meeting Minutes, dated December 4, 2007). Although the Tribune Board book disseminated in advance of the December 4, 2007 Tribune Board meeting did not contain any VRC-prepared materials, a VRC presentation dated December 4, 2007 appears to correspond to the materials presented to and discussed with the Tribune Board on December 4, 2007. *See* Ex. 737 (VRC Preliminary Solvency Analysis, dated December 4, 2007).

VRC's December 4, 2007 preliminary Step Two materials set out four predicate "key assumptions" on which VRC's analysis was based:[2230]

> The standards of [Fair Value and Present Fair Saleable Value] used for the solvency of the Step Two Transactions . . . [has] been modified [to] assum[e] that the buyer would have a structure similar to the structure contemplated in the Step Two Transactions (an S-Corporation, owned entirely by an ESOP, which receives federal income tax deferrals or another structure resulting in equivalent favorable federal income tax treatment to Tribune);
>
> VRC relied on Management's Base Case and Downside Case projections for its opinion;
>
> VRC relied upon achieving S-Corporation/ESOP tax savings for Tribune which are determined using the Base Case forecast; and
>
> [VRC] assumes that the Company can refinance guaranteed debt after the expiration of the credit agreements.

Using these assumptions to reach its valuation conclusion, VRC calculated a value of Tribune's assets from which VRC subtracted a pro forma estimate of the interest-bearing debt that was anticipated on the Step Two closing. VRC preliminarily determined that, after giving effect to the Step Two Transactions, Tribune's residual equity value ranged between $1.159 billion (low case) and $3.338 billion (high case), and Tribune would be able to meet cash flow requirements in both VRC's base case and downside case while maintaining compliance with its debt covenants.[2231] The following chart summarizes VRC's December 4, 2007 conclusions:[2232]

[2230] Ex. 737 at TRB0272811 (VRC Preliminary Solvency Analysis, dated December 4, 2007).

[2231] *Id.* at TRB0272813.

[2232] *Id.*

VALUATION SUMMARY ($ mm)			
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	$ 8,398.6	$ 9,084.2	$ 9,769.8
Sum of Business Segments	$ 9,317.2	$ 9,925.3	$ 10,533.3
Average Operating Asset Value	**$ 9,436.5**	**$ 9,989.1**	**$ 10,541.6**
+ Equity Investments and Other Assets	$ 3,066.4	$ 3,312.1	$ 3,557.1
+ NPV of S-Corp-ESOP Tax Savings	$ 1,733.3	$ 2,024.7	$ 2,316.2
Adjusted Enterprise Value	**$ 14,236.2**	**$ 15,325.9**	**$ 16,414.9**
+ Cash	$ 197.7	$ 197.7	$ 197.7
- Debt	($ 13,188.1)	($ 13,188.1)	($ 13,188.1)
- Identified Contingent Liabilities	($ 86.8)	($ 86.8)	($ 86.8)
Equity Value	**$ 1,159.0**	**$ 2,248.7**	**$ 3,337.7**

VRC also compared its preliminary Step Two conclusions with the conclusion it reached at Step One.[2233] As summarized in the chart below, between the issuance of its Step One solvency opinions and December 4, 2007, VRC had, among other things, reduced the mid-point value ascribed to Tribune's operating assets by approximately 16.4%, increased the mid-point value ascribed to Tribune's non-operating assets by approximately 23.3%, introduced approximately $2 billion of net present value S-Corporation/ESOP tax savings, eliminated the value previously ascribed to the PHONES Notes tax savings (as no longer applicable given the S-Corporation/ESOP structure), accounted for the incremental Step Two Debt, and made minor adjustments to excess cash and contingent liabilities:[2234]

[2233] *Id.* at TRB0272814.

[2234] *Id.*

COMPARISON BETWEEN VRC MID-RANGE VALUATIONS at STEP 1 and STEP 2 (1)				
Valuation Method	**Step One**	**Step Two**	**Change**	**Percentage Change**
Comparable Companies	$ 12,497.6	$ 9,865.3	($ 2,632.3)	-21.06%
Comparable Transactions	$ 12,681.1	$ 11,081.5	($ 1,599.6)	-12.61%
Discounted Cash Flow (2)	$ 9,918.6	$ 9,084.2	($ 834.4)	-8.41%
Sum of Business Segments	$ 12,709.7	$ 9,925.3	($ 2,784.4)	-21.91%
Average Operating Enterprise Value	**$ 11,951.8**	**$ 9,989.1**	**($ 1,962.7)**	**-16.42%**
+ Equity Investments and Other Assets (3)(4)	$ 2,686.0	$ 3,312.1	$ 626.1	23.31%
+ NPV of PHONES Tax Savings	$ 382.7	$ 0.0	($ 382.7)	NR
+ NPV of S-Corp-ESOP Savings	$ 0.0	$ 2,024.7	$ 2,024.7	NR
Adjusted Enterprise Value	**$ 15,020.4**	**$ 15,325.9**	**$ 305.5**	**2.03%**
+ Cash	$ 188.0	$ 197.7	$ 9.7	5.16%
- Debt	($ 9,463.8)	($ 13,188.1)	($ 3,724.3)	NR
- Identified Contingent Liabilities	($ 97.1)	($ 86.8)	$ 10.3	-10.61%
Equity Value	**$ 5,647.5**	**$ 2,248.7**	**($ 3,398.8)**	**-60.18%**
% of Enterprise Value	**37.6%**	**14.7%**	**-22.9%**	**NR**

(1) Ex. 737 at 8 (VRC Preliminary Solvency Analysis, dated December 4, 2007). VRC used values from its May 17, 2007 solvency analysis for purposes of its comparison. *See* Ex. 283 at 10 (VRC Solvency Analysis, dated May 17, 2007.
(2) Includes the value of radio.
(3) Includes Tribune's latest estimate of the net proceeds from the sale of the Cubs and Comcast.
(4) Includes after tax value of certain real estate that can either be sold or capitalized into value.

Consistent with the Examiner's evaluation of VRC's Step One solvency opinions, the Examiner investigated the bases on which VRC determined the values for Tribune's assets as reflected in the materials presented to the Tribune Board on December 4, 2007 (and then again on December 18, 2007, when VRC updated its analysis). A review of VRC's work papers corresponding to, among other things, VRC's December 4, 2007 and December 18, 2007 presentations to the Tribune Board confirms that VRC used the same general approaches to calculating Tribune's equity value and assessing its capital adequacy as those VRC utilized in its Step One analysis.[2235] In particular, as at Step One, VRC utilized four valuation methods—a

[2235] The Examiner also reviewed work papers corresponding to a VRC December 20, 2007 presentation which, as discussed below, apparently was not presented to the Tribune Board, and contained only minor modifications to VRC's determination of Tribune asset values. Among other things, the December 20, 2007 materials increased the estimated Step Two Debt from $12.593 billion to $12.899 billion, thus decreasing the calculated amount of equity value by the same difference (approximately $306 million). *See* Ex. 1045 at TRB0293989 (Step Two comparable company approach, a transaction multiples approach, a DCF analysis, and an SOP valuation—to determine the value of Tribune's operating assets.[2236] VRC also adopted the same general approaches to valuing Tribune's equity ownership interests at both steps. Despite the similarities between VRC's Step One and Step Two approaches, as explained below, VRC derived significantly different valuations.

(1) Approaches to Valuing Tribune's Operating Assets.

(i) Comparable Companies.

For purposes of estimating a value of Tribune's operating assets using the comparable companies methodology at Step One, VRC calculated LTM, CFY, and NFY EBITDA multiples for its identified comparable companies, and, on the basis of a range of multiples selected by VRC, applied its selected ranges of these multiples to Tribune consolidated LTM, CFY, and NFY EBITDA statistics to conclude a valuation range for Tribune's operating assets. At Step Two, although applying the same basic methodology, VRC modified its analysis to discretely determine comparable companies (and associated multiples) for each of the Publishing Segment and the Broadcasting Segment, separately, in addition to identifying cohort companies that VRC determined to be comparable to Tribune on a consolidated basis.[2237]

Solvency Analysis, dated December 20, 2007). The Examiner also reviewed work papers corresponding to earlier VRC analyses to the extent necessary to garner an understanding of the assumptions relied on by VRC in rendering its December 20, 2007 solvency opinion.

[2236] Ex. 737 at TRB0272813 (VRC Preliminary Solvency Analysis, dated December 4, 2007).

[2237] At Step One, VRC determined that E.W. Scripps Co., McClatchy Co. Holdings, New York Times Co., Belo Corp., and Media General, Inc. were comparable to Tribune on a consolidated basis, and calculated LTM, CFY, and NFY multiples for each. On the basis of that data, VRC subjectively determined ranges of LTM, CFY, and NFY EBITDA multiples, which VRC then applied to Tribune LTM, CFY, and NFY EBITDA statistics to determine a range of values for Tribune's operating assets based on the comparable company valuation methodology.

At Step Two, VRC calculated not only multiples for companies deemed comparable to Tribune on a consolidated basis (which, for purposes of its Step Two analysis included only E.W. Scripps Co., Belo Corp., and Media General, Inc.), but also calculated multiples, for each of comparable publishing companies and broadcasting and entertainment companies selected by VRC.

Having calculated cohort, or comparable company, multiples selected by VRC for purposes of comparing Tribune's consolidated business (and each of the Publishing Segment and Broadcasting Segment), VRC then "weighted" the segment level multiples based on the relative EBITDA contributions of each,[2238] applying a 50% weighting to the results. VRC then weighted the results of its multiples analysis of Tribune consolidated cohorts by 50% in order to reach conclusions regarding an applicable range of LTM, CFY, and NFY EBITDA multiples to apply to Tribune consolidated EBITDA statistics, based on Tribune's October 2007 model forecasts, and to arrive at a range of values for Tribune's operating assets.[2239] Applying the ranges of EBITDA multiples selected by VRC to Tribune's EBITDA forecasts taken from the October 2007 model, VRC calculated a range of values for Tribune's operating assets of between $9.248 billion and $10.482 billion, as reflected in its December 4, 2007 presentation to the Tribune Board.[2240] The following table compares the ranges of EBITDA multiples selected by VRC in conducting its Step One analysis[2241] to those multiples used in VRC's December 4, 2007 preliminary Step Two analysis:[2242]

For purposes of valuing the Publishing Segment, VRC calculated LTM, CFY, and NFY multiples for Gannet Company, Inc., The Washington Post, McClatchy Co. Holdings, New York Times Co., and Lee Enterprises. For purposes of valuing the Broadcasting Segment, VRC calculated LTM, CFY, and NFY multiples for Hearst Argyle Television, Sinclair Broadcasting Group CS, LinTV Corp, Gray Television, Inc., and Nextar Broadcasting Group, Inc. *See* Ex. 740 at VRC0060993-95 (VRC Internal Review Document, Tribune Company Preliminary Solvency Analysis, dated December 3, 2007).

2238 The precise mechanics of these calculations are not discernable from a review of VRC's work papers, although it appears that VRC weighted the segment multiples by the respective EBITDA contribution of each of Tribune's business segments. Regardless, it appears that VRC subjectively determined the range of multiples, taking into account the results of its analytical review as described above.

2239 The Examiner notes that, unlike VRC's Step One analysis, VRC did not calculate FCF multiples as a part of its Step Two evaluation.

2240 Ex. 737 at TRB0272813 (VRC Preliminary Solvency Analysis, dated December 4, 2007).

2241 Ex. 271 at VRC0051421 (Mednik E-Mail, dated May 4, 2007).

2242 Ex. 740 at VRC0060993 (VRC Internal Review Document, Tribune Company Preliminary Solvency Analysis, dated December 3, 2007).

COMPARABLE COMPANIES MULTIPLES		
	May Step One	**December Step Two**
LTM Multiples Range Applied	8.5 - 9.5	8.25 - 8.75
CFY Multiples Range Applied	9.0 - 10.0	8.0 - 8.5
NFY Multiples Range Applied	8.5 - 9.5	7.75 - 8.25

(ii) Comparable Transactions.

Consistent with its approach at Step One, VRC computed both LTM revenue and EBITDA transaction multiples for several publicly disclosed acquisitions of companies that VRC determined to be comparable to Tribune.[2243] In contrast to the analysis conducted in its Step One study, however, in its Step Two analysis VRC applied only an LTM EBITDA-based multiple range to Tribune's forecasted pro forma 2007 EBITDA to calculate a value for Tribune's operating assets at Step Two ranging from $10.782 billion to 11.381 billion.[2244] The table below compares the transaction multiples used by VRC at Step One with those used by VRC at Step Two:

[2243] *Id.* at VRC0060993, 96-97. VRC calculated revenue and EBITDA multiples using the same transactions evaluated as part of its Step One analysis, adjusted to exclude multiples observed for three transactions which closed in 2003 and 2004, and to add multiples derived from two newly identified transactions (one of which closed on August 8, 2007, the other of which was pending as of the time of VRC's analysis). *Compare* Ex. 271 at VRC0051425 (Mednik E-Mail, dated May 4, 2007) *with* Ex. 740 at VRC0060996-97 (VRC Internal Review Document, Tribune Company Preliminary Solvency Analysis, dated December 3, 2007). VRC thereby effectively updated its analysis to exclude multiples derived from the oldest transactions included as a part of its Step One analysis and to add information derived from transactions that occurred or became pending subsequent to the issuance of its Step One solvency opinion. Although VRC's Step Two comparable transactions analysis breaks the representative transactions into two groups, the Publishing Segment and the Broadcasting Segment, it appears that this is largely a distinction without a difference, in that VRC's transaction multiples analysis applied its selected range of multiples only to Tribune's consolidated LTM EBITDA for purposes of calculating a value of Tribune's operating assets using this valuation methodology.

[2244] *Compare* Ex. 271 at VRC0051424 (Mednik E-Mail, dated May 4, 2007) *with* Ex. 740 at VRC0060993 (VRC Internal Review Document, Tribune Company Preliminary Solvency Analysis, dated December 3, 2007).

COMPARABLE TRANSACTION MULTIPLES		
	May Step One	**December Step Two**
LTM Multiples Range Applied	9.0 - 10.0	9.0 - 9.5
CFY Multiples Range Applied	9.0 - 10.0	Not Applied
NFY Multiples Range Applied	8.5 - 9.5	Not Applied

(iii) Discounted Cash Flow.

Although methodologically similar, VRC's December 4, 2007 DCF analysis differed from VRC's Step One analysis in two significant ways. First, the projected cash flows were based on the use of management's revised October 2007 forecast (in contrast to VRC's reliance on management's earlier forecasts for purposes of its Step One evaluation).[2245] Second, VRC modified the period for which cash flows were incorporated into the DCF model before calculating a residual terminal value.[2246] The result was a DCF valuation of Tribune's operating

[2245] *Compare* Ex. 271 at VRC0051430 (Mednik E-Mail, dated May 4, 2007) *with* Ex. 740 at VRC0060998 (VRC Internal Review Document, Tribune Company Preliminary Solvency Analysis, dated December 3, 2007).

[2246] For purposes of its Step One analysis, VRC calculated enterprise cash flows for the first five years of the projection period, discounted the results to present value, and added to the present value of the discrete period cash flows the present value of the terminal period value (calculated on the basis of an exit multiple). Ex. 271 at VRC0051430 (Mednik E-Mail, dated May 4, 2007). For purposes of its Step Two analysis, by contrast, VRC calculated enterprise cash flows for the first *ten* years of the projection period, discounted the results to present value, and added to the present value of the discrete period cash flows the present value of the terminal period value (calculated on the basis of an exit multiple). Ex. 740 at VRC0060998 (VRC Internal Review Document, Tribune Company Preliminary Solvency Analysis, dated December 3, 2007). When questioned by the Examiner about its decision to introduce a ten-year projection period at Step Two, VRC was unable to cite a specific reason for this methodological change, other than to characterize it as a "natural evolution" of the process. Examiner's Sworn Interview of Mose Rucker and Bryan Browning, June 30, 2010, at 148:4-21. The change in DCF enterprise value that results from adding an incremental five years of discreet period cash flow to VRC's DCF Step Two analysis (in relation to VRC's Step One analysis in which only five years of discreet period cash flows were considered before adding a terminal value) can be approximated by comparing VRC's actual Step Two concluded value with the DCF value as it would have been calculated without the inclusion of the extra five years. The Examiner notes that apparently as early as November 30, 2007, for purposes of its internal Step Two DCF valuation models, VRC added an incremental five years to its Step One five-year interim period model before computing a terminal period value. However, in VRC's earliest identified iteration of its Step Two DCF model, dated October 29, 2007, VRC had added 2013 to its interim periods, essentially making its Step Two model a six-year interim period valuation model. *See* Ex. 1004 at VRC0034721 (Mednik E-Mail, dated October 31, 2007). In adding 2013 to the model, however, it simply grew total Publishing Segment revenues by the 2012 calculated consolidated Publishing Segment growth rate of 2.63% and Broadcasting Segment revenues by the 2012 growth rate of 2.33% for a consolidated rate of 2.41%. The Examiner performed this comparison by calculating the DCF value at Step Two without the inclusion of years 2013 through 2017 as part of the interim period cash flow before computing a terminal value. To calculate the terminal value for the alternative DCF, the Examiner used the implied terminal growth rate informing VRC's assets ranging from $8.399 billion to $9.770 billion.[2247] Of note, VRC discounted forecasted cash flows to present value at discount rates ranging between 7.5% and 8.5% in both its May 2007 (Step One) and December 2007 (Step Two) DCF models, implying that VRC concluded that the risks attendant to Tribune's anticipated future cash flow had not changed between those dates.[2248]

(iv) Sum-of-the-Parts.

VRC's SOP analysis at Step Two was methodologically similar to its Step One analysis, using the same basic market and transaction multiples approaches (as updated by VRC) and DCF methodologies (as applied by VRC in separately valuing the Publishing Segment and the Broadcasting Segment) and resulting in an SOP valuation range of $9.317 billion to $10.533 billion.[2249]

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actual Step Two terminal year value computation when estimating the new terminal value five years earlier (essentially the terminal value calculation after year ten in VRC's original model was simply moved up in time and applied after the fifth year of the projections). For comparison purposes, the Examiner used the mid-point of the resulting DCF valuation calculations. Based on the comparison of the five- and ten-year model valuations ($9.597 billion and $10.210 billion, at a mid-point valuation, respectively), the additional five years of interim period cash flows added approximately $613 million to the Step Two DCF value, all other things being equal. *See* Ex. 898 (Tribune Base Case, Consolidated Discounted Cash Flow Method).

COMPARISON OF DECEMBER DCF MODELS WITH AND WITHOUT YEARS 6 - 10
at Present Value and at Mid Range Value ($mm)

	Years 1 - 5	Years 6 - 10	Terminal Value	Total Enterprise Value
VRC December Model *10-year Interim Period Plus Terminal Value*	$ 2,644.3	$ 2,085.2	$ 5,480.4	$ 10,209.9
Alternative VRC December Model *5-year Interim Period Plus Terminal Value*	$ 2,644.3	Included in Terminal Value	$ 6,953.0	$ 9,597.3
Value Difference				$ 612.6

2247 Ex. 737 at TRB0272813 (VRC Preliminary Solvency Analysis, dated December 4, 2007).

2248 *Compare* Ex. 271 at VRC0051430 (Mednik E-Mail, dated May 4, 2007) *with* Ex. 740 at VRC0060998 (VRC Internal Review Document, Tribune Company Preliminary Solvency Analysis, dated December 3, 2007).

2249 Ex. 740 at VRC0060991 (VRC Internal Review Document, Tribune Company Preliminary Solvency Analysis, dated December 3, 2007); Ex. 737 at TRB0272813 (VRC Preliminary Solvency Analysis, dated December 4, 2007).

(2) Approach to Valuing Tribune's Equity Investments.

VRC utilized the same basic approaches to valuing Tribune's non-operating asset equity investments in its Step One and Step Two evaluations, although, as summarized above, the value VRC ascribed to those investments increased substantially between May 2007 and December 2007 as shown in the chart below:

VALUE OF NON-OPERATING ASSETS ($mm)			
	High	**Mid**	**Low**
Value of Non-Operating Assets - May 9, 2007	$ 2,961.0	$ 2,686.0	$ 2,412.0
Value of Non-Operating Assets - December 4, 2007	$ 3,557.1	$ 3,312.1	$ 3,066.4
Increase	**$ 596.1**	**$ 626.1**	**$ 654.4**
Percentage Increase	*20.1%*	*23.3%*	*27.1%*

Based on a reconciliation developed using valuation information derived from a variety of sources (including several different VRC work papers), the substantial increase in the value of Tribune's equity interests between Step One and Step Two (at the mid-point of VRC's valuation range) can be traced principally to an increase in VRC's valuation of the Chicago Cubs and Comcast SportsNet (a $273 million increase) and VRC's inclusion of other assets including "excess real estate" not quantified at Step One ($319 million). At the mid-point valuation, these differences account for $592 million of the approximately $625 million increase in value that VRC ascribed to Tribune's non-operating asset equity ownership interests between the Step One and December 4, 2007 Step Two valuations, as shown in the chart below:[2250]

[2250] *Compare* Ex. 274 at TRB0149955 (VRC Solvency Opinion Analysis, dated May 9, 2007) with Ex. 740 at VRC0060991 and VRC0061008 (VRC Internal Review Document, Tribune Company Preliminary Solvency Analysis, dated December 3, 2007); Ex. 899 at VRC00013637 (Tribune Company Cubs Sale Update); Ex. 900 (Tribune Company Summary of Potential Real Estate Opportunities); Ex. 737 at TRB0272813 (VRC Preliminary Solvency Analysis, dated December 4, 2007).

ANALYSIS OF VRC'S CHANGE IN EQUITY INVESTMENT VALUES BETWEEEN STEP ONE AND STEP TWO ($mm)				
		VRC Ownership Adjusted Mid Range Value		
Investments		**Step One**	**Step Two**	**Change**
TVFN		$ 1,171	$ 1,151	($ 20)
CareerBuilder		$ 686	$ 743	$ 57
Classified Ventures		$ 76	$ 85	$ 9
ShopLocal		$ 41	$ 45	$ 4
Topix.net		$ 27	$ 25	($ 2)
Legacy.com		$ 5	$ 6	$ 1
Recycler		$ 72	$ 66	($ 6)
AdStar		$ 8	$ 2	($ 6)
TWX		$ 6	$ 4	($ 2)
MetroMix		$ 0	$ 6	$ 6
Quetzel		$ 1	$ 0	($ 1)
Low Income Housing Credits		$ 17	$ 10	($ 7)
Subtotal	a	**$ 2,110**	**$ 2,143**	**$ 33**
Cubs (after tax)		$ 422	$ 849	n/a
Comcast SportsNet (after tax)		$ 154		n/a
Subtotal	b	**$ 576**	**$ 849**	**$ 273**
SUBTOTAL (a + b)		**$ 2,686**	**$ 2,992**	**$ 306**
Other Assets (including real estate)		$ 0	$ 319	$ 319
Subtotal	c	**$ 0**	**$ 319**	**$ 319**
GRAND TOTAL (a + b + c)		**$ 2,686**	**$ 3,311**	**$ 625**

VRC justified the increased values of its equity investments with both representations from Tribune management regarding the increased value attributed to the Chicago Cubs and Comcast SportsNet[2251] and the consideration of other asset values that were not included in its Step One analyses (with regard to excess real estate).[2252]

2251 Ex. 899 at VRC00013637 (Tribune Company Cubs Sale Update).

2252 Ex. 900 (Tribune Company Summary of Potential Real Estate Opportunities). The Examiner notes that, in connection with its Step One analysis, VRC was provided with a Tribune-prepared quantification of the PHONES Notes obligations based on a netting of the face value of PHONES Notes ($1.264 billion) and the market value of Tribune's holdings of Time Warner stock ($334 million, based on 16 million shares at $20.88 per share) or $930 million. VRC determined to present the PHONES Notes obligation net of the value of Tribune's interest in Time Warner common stock, but apparently reconciled its conclusion to Tribune's final net value of $930 million by grossing up the book carrying value of the PHONES Notes ($612.1 million) by an amount that would reconcile their result with Tribune's net PHONES Notes value. At Step Two and as late as December 7, 2007, VRC continued to value the PHONES Notes liability at face value less the value of the Time Warner stock. *See* Ex. 281 at TRB0398561 (Memorandum from Mr. Browning and Mr. Rucker to

(3) Approach to Valuing S-Corporation/ESOP Tax Savings.

VRC calculated the value it ascribed to the tax savings from Tribune's post-Step Two closing S-Corporation/ESOP ownership structure based on certain assumptions provided by Tribune management, as well as the level of pre-tax income forecasted in the October 2007 Tribune projection model relied on by VRC in conducting its Step Two DCF analysis.[2253] Because, as discussed elsewhere in the Report,[2254] the Examiner has concluded that any value derived from tax savings resulting from the post-Step Two S-Corporation/ESOP ownership structure would likely be excluded in determining Tribune's solvency at Step Two under a fair market value standard, the Examiner did not conduct any further detailed analysis of how VRC derived its particular value of this attribute.[2255]

c. Questions from the Lead Banks Regarding VRC's Preliminary Solvency Analyses and VRC's Responses.

In connection with VRC's solvency analysis of Tribune, the Lead Banks prepared a series of detailed questions for which management acted as an intermediary.[2256] Although the questions covered several topics, two key areas of inquiry concerned VRC's valuation of the S-Corporation/ESOP tax savings and VRC's assumption that Tribune could refinance its borrowed

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Mr. Bigelow, dated December 7, 2007). As discussed below, however, shortly before rendering its Step Two solvency opinion, VRC later determined to split apart and present separately Tribune's liability related to its PHONES Notes obligations and the value of its interest in Time Warner stock. As such, VRC's later presentations included the value of Time Warner stock as a separate Tribune asset. *See* Ex. 705 at TRB0414949 (Tribune Board Meeting Materials, dated December 18, 2007); Ex. 1045 at TRB0293989 (VRC Solvency Analysis, dated December 20, 2007).

[2253] Ex. 740 at VRC0061009 (VRC Internal Review Document, Tribune Company Preliminary Solvency Analysis, dated December 3, 2007).

[2254] *See* Report at § IV.B.5.d.(10).

[2255] The value of this attribute is, however, relevant for purposes of evaluating reasonably equivalent value and is relevant for purposes of assessing capital adequacy. Those considerations are addressed elsewhere in the Report. *See* Report at §§ IV.B.5.c.(6). and IV.B.5.d.

[2256] *See, e.g.*, Ex. 754 (Bigelow E-Mail, dated December 7, 2007) (providing edits to VRC's draft responses to questions from the Lead Banks); Ex. 281 (Memorandum from Mr. Browning and Mr. Rucker to Mr. Bigelow, dated December 7, 2007).

indebtedness in the future. The refinancing assumption is discussed in detail elsewhere in the Report.[2257] The S-Corporation/ESOP tax savings are discussed directly below.

The Lead Banks asked VRC, through Tribune, about VRC's assumptions regarding expected tax savings from the S-Corporation/ESOP structure: "How are taxes treated in the analysis? As the Company will not be a federal taxpayer as a result of the S Corp election, does the discounted cash flow analysis take this into consideration, and if so, how?"[2258] VRC responded:[2259]

> As part of the valuation tests, VRC considered that as an S-Corp ESOP, Tribune will not pay federal income taxes. The Company has provided VRC with an estimate of the future tax savings for through 2017. VRC has extrapolated these tax savings to 2022 by applying similar growth rates and margins that Tribune provided for 2017. These tax savings were discounted to present value. VRC assumed that in year fifteen and beyond, that the Company would receive 60% of the project savings after EGI TRB, L.L.C. ("Zell Group") exercises its warrants to acquire 40% of Tribune's equity interest. The net present value of the S-Corp ESOP tax savings are estimated to be $1.7 billion to $2.3 billion. The operating enterprise valuation DCF analyses did not consider the S-Corp ESOP tax savings.

In response, the Lead Banks asked the following:[2260]

> [A]re there any relevant precedent transactions which VRC considered in determining to ascribe value to the S-Corp ESOP tax savings or in assuming it as the buy-side structure in its Fair Value and Present Fair Saleable analyses?
>
> [T]he equity discount rate used to value the S-Corp ESOP tax savings (9.0% to 11.0%) appears to be based upon the market capital structure approach as opposed to the actual Tribune capital structure. Is this correct and, if so, did VRC consider the using the actual Tribune capital structure?

[2257] *See* Report at § III.H.3.g.

[2258] Ex. 281 at TRB0398558 (Memorandum from Mr. Browning and Mr. Rucker to Mr. Bigelow, dated December 7, 2007).

[2259] *Id.*

[2260] Ex. 755 at VRC0070618-19 (Rucker E-Mail, dated December 12, 2007) (attaching lender questions).

> [I]n assuming the S-Corp ESOP tax structure as the buy-side structure in the Fair Value and Present Fair Saleable Value analyses, did VRC consider whether to discount that probability and its effect on the universe of potential buyers (*i.e.,* private equity looking at public exits and public companies) and the potential for changes in tax laws permitting the employment of this structure going forward?
>
> [T]o what extent did the tax consequences of planned or possible asset sales (whether as part of the sensitivity analyses or otherwise) factor into the valuation of the S-Corp ESOP tax savings?
>
> [P]lease note Tribune's previous valuation of the S-Corp ESOP tax benefits at $1 billion in materials delivered to prospective lenders in Step 1. Please reconcile this with the present valuation and discuss its relevance to the solvency opinion exercise.
>
> [P]lease confirm our understanding from VRC's answer to Question 12 in the Response that the ranges of equity cushions would unacceptable for opinion purposes but for the value ascribed to the S-Corp ESOP tax savings. If that is the case, at what valuation of the S-Corp ESOP tax savings would VRC be unwilling to deliver a solvency opinion? . . .
>
> [R]egarding the discount rates for DCF and S-Corp ESOP tax savings, has VRC considered the current capital structure (instead of the 40%/60% debt/equity structure) and market rates of debt, particularly in light of the unique character of the structure and the impact on leverage? What is the Beta used in your CAPM/WACC calculation? Aside from CAPM, were any other methodologies used or considered as a point of comparison to calculate the cost of equity?

Although VRC did not provide any further written responses to these questions,[2261] on December 15, 2007, VRC modified the discount rate used to convert Tribune's projected nominal tax savings to present value from 10% to 16%, reducing the net present value of the S-Corporation/ESOP savings by approximately $1.1 billion.[2262]

[2261] Examiner's Sworn Interview of Mose Rucker and Bryan Browning, June 30, 2010, at 277:18-281:9. Mr. Rucker stated: "To the best of my knowledge, no, we did not provide any—any answers. We definitely read the questions and actually took some of the things into consideration in our analysis, but I don't know if we specifically provided any additional [answers]." Examiner's Sworn Interview of Mose Rucker and Bryan Browning, June 30, 2010, at 278:15-22.

[2262] Ex. 955 at VRC0109230 (Rucker E-Mail, dated December 15, 2007).

d. VRC's December 18, 2007 Solvency Presentation.

As noted above, a series of extensive interactions occurred among VRC, Tribune management and, subsequently, the Lead Banks, concerning the tax savings associated with Tribune becoming an S-Corporation/ESOP, and Tribune's ability to refinance its indebtedness in the future. Apparently based, at least in part, on these interactions, between December 4, 2007 and December 18, 2007, VRC further adjusted its preliminary valuation conclusions by, among other things, reducing the value ascribed to the S-Corporation/ESOP tax savings by more than $1 billion from approximately $2 billion in VRC's December 4, 2007 materials to between $815 million and $936 million in VRC's revised and updated presentation to the Tribune Board on December 18, 2007.[2263] This significant decrease resulted from VRC's decision to raise the discount rate used to convert forecasted tax savings to present value from 10% to 16%,[2264] ostensibly to recognize that any tax savings should be discounted at a cost of equity because the savings were equity-based returns rather than debt-weighted returns.[2265]

Despite reducing the mid-point value ascribed to the S-Corporation/ESOP tax benefit by approximately $1.15 billion, however, other changes in VRC's analysis between December 4, 2007 and December 18, 2007 resulted in Tribune's overall equity value declining by just $165 million. The chart below shows these other changes:

[2263] Ex. 737 at TRB0272811 (VRC Preliminary Solvency Analysis, dated December 4, 2007); Ex. 705 at TRB0414949 (Tribune Board Meeting Materials, dated December 18, 2007). One of the Parties included in its submission a slightly different version of VRC's December 18, 2007 presentation, which appears to have only minor differences from the document that was included in the December 18, 2007 Tribune Board presentation materials, most notably a total debt number of $12.586 billion versus the $12.593 billion contained in the December 18, 2007 Tribune Board presentation materials. These differences do not alter any of the Examiner's conclusions.

[2264] *See* Ex. 705 at TRB0414952 (Tribune Board Meeting Materials, dated December 18, 2007); Ex. 1045 at TRB0293992 (VRC Solvency Analysis, dated December 20, 2007). VRC's December 18, 2007 and December 20, 2007 presentations included a $876.0 million value for the NPV of S-Corporation/ESOP Tax Savings, with the December 20, 2007 presentation stating that the figure was "[a]djusted due to an increase in the discount rate to 16% from 10%." *Id.*

[2265] Ex. 955 at VRC0109230 (Rucker E-Mail, dated December 15, 2007).

VRC MID-POINT VALUATION SUMMARIES ($ mm)				
Valuation Method	December 4, 2007 Board Presentation	December 18, 2007 Board Presentation	Change	Percentage Change
Comparable Companies	$ 9,865.3	$ 9,865.3	$ 0.0	0.0%
Comparable Transactions	$ 11,081.5	$ 11,081.5	$ 0.0	0.0%
Discounted Cash Flow	$ 9,084.2	$ 10,234.4	$ 1,150.2	12.7%
SOP	$ 9,925.3	$ 9,909.7	($ 15.6)	-0.2%
Average Operating Asset Value	**$ 9,989.1**	**$ 10,272.7**	**$ 283.6**	**2.8%**
+ Equity Investments and Other Assets	$ 3,312.1	$ 3,417.2	$ 105.1	3.2%
+ NPV of S-Corp-ESOP Tax Savings	$ 2,024.7	$ 876.0	($ 1,148.7)	-56.7%
Adjusted Enterprise Value	**$ 15,325.9**	**$ 14,565.8**	**($ 760.1)**	**-5.0%**
+ Cash	$ 197.7	$ 197.7	$ 0.0	0.0%
- Debt	($ 13,188.1)	($ 12,593.2)	($ 594.9)	-4.5%
- Identified Contingent Liabilities	($ 86.8)	($ 86.8)	$ 0.0	0.0%
Equity Value	**$ 2,248.7**	**$ 2,083.5**	**($ 165.2)**	**-7.3%**

The Examiner investigated both the bases for the significant valuation changes between December 4, 2007 and December 18, 2007 (a period of only two weeks) and the specific bases for the valuation conclusions contained in VRC's December 18, 2007 presentation to the Tribune Board. Based on this investigation, the Examiner determined that the most notable increase, an approximately $1.15 billion increase in the calculated DCF value of Tribune's operating assets, resulted principally from VRC's correction of a previously identified error in VRC's Step One analysis, in which VRC improperly added depreciation and amortization expense to forecasted EBITDA for purposes of computing EBIT.[2266] As a result of this error, VRC overstated Tribune's forecasted income, and therefore taxes, the effect of which was to understate cash flow and the resulting value derived from discounting that cash flow to present value. VRC apparently identified this modeling error between December 4, 2007 and December 18, 2007, corrected for it, and presented the revised DCF value in its December 18, 2007 Tribune Board presentation materials.[2267] This correction increased VRC's DCF value by $1.15 billion as

[2266] Ex. 262 at 232:11-233:8 (Rule 2004 Examination of Bryan Browning, December 4, 2009).

[2267] *Compare* Ex. 737 at TRB0272813 (VRC Preliminary Solvency Analysis, dated December 4, 2007) *with* Ex. 705 at TRB0414949 (Tribune Board Meeting Materials, dated December 18, 2007).

shown in the table above.[2268] In addition, the nearly $595 million reduction in expected Step Two Debt resulted from, among other things, VRC's determination to record the PHONES Notes liability on the basis of the market value, as opposed to the face value, of that obligation.[2269] The remaining VRC valuation adjustments occurring between December 4, 2007 and December 18, 2007 were attributable mostly to an approximately $100 million net upward adjustment to the value of Tribune's equity investments.[2270]

On December 18, 2007 VRC presented the following "ranged" valuation summary in its final presentation to the Tribune Board, which corresponds to the previously discussed comparative analysis between the December 4, 2007 and December 18, 2007 valuations presented to the Tribune Board:

VALUATION SUMMARY ($ mm)			
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	$ 9,525.6	$ 10,234.4	$ 10,943.2
Sum of Business Segments	$ 9,316.8	$ 9,909.7	$ 10,502.5
Average Operating Asset Value	**$ 9,718.1**	**$ 10,272.7**	**$ 10,827.3**
+ Equity Investments and Other Assets	$ 3,186.3	$ 3,417.2	$ 3,648.1
+ NPV of S-Corp-ESOP Tax Savings	$ 815.8	$ 876.0	$ 936.1
Adjusted Enterprise Value	**$ 13,720.2**	**$ 14,565.9**	**$ 15,411.5**
+ Cash	$ 197.7	$ 197.7	$ 197.7
- Debt	($ 12,593.2)	($ 12,593.2)	($ 12,593.2)
- Identified Contingent Liabilities	($ 86.8)	($ 86.8)	($ 86.8)
Equity Value	**$ 1,238.0**	**$ 2,083.6**	**$ 2,929.2**
% of Enterprise Value	**9.0%**	**14.3%**	**19.0%**

2268 VRC explained the weighted effect of this change (*i.e.*, the $283.6 million weighted average increase in VRC's concluded operating asset value) as resulting from "an adjustment to the discounted cash flow valuation that lowered the tax rate to be consistent with the Company's and to include annual severance expense." Ex. 1045 at TRB0293992 (VRC Solvency Analysis, dated December 20, 2007).

2269 Ex. 705 at TRB0414952 (Tribune Board Meeting Materials, dated December 18, 2007).

2270 This approximately $100 million net increase relates to the value ascribed by VRC to Tribune's equity investments as well as the value of Time Warner stock that VRC separately considered as a part of its December 18, 2007 presentation to the Tribune Board. *Id.* As noted above, in prior presentations VRC had netted the value of this stock against the PHONES Notes liability.

Although VRC's final presentation to the Tribune Board occurred on December 18, 2007, and was accompanied by a written presentation discussing VRC's analysis,[2271] the Examiner identified a further revised VRC presentation dated December 20, 2007.[2272] This later presentation reflects modest changes to the asset values set out in VRC's December 18, 2007 presentation, as well as an approximately $306 million increase in aggregate Step Two Debt (from $12.593 billion to $12.899 billion).[2273] Correspondingly, the range of Tribune's consolidated equity values decreased by the same difference to a range of between $931.6 million and $2.623 billion.[2274] The Examiner found no evidence that this revised analysis was presented to the Tribune Board.[2275]

e. VRC's Step Two Solvency Opinion.

On December 20, 2007, VRC issued its Step Two solvency opinion, concluding that:[2276]

> Immediately after and giving effect to the consummation of the Step Two Transactions,[2277] each of the Fair Value and Present Fair

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[2271] *Id.*

[2272] Ex. 1045 (VRC Solvency Analysis, dated December 20, 2007).

[2273] *Compare* Ex. 705 at TRB0414949 (Tribune Board Meeting Materials, dated December 18, 2007) *with* Ex. 1045 at TRB0293989 (VRC Solvency Analysis, dated December 20, 2007). This change resulted from an increase in the calculation of the PHONES Notes liability to record the obligation at "book value," where VRC's earlier analysis recorded the obligation on the basis of its discounted market price. Although VRC used at least three different bases for estimating the value of Tribune's PHONES Notes obligations at different times (*i.e.*, face value, then market value, then, finally, book value), the Examiner believes that VRC's final conclusion with respect to valuing the PHONES Notes was correct.

[2274] Ex. 1045 at TRB0293989 (VRC Solvency Analysis, dated December 20, 2007).

[2275] The minutes of the Tribune December 20, 2007 Tribune Board meeting make no mention of a further VRC presentation or that any additional discussions occurred with respect to VRC or the closing of Step Two. *See* Ex. 12 (Tribune Board Meeting Minutes, dated December 20, 2007).

[2276] Ex. 728 at TRB0294015 (VRC Step Two Solvency Opinion, dated December 20, 2007).

[2277] The Step Two Transactions were defined in VRC's December 20, 2007 solvency opinion as follows:

> The second step will involve (i) the borrowing by the Company of additional debt of approximately $3.7 billion (the "Step Two Debt Financing"); (ii) the use by the Company of approximately $500 million of existing cash; (iii) the repayment by the Company of the exchangeable note acquired by EGI-TRB in the Step One EGI-TRB Purchase (the "Step Two Repayment"); (iv) the closing of the merger (the "Merger") in which all of the remaining Common Stock, other than shares held by the ESOP (but including shares held by EGI-TRB), will be converted into the right to receive $34 per

> Saleable Value[2278] of the aggregate assets (including goodwill) of Tribune will exceed its liabilities (including Stated Liabilities, the Identified Contingent Liabilities and the New Financing);
>
> As of the date hereof, immediately after and giving effect to the consummation of the Step Two Transactions, Tribune will be able to pay its debts (including the Stated Liabilities, the Identified Contingent Liabilities and the New Financing), as such debts mature or otherwise become absolute or due; and
>
> As of the date hereof, immediately after and giving effect to the consummation of the Step Two Transactions, Tribune Does Not Have Unreasonably Small Capital.

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share (plus 8% annualized accretion starting January 1, 2008, if the Merger has not closed by then), for an aggregate of approximately $4.3 billion; (v) the purchase by EGI-TRB from the Company of a subordinated note for $225 million, and the purchase by EGI-TRB from the Company of a 15-year warrant, for a purchase price of $90 million, which gives EGI-TRB the right to acquire shares of Common Stock representing 40% of the economic interest in the equity of the Company at an initial aggregate exercise price of $500 million, increasing by $10 million per year for the first 10 years to a maximum aggregate exercise price of $600 million (collectively, the "Step Two EGI-TRB Purchase"); (vi) the roll-over by the Company of certain existing debt of approximately $8.9 billion (the "Step Two Debt Roll-Over"); (vii) the payment by the Company of cash distributions triggered by a change of control of approximately $104 million (the "Step Two COC Payments"); (viii) the payment by the Company of financing and other transaction fees of approximately $120 million (the "Step Two Fees"); (ix) the election by the Company of an S-Corporation status following the Merger (the "S-Corp Election") and (x) the disposition by the Company of part or all of its interest in the Chicago Cubs and interest in Comcast SportsNet Chicago, which will occur after the closing of the Merger (the "Cubs/Comcast Sale"). The Step Two Debt Financing, the Step Two Repayment, the Merger, the Step Two EGI-TRB Purchase, the Step Two Debt Roll-over, the Step Two COC Payments, the Step Two Fees, the S-Corp Election and the Cubs-Comcast Sale are collectively referred to as the "Step Two Transactions" or "Transactions."

Id. at TRB0294007.

[2278] VRC's opinion letter defined "Fair Value" and "Present Fair Saleable Value" as follows:

> Fair Value – The amount at which the aggregate or total assets of the subject entity (including goodwill) would change hands between a willing buyer and a willing seller, within a commercially reasonable period of time, each having reasonable knowledge of the relevant facts, neither being under any compulsion to act, and, both having structures similar to the structure contemplated in the Transactions by the subject entity (an S-Corporation, owned entirely by an ESOP, which receives favorable federal income tax treatment), or another structure resulting in equivalent favorable federal income tax treatment to the Company.
>
> Present Fair Saleable Value – The amount that may be realized by a willing seller from a willing buyer if the subject entity aggregate or total assets (including goodwill) are sold with reasonable promptness with both having structures similar to the structure contemplated in the Transactions by the subject entity (an S-Corporation, owned entirely by an ESOP, which receives favorable federal income tax treatment), or another structure resulting in equivalent favorable federal income tax treatment to the Company.

Id. at TRB0294008.

These definitions are modified from the generally accepted definition of "fair market value," as discussed above.

VRC's Step Two solvency opinion explicitly relied on Tribune management's representations identifying contingent liabilities and certifying the absence of a material adverse change, as well as the following:[2279]

> The provided financial forecasts of Tribune, on a consolidated and pro-forma basis . . . reflect Management's best estimates of Tribune Base and Tribune Downside case forecasts. . . . While such forecasts are subject to many factors outside Management's control, in Management's view they are reasonable and attainable based on Management's involvement and understanding of the business operations, its markets, the strategic vision, the competitive landscape, and regulatory and economic trends.
>
> [I]n Management's view the Company's annual tax savings as an S-Corp ESOP as reflected in the Base Case Forecast, the Management Five-Year Extrapolation, and VRC Extrapolation are reasonable and attainable by the Company based on Management's understanding of the existing income tax laws governing S-Corp. ESOP's, the Company's current business operations, strategic vision and competitive and regulatory landscape, and the growth rates and underlying assumptions utilized (i) by Management in developing the Base Case Forecast and the Management Five-Year Extrapolation and (ii) by VRC in developing the VRC Extrapolation.
>
> Based upon Tribune's current understanding of the Delaware General Corporation Law, the Board of Director's fiduciary and corporate governance duties and responsibilities, and current income tax laws, Management believes that it is reasonable and appropriate for VRC to assume that Tribune will retain all of the forecasted income tax savings (set forth in Schedule A attached) even if the warrant under which the Zell Group may acquire approximately 40 percent of the economic interest of Tribune . . . is exercised before its expiration date in the year 2022. . . .
>
> Based upon (i) management's best understanding of the debt and loan capital markets and (ii) management's recent discussions with Morgan Stanley, management believes that it is reasonable and appropriate for VRC to assume that Tribune, in the downside forecast . . . delivered to VRC via email on November 21, 2007 ("Tribune Downside Forecast"), would be able to refinance (i) any outstanding balances of Term Loan B under the Credit Agreement dated May 17, 2007, as amended (the "Credit Agreement"), that

[2279] Ex. 739 (Representation Letters, dated December 20, 2007).

> mature in 2014 and (ii) any outstanding balances under the Senior Unsecured Interim Loan Agreement to be dated as of the closing date (or any notes issued to refinance such facility) that mature in 2015, in each case, without the need for any asset sales other than those incorporated into the Tribune Downside Forecast.
>
> The book value of the [PHONES Notes] as reported in the Company's Form 10-Q for the quarter ended September 30, 2007 is a reasonable estimate of the Company's liability associated with the PHONES as of [December 20, 2007].

The following statement attests to VRC's reliance on Tribune's representations:[2280]

> In rendering the Opinion, VRC assumed and relied upon, without independent verification, the accuracy and completeness of all information, data and other materials (including, without limitation, the Base Forecast Model and the Downside Forecast Model) furnished or otherwise made available by the Company to VRC, discussed with or reviewed by VRC with the Company, or publicly available, and VRC did not assume any responsibility for independently verifying such information, data or other materials. In addition, VRC assumed and relied upon, without independent verification, that the Base Forecast Model and the Downside Forecast Model have been reasonably and prudently prepared and therefore reflect the best currently available estimates and judgments of management as to the expected future financial performance of the Company. In connection with its review of the Based Forecast Model and Downside Forecast Model, VRC advised the Company, after discussion with management with respect thereto, that nothing has come to VRC's attention to lead VRC to believe that it was unreasonable for VRC to utilize and rely upon such financial forecasts, projections, information and data.

f. The Examiner's Assessment of VRC's Step Two Solvency Opinion.

The Examiner tested the reasonableness of VRC's Step Two solvency opinion by evaluating both the specific modeling and analysis conducted by VRC in arriving at its conclusions, as well as the consistency of VRC's conclusions with certain market-based indicia of Tribune's value as of the closing of the Step Two Transactions. As context for the detailed

[2280] Ex. 728 at TRB0294012 (VRC Step Two Solvency Opinion, dated December 20, 2007).

discussion that follows, the Examiner notes that, in connection with its December 20, 2007 analysis, VRC established a range of post-Step Two Financing Closing Date equity values for Tribune of between $931.6 million and $2.623 billion.

Because this range of equity values is adjusted for the pro-forma Step Two Debt, and after taking into account the value of S-Corporation/ESOP tax savings (as VRC quantified such benefits), VRC's determined equity values can be restated under an assumption that the Step Two Financing never occurred, such that VRC's range of equity values can be expressed as a per share value on the basis of shares outstanding immediately prior to the closing:

EQUITY VALUE PER SHARE WITHOUT STEP 2 CLOSING (1) ($mm)

	Low	Mid	High
Equity Value	**$ 931.6**	**$ 1,777.2**	**$ 2,622.8**
Less: ESOP Tax Savings	($ 815.8)	($ 876.0)	($ 936.1)
Plus: Incremental Step 2 Debt	$ 3,705.0	$ 3,705.0	$ 3,705.0
Total Residual Equity Value Without Closing	**$ 3,820.8**	**$ 4,606.2**	**$ 5,391.7**
Number of Shares	117.1	117.1	117.1
Value per Share	**$ 32.6**	**$ 39.3**	**$ 46.0**

(1) Ex. 1045 (VRC Solvency Analysis, dated December 20, 2007).

This analysis reveals that VRC, as of December 20, 2007, concluded that just prior to the closing of the Step Two Transactions, Tribune Common Stock would have ranged in value between $32.60 and $46.00 per share. The Examiner finds this implied value per share to be *per se* unreasonable and inconsistent with the observed trading value of Tribune Common Stock before the closing of the Step Two Transactions, as well as investor behavior between the closing of the Step One Transactions and the closing of the Step Two Transactions. VRC, in effect, concluded that Tribune Common Stock would be worth more at the mid-point, $39.30 per share, than the $34 per share Tender Offer price, despite the secular declines in the value of identified cohort companies throughout 2007.

Regarding VRC's analytical work, the Examiner considered, among other things, the reasonableness of the financial projections on which certain of VRC's valuation and capital adequacy conclusions were based, the integrity of certain assumptions identified as "key" to VRC's rendering of its Step Two solvency opinion, and the validity of certain representations relied on by VRC compared to the known and reasonably ascertainable facts. With respect to market-based indicia of Tribune value, the Examiner considered, among other things, the trading value of Tribune Common Stock and Tribune's publicly traded debt during the period between the closing of the Step One Transactions and the closing of the Step Two Transactions, the pricing of credit default swaps, and the secondary market trading values of Tribune's debt. In addition to containing several of the same mistakes identified by the Examiner as in VRC's Step One analysis,[2281] VRC's Step Two analysis, although remedying *some* of the previous mistakes, contained several additional significant errors and/or omissions, discussed below.

(1) VRC's Reliance on Management's October 2007 Projections was Unreasonable.

Significantly, VRC's Step Two analysis relied on revised October 2007 projections that did not, in the Examiner's view, reasonably represent Tribune's likely future financial performance following the Merger.

The reasonableness of the October 2007 management projections relied on by VRC in conducting its Step Two analysis is highly germane to the reasonableness of VRC's solvency and capital adequacy conclusions at Step Two. In particular, VRC's reliance on the EBITDA estimates derived from those projections bears directly on VRC's valuation and capital adequacy

[2281] *See* Report at § III.E.3.c.

conclusions in three important ways. First, forecasted cash flows based on the EBITDA estimates contained in the October 2007 projection model are discounted to present value and thereby comprise a significant component of VRC's DCF valuation conclusion. Second, the EBITDA estimates also affect VRC's multiples-based valuation conclusions because the near term forecasts of Tribune EBITDA are the base values to which VRC applied certain cohort-derived multiples in its comparable company valuation methodology.[2282] Third, because EBITDA estimates bear on cash flow expected to be available to fund operations and make interest and principal payments, these estimates in turn drive conclusions regarding Tribune's capital adequacy.[2283]

In light of the importance of Tribune management's October 2007 projections to VRC's conclusions, the Examiner evaluated the bases articulated by management for certain key assumptions underlying the projections and, among other things, compared the forecasted performance both with Tribune's prior actual financial results (including performance trends observable from that historical review) and analyst expectations during the period proximate to the date that VRC's issued its Step Two solvency opinion.[2284] The Examiner also evaluated

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[2282] For example, VRC utilized LTM, CFY, and NFY EBITDA multiples as part of its comparable company valuation study. As such, NFY expectations of Tribune EBITDA informed VRC's valuation conclusions using the comparable company valuation methodology.

[2283] EBITDA forecasts have the potential to affect Tribune's ability to satisfy debt covenant compliance as well, in that EBITDA effects both "total guaranteed leverage ratio" and "interest coverage ratio" determinations under the terms of the financing agreements applicable to Tribune.

[2284] Although VRC's December 20, 2007 solvency opinion stated that VRC assumed and relied on, without independent verification, the accuracy and completeness of all information provided it by Tribune, according to Mr. Rucker and Mr. Browning, VRC conducted due diligence, at least regarding specific elements of the performance forecasted by Tribune. For example, when asked about how VRC came to understand that "advertising would revert back and become stronger over time," Mr. Rucker testified:

> Yes, we had extensive sessions, two all day sessions with the heads of, I think every major company, every major paper, division at the company. And we went through and discussed some of the initiatives that they were putting in place, that they thought would allow them to recapture those markets. So we had very extensive due diligence meetings with almost every major head of divisions at the company.

Examiner's Sworn Interview of Mose Rucker and Bryan Browning, June 30, 2010, at 44:2-14.

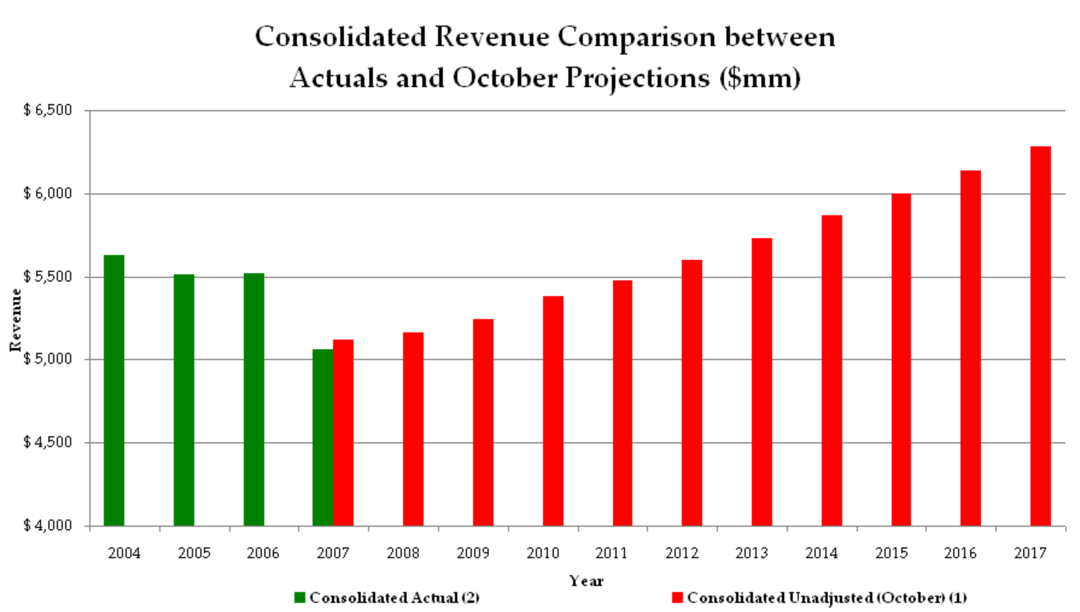
management's October 2007 projections in light of the expectations embodied in the February 2007 projections.

As discussed elsewhere in the Report,[2285] between 2004 and 2006, Tribune reported year-over-year declining EBIT and EBITDA, both nominally and as a percentage of revenues. Expectations for 2007, as approved by the Tribune Board in February 2007, anticipated a continuation of that trend, and, as discussed earlier, Tribune performed unfavorably to that plan for most months during 2007 after the Tribune Board's approval of the Leveraged ESOP Transactions on April 1, 2007.

In accordance with these multi-year trends, Tribune's revised October 2007 projections assumed near term (*i.e.*, 2008 through 2011) downwardly revised expectations in comparison to the similar period in the February 2007 projections. The October 2007 projections nonetheless assumed that Tribune would mitigate certain of these anticipated declines by improved financial performance in specified areas. For example, the October 2007 projections included enhancements in the Publishing Segment's forecasted revenue and profitability derived from a newly executed agreement with Sun-Times Media Group (whereby Tribune would provide delivery of Sun-Times publications on a contract basis), and growth in Tribune's interactive business. Similarly, the October 2007 projections assumed that the Broadcasting Segment would enjoy improved profitability from, among other things, enhanced programming. The net result was an assumed stabilization in Tribune's financial performance, followed by a dramatic recovery, as shown in the tables below:

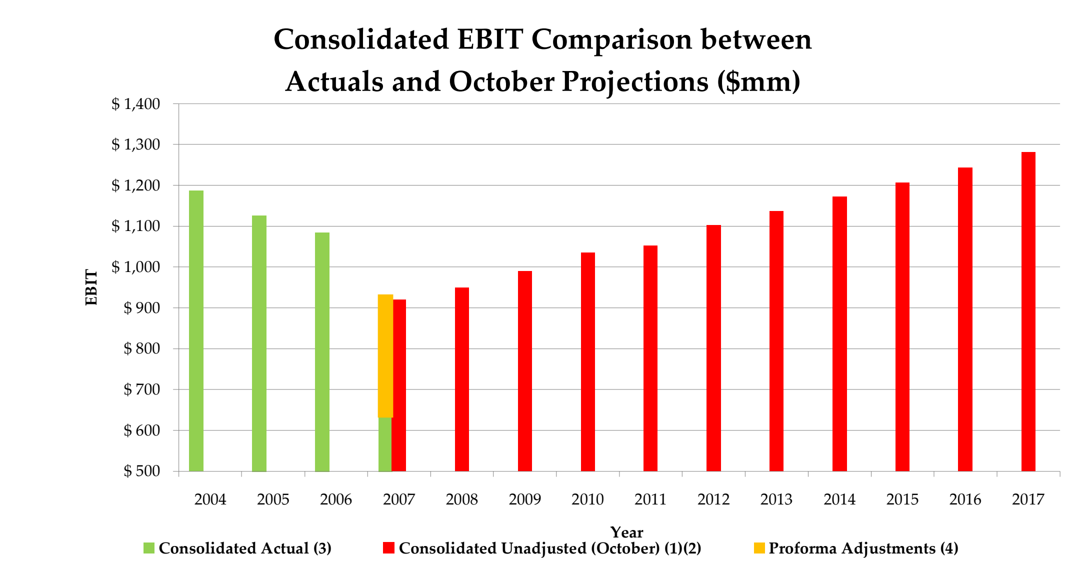
Based on VRC's work papers and e-mail correspondence, the record shows that VRC attempted to understand the assumptions underlying Tribune's projections, and challenged the reasonableness of certain of those assumptions, although, in the end, VRC relied on and adopted, without modification, management's forecasts for purposes of rendering its Step Two solvency opinion. As shown herein, certain of those assumptions were inconsistent with Tribune's performance trends and other information considered by the Examiner.

[2285] *See* Report at § III.C.1.a.



(1) Management's November 21, 2007 projections (Ex. 721 (Tribune Company Model, dated November 21, 2007), which corresponds to the October Five-Year Plan) exclude forecasted results for the Cubs, SCNI and Hoy, New York (because such businesses had been, or were contemplated to be sold). Management's November 21, 2007 projections were adjusted to account for the pro forma revenue contributions of the Cubs, SCNI, and Hoy, New York based on amounts forecasted in February 2007 projections (Ex. 71 (ESOP Transaction Model - Revised Operating Plan Case, dated February 8, 2007)) to facilitate an "apples-to-apples" comparison to historical results which included the revenues from those businesses.

(2) 2004, 2005, and 2006 actuals from Ex. 14 (Tribune 2006 Form 10-K). 2007 actual is from Ex. 4 (Tribune 2007 Form 10-K). The 2007 Form 10-K revenue does not include revenues from discontinued operations (SCNI and Hoy, New York) whereas 2004-2006 results are inclusive of SCNI and Hoy, New York revenues. Normalized to exclude the effects of discontinued operations, revenues for 2004-2006 (as reported in Ex. 4 (Tribune 2007 10-K)) were $5,543, $5,427, and $5,444 million respectively. The declining revenue



(1) Management's November 21, 2007 projections (Ex. 721 (Tribune Company Model, dated November 21, 2007), which corresponds to the October Five-Year Plan) exclude forecasted results for the Cubs, SCNI and Hoy, New York (because such businesses had been, or were contemplated to be sold). Management's November 21, 2007 projections were adjusted to account for the pro forma EBIT contributions of the Cubs, SCNI, and Hoy, New York based on amounts forecasted in the February, 2007 projections (Ex. 71 (ESOP Transaction Model - Revised Operating Plan Case, dated February 8, 2007)) to facilitate an "apples-to-apples" comparison to historical results which included the EBIT contributions of those businesses.

(2) EBIT is calculated consistently with management projections (EBIT = Revenue - Operating Expenses - Stock-Based Compensation - Depreciation & Amortization).

(3) 2004, 2005, and 2006 actuals from Ex. 14 (Tribune 2006 Form 10-K). 2007 actual is from the 2007 Form 10-K. The 2007 Form 10-K EBIT does not include results from discontinued operations (SCNI and Hoy, New York) whereas 2004-2006 results are inclusive of SCNI and Hoy, New York EBIT. Normalized to exclude the EBIT effects of discontinued operations, EBIT for 2004-2006 (as reported in Ex. 4 (Tribune 2007 10-K)) were $1,190, $1,121, and $1,085 million respectively. The declining EBIT trend is nonetheless apparent, particularly given that 2006 results include 53 weeks.

(4) Non-operating adjustments added back to reported 2007 EBIT include severance, outplacement fees, phantom equity compensation, changes-in-control compensation and other items (including $130 mm goodwill write-off occuring in December), as detailed in the Period 12 Tribune Brown Book (page 5).

The Examiner also reviewed the specific forecasting assumptions underlying the above-described projected performance with respect to each of Tribune's two business segments. The forecasts for the Publishing Segment were based on certain key assumptions:[2286]

- The October 2007 plan forecasted a modest 0.35% decline in 2008 publishing revenues from 2007 pro forma results.[2287] Although anticipating ongoing declines in traditional print advertising and circulation revenues, the projections assumed that these declines would be significantly mitigated by enhanced growth in, for example, interactive revenues,[2288] and growth in revenues associated with contract delivery and print services (of the type negotiated with Sun-Times Media Services). Publishing revenues were forecasted to increase annually after 2008, at rates of 1.96%, 2.35%, 2.29%, and 2.32%, respectively, through 2012.[2289]

[2286] Because forecasts of financial results for periods subsequent to 2012 were the result of extrapolating prior period results on the basis of fixed growth rate assumptions, *see* Ex. 739 (Representation Letters, dated December 20, 2007), these observations are limited to a discussion of projection assumptions through only 2012. Growth rate expectations for later years projected results are discussed elsewhere in this section.

[2287] The October 2007 projections contained a "pro forma" estimate of 2007 actual results, based on a review of actual results to date and a forecast of the remainder of the year. *See* Ex. 657 (Tribune Five-Year Financial Outlook).

[2288] The October projections relied on by VRC in conducting its Step Two analysis contemplated significant growth in interactive revenues and profitability as summarized below:

INTERACTIVE PROJECTIONS ($mm)

	2008	2009	2010	2011	2012
Interactive Revenue (1)	$ 318.0	$ 406.3	$ 507.9	$ 603.8	$ 712.5
Interactive Operating Cash Flow	$ 127.2	$ 158.5	$ 203.2	$ 241.5	$ 285.0
Operating Margin (2)	**40%**	**39%**	**40%**	**40%**	**40%**

(1) Interactive Revenues are derived from the Ex. 657 (Tribune Five-Year Financial Outlook) projections utilized by VRC in their Step Two Analysis
(2) Interactive Operating Margins derived from Ex. 956 (Interactive Segment Projections)

A detailed discussion of the valuation implications of management's projections of Tribune interactive financial performance is provided in connection with the Examiner's discussion of the reasonableness of VRC's Step Two conclusions.

[2289] These projected growth rates are inconsistent with the historical declines in Publishing Segment revenues in prior periods: negative 0.8% from 2004 to 2005, negative 0.1% from 2005 to 2006, and negative 9.8%, based on the 2007 pro forma estimate in relation to 2006. The noted 9.8% decline is partially the result of Tribune's

TRIBUNE PUBLISHING SEGMENT REVENUE ($mm)									
Publishing Segment	**2004**	**2005**	**2006**	**2007 PF**	**2008**	**2009**	**2010**	**2011**	**2012**
Revenue	$ 4,130	$ 4,097	$ 4,093	$ 3,693	$ 3,680	$ 3,752	$ 3,840	$ 3,928	$ 4,019
Growth		*-0.8%*	*-0.1%*	*-9.8%*	*-0.4%*	*2.0%*	*2.3%*	*2.3%*	*2.3%*

(1) Source: Ex. 14 (Tribune 2006 Form 10-K); Ex. 657 (Tribune Five-Year Financial Outlook).

- The October 2007 plan forecasted $786 million in operating cash flow for the Publishing Segment for 2008, reflecting a 3.91% decline from 2007 pro forma expectations. The October 2007 plan also assumed, however, that operating cash flow thereafter would increase 3.6% annually through 2012. Management explained that this latter increase was "due to higher [projected] interactive and targeted print revenue."[2290] Expressed as a percentage of forecasted publishing revenue, the October 2007 plan forecasted publishing operating cash flow to increase each year from 2008 through 2012 (21.36%, 21.70%, 21.98%, 22.28%, and 22.54% for 2008 through 2012, respectively).

The forecast for the Broadcasting Segment was based on the following:

disposition of certain publishing assets in 2007 and the fact that 2006 results were based on a 53 week year. Even when growth rates are analyzed on the basis of a presentation of historical results normalized for discontinued operations and to eliminate the effects of the extra week informing 2006 reported results, the forecasted Publishing Segment growth rates nonetheless still reflect significant growth antithetical to prior performance.

TRIBUNE PUBLISHING REVENUE ($mm) (1)				
As Reported	**2004**	**2005**	**2006**	**2007**
Revenue	4041.014	4012.413	4018.418	3664.59
% Growth		*-0.71%*	*0.15%*	*-8.81%*
As Adjusted	**2004**	**2005**	**2006 (52 weeks)**	**2007**
Revenue	4041.014	4012.413	3939.62549	3664.59
% Growth		*-0.71%*	*-1.81%*	*-6.98%*

(1) Ex. 4 (Tribune 2007 Form 10-K). 2004 through 2007 results presented on a normalized basis to account for asset dispositions through 2007. 2006 results are also presented on the basis of a 52-week year calculated as 2006 actual revenues divided by 1.02 based on an approximation of the impact of the additional week as disclosed in Ex. 4 at 9 (Tribune 2007 Form 10-K).

2290 *See* Ex. 657 at 11 (Tribune Five-Year Financial Outlook).

• The October 2007 projection model forecasted baseline advertising revenue growth of 2.3% in 2008, followed by 1.1% annual growth thereafter through 2012, although the projection model also anticipated and accounted for other material increases in non-baseline revenues associated with, among other things, political advertising in election years, such that total broadcasting and entertainment revenues were forecasted to increase at annual growth rates of 7.99%, 0.56%, 3.40%, 0.77%, and 2.66% for 2008 through 2012, respectively.

• The October 2007 projection model contemplated significant improvement in operating cash flow[2291] to be generated by the Broadcasting Segment, forecasting an increase of more than 16% above 2007 pro forma expectations for 2008, with annual growth rates thereafter through 2012 of 3.57%, 3.23%, (2.92%), and 4.09% respectively. Operating cash flow, expressed as a percentage of forecasted revenue, was forecasted as 35.64%, 36.71%, 36.65%, 35.31%, and 35.8% for the years 2008 through 2012, respectively. These percentages reflect management's expectation of significant performance improvement above historical levels, though recognizing that historical results included the Chicago Cubs that had contributed below average margins historically.[2292]

[2291] The Examiner notes that the October 2007 projections exclude the Chicago Cubs. Ex. 721 (Tribune Company Model, dated November 21, 2007).

[2292] When compared to historical 2004 through 2006 (and pro forma 2007) actual results, the forecasted Broadcasting Segment EBITDA as a percentage of forecasted revenues (as assumed in the October 2007 projections) contemplated significant improvement above recent historical margins.

TRIBUNE BROADCASTING SEGMENT EBITDA AS A PERCENT of REVENUE ($mm)

Broadcasting Segment	2004	2005	2006	2007 PF	2008	2009	2010	2011	2012
Revenue	$ 1,502	$ 1,414	$ 1,425	$ 1,164	$ 1,257	$ 1,264	$ 1,307	$ 1,317	$ 1,352
Growth		*-5.8%*	*0.8%*	*-18.3%*	*8.0%*	*0.6%*	*3.4%*	*0.8%*	*2.7%*
EBITDA	$ 563	$ 465	$ 443	$ 384	$ 448	$ 464	$ 479	$ 465	$ 484
Growth		*-17.3%*	*-4.8%*	*-13.3%*	*16.7%*	*3.6%*	*3.2%*	*-2.9%*	*4.1%*
EBITDA Percentage of Revenue	**37.5%**	**32.9%**	**31.1%**	**33.0%**	**35.6%**	**36.7%**	**36.6%**	**35.3%**	**35.8%**

(1) 2007 pro forma and 2008-2012 forecasts exclude the Cubs, 2004-2006 actual results include the Cubs

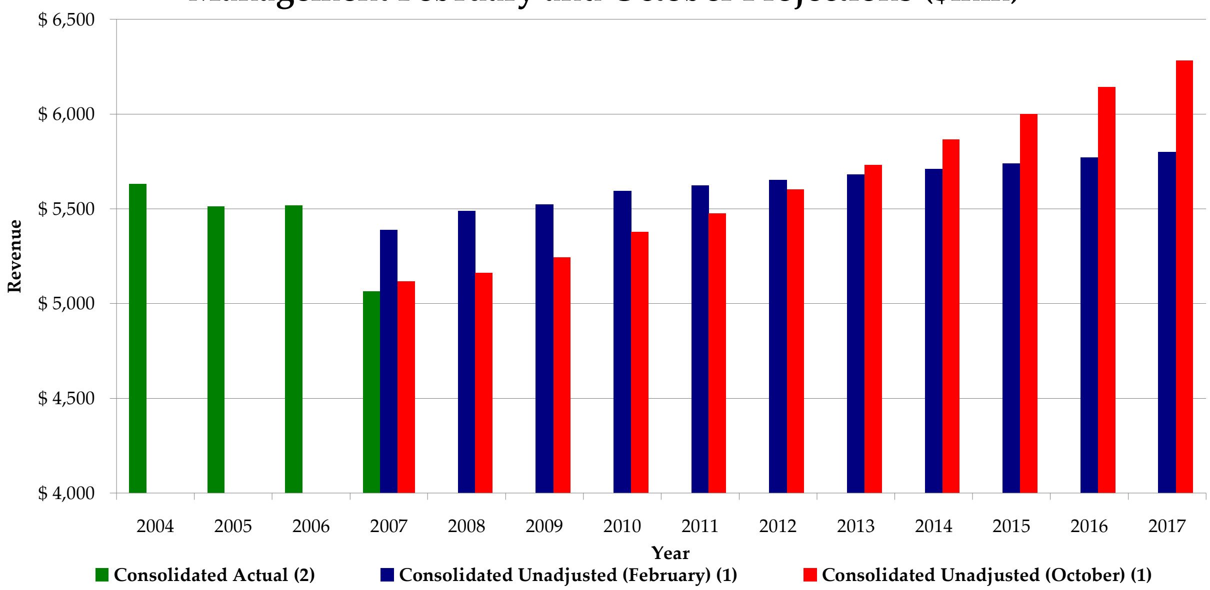
The Examiner contrasted the October 2007 forecast with expectations embodied in the February 2007 projections. By comparing projected results contained in ESOP projection models (which correspond to both the February 2007 and October 2007 materials discussed with the Tribune Board at the respective February 2007 and October 2007 meetings),[2293] the following is evident: despite reflecting downwardly revised expectations for the near term, the October 2007 projections assumed that Tribune, on a consolidated basis, would rapidly recover from this decline, and also that, over the longer term, Tribune would exceed the performance expectations embodied in the February 2007 projections. The Examiner finds these assumptions unsupportable. In his interview with the Examiner, Harry Amsden stated that the out-year projections (*i.e.*, years 2011 to 2016) developed in February 2007, despite being based on an "extrapolation" of growth rates observed from projected 2011 results in relation to 2010 results, represented Tribune management's best estimate at that time, and that, by October 2007, it was clear that those expectations were not being met.[2294] The Tribune Entities' negative financial performance on an overall basis following the closing of the Step One Transactions (a continuation of historical performance trends, as shown above) should have resulted in a downward adjustment of the out-year assumptions contained in the February 2007 projections,

[2293] The Examiner notes that, although the ESOP projection models corresponding to the February 2007 and October 2007 plans discussed with the Tribune Board contained projections for ten years, the materials discussed with, and presented to, the Tribune Board correspond to a shorter projection horizon. Ex. 657 at 11 (Tribune Five-Year Financial Outlook).

[2294] Examiner's Interview of Harry Amsden, July 2, 2010. In his interview Mr. Amsden also explained that projections in the shorter term were based on more detailed information, the out-year projections were more of an "extrapolation," and he believed that the banks did not rely on the out-year projections. *See also* Ex. 250 (Representation Letters, dated May 9, 2007). Both Mr. Browning and Mr. Rucker confirmed that Tribune management's February 2007 forecast of flat to slightly declining revenue growth for the Broadcast Segment for the years 2010 through 2017 were reasonable, according to Mr. Rucker "based upon management's representation and the conversations that we had," which, according to Mr. Browning, made them "comfortable with the forecast." Examiner's Sworn Interview of Mose Rucker and Bryan Browning, June 30, 2010, at 92:2-16.

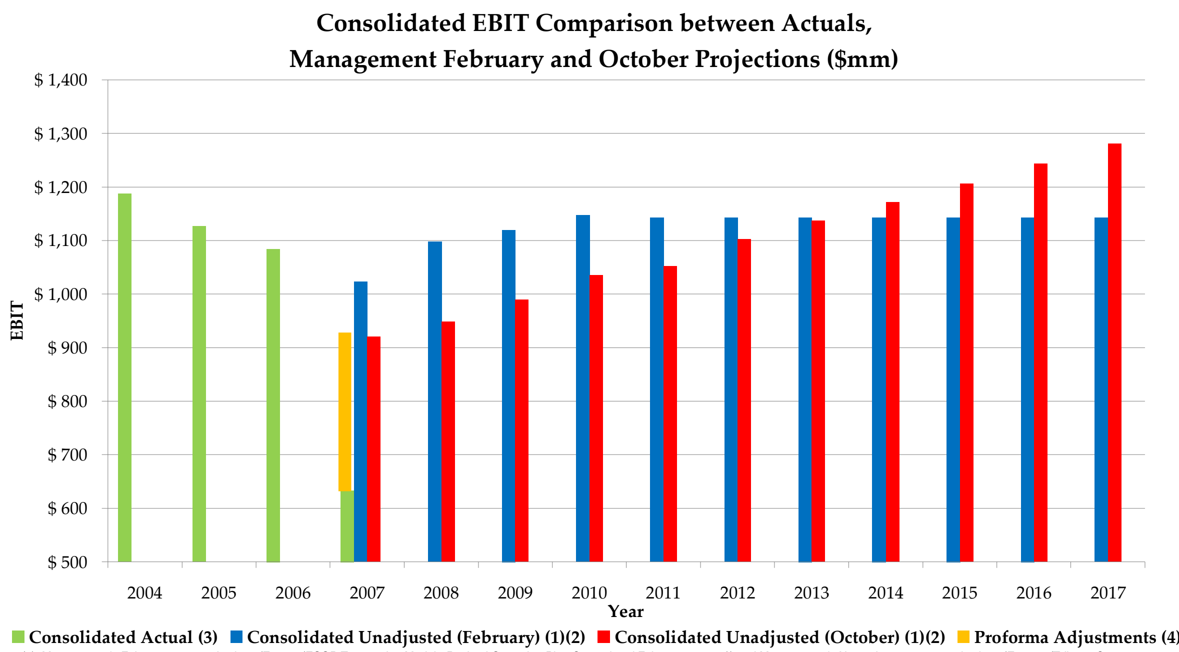
holding all else constant. A comparison of the February 2007 and October 2007 projections shows that management made the opposite assumption without explanation or justification:

Consolidated Revenue Comparison Among Actuals, Management February and October Projections ($mm)



(1) Management's February 2007 projections (Ex. 71 (ESOP Transaction Model - Revised Operating Plan Case, dated February 8, 2007)) and Management's November 21, 2007 projections (Ex. 721 (Tribune Company Model, dated November 21, 2007)), which corresponds to the October 2007 Five-Year Plan) exclude forecasted results for the Cubs, SCNI and Hoy, New York (because such businesses had been, or were contemplated to be, sold). Management's November 21, 2007 projections were adjusted to account for the pro forma revenue contributions of the Cubs, SCNI, and Hoy, New York based on amounts forecasted in February, 2007 projections to facilitate and "apples-to-apples" comparison to historical results which included the revenue from those businesses.

(2) 2004, 2005, and 2006 actuals from Ex. 14 (Tribune 2006 Form 10-K). 2007 actual is from the Ex. 4 (Tribune 2007 Form 10-K). The 2007 Form 10-K revenue does not include revenues from discontinued operations (SCNI and Hoy, New York) whereas 2004-2006 results are inclusive of SCNI and Hoy, New York revenues. Normalized to exclude the effects of discontinued operations, revenues for 2004-2006 (as reported in Ex. 4 (Tribune 2007 Form 10-K)) were $5,543, $5,427, and $5,444 million respectively. The declining revenue trend is nonetheless apparent, particularly given that 2006 results include 53 weeks.



(1) Management's February 2007 projections (Ex. 71 (ESOP Transaction Model - Revised Operating Plan Case, dated February 8, 2007)) and Management's November 21, 2007 projections (Ex. 721 (Tribune Company Model, dated November 21, 2007)), which corresponds to the October 2007 Five-Year Plan) exclude forecasted results for the Cubs, SCNI and Hoy, New York (because such businesses had been, or were contemplated to be, sold). Management's November 21, 2007 projections were adjusted to account for the pro forma EBIT contributions of the Cubs, SCNI, and Hoy, New York based on amounts forecasted in the February 2007 projections to facilitate and "apples-to-apples" comparison to historical results which included the EBIT contributions of the businesses.
(2) EBIT is calculated consistently with management projections (EBIT = Revenue - Operating Expenses - Stock-Based Compensation - Depreciation & Amortization).
(3) 2004, 2005, and 2006 actuals from Ex. 14 (Tribune 2006 Form 10-K). 2007 actual is from Ex. 4 (Tribune 2007 Form 10-K). The 2007 Form 10-K EBIT does not include results from discontinued operations (SCNI and Hoy, New York) whereas 2004-2006 results are inclusive of SCNI and Hoy, New York EBIT. Normalized to exclude the EBIT effects of discontinued operations, EBIT for 2004-2006 (as reported in Ex. 4 (Tribune 2007 Form 10-K)) were $1,190, $1,121, and $1,085 million respectively. The declining EBIT trend is nonetheless apparent, particularly given that 2006 resu ts include 53 weeks.
(4) Non-operating adjustments added back to reported 2007 EBIT include severance, outplacement fees, phantom equity compensation, changes-in-control compensation, and other tems (including $130 mm goodwill write-off occuring in December), as detailed in Ex. 642 at 5 (Brown Book for Period 12, 2007).

Both the February 2007 and October 2007 models, which contained detailed annual forecasts of revenue and cash flow for the near term (2007 through 2011 in the February 2007 model and 2008 through 2012 in the October 2007 model), extrapolated business segment growth rates observed between the last two years of the detailed annual projections (*i.e.*, the growth rate between 2010 and 2011 in the February 2007 model, and the growth rate between 2011 and 2012 in the October 2007 model) for purposes of forecasting annual growth in subsequent years.[2295] It appears that the approach was undertaken at the direction of Tribune

[2295] Mr. Amsden indicated that the process for forecasting the final five years of the projections in both the February 2007 and October 2007 projections involved a straightforward extrapolation of performance based on the growth rates informing the last interim period of each projection. Examiner's Interview of Harry Amsden, July 2, 2010; Ex. 739 (Representation Letters, dated December 20, 2007). When similarly asked about the out-year projections, Mr. Grenesko testified that Tribune management was "assuming that modest economic growth and the inflation would be around 2 1/2 percent or so, and we used that to extrapolate both the revenues and the expenses for the two groups." Examiner's Sworn Interview of Donald Grenesko, July 8, 2010, at 166:3-7.

Treasurer Chandler Bigelow, who in e-mails to Rosanne Kurmaniak of Citigroup (the individual responsible for maintaining Tribune's complex projection models), suggested "We probably ought to take down the assumed CAGRs in the post 2012 years" and followed up with "How about we make post 2012 revenue/OCF CAGRs the same as the growth assumed in 2012 for both Publishing/Broadcasting?"[2296]

This does not explain, however, the difference in the out-year growth assumptions between the February 2007 and October 2007 projections. The February 2007 projections assumed flat growth even though the prospect for GDP growth in February 2007 certainly was not higher than in October 2007.

Mr. Grenesko also pointed to the "bottoms up" evaluation and a "very thoughtful process that the publishing group went through to identify exactly why our revenues had fallen and whether it was divided into three buckets, basically what was secular, what was cyclical, and what was execution." Examiner's Sworn Interview of Donald Grenesko, July 8, 2010, at 165:16 and 168:6-11. Mr. Grenesko stated that in conjunction with that process the publishing group "came up with reasons for the issues that we were having in publishing and they also came up with both revenue ideas, new revenue streams that they thought that they could implement as well as reducing expenses going forward . . . [and that] the publishing group worked with an outside consultant to come up with a way to transform the publishing group and to change the culture of the publishing group, basically shifting it from more of a traditional newspaper company over to one that was less dependent on the traditional newspaper and to think of the company more as a content provider as opposed to a newspaper, and also much more heavily weighted towards than what it previously had been towards the Internet." *Id.* at 168:12-17, 169:2-12. For example, he noted that the five-year plan included increased funding for interactive personnel and the interactive business. *Id.* at 171:9-15. He also noted efforts to generate revenues from preprints, targeted publications, and delivery services. *Id.* at 170:9-171:4 and 172:16-173:2. In connection with these efforts, Mr. Grenesko directed the Examiner to Tribune's five-year business plan which he testified "laid things out very succinctly." *Id.* at 169:16-17

Mr. Grenesko's explanation of the assumptions underlying the five-year business plan, however, does not explain the growth assumption for the out-years 2013-2017. Regarding that specific assumption, Mr. Grenesko acknowledged that this was an extrapolation using the 2012 growth that "seemed reasonable based upon what I stated had previously about the inflation rate and the real GDP growth, so those seemed reasonable that—those growth rates seemed reasonable compare to the general macrotrends that we were assuming." *Id.* at 178:20-179:3. Mr. Grenesko further testified he did not "recall anything specific" about this assumption. *Id.* at 183:21-22.

Similarly, when VRC was asked what might explain the projected performance for the years 2013 through 2017 in the October projections, Mr. Rucker said, "What it appears to me is that they might have applied some type of growth rate after 2012." Examiner's Sworn Interview of Mose Rucker and Bryan Browning, June 30, 2010, at 118:3-5. Mr. Rucker stated that generally such growth rates are keyed off of Gross Domestic Product (GDP). *Id.* at 118:24 -120:7. However, later in the interview, Mr. Browning stated that he could not recall whether he was aware of any differences in the growth rates management used between Step One and Step Two. *Id.* at 135:12-17.

For the reasons discussed in this section of the Report, the Examiner has determined that the out-year growth assumptions posited in the October 2007 forecast were unreasonable and unjustifiable.

[2296] Ex. 889 (Roth E-Mail, September 27, 2007). When questioned about the latter e-mail during her sworn interview, Ms. Kurmaniak corroborated this point:

Q: Do you have any idea why he made that comment and statement to you? It's got a question mark so he actually appears to be asking a question, but let's begin with did you treat it as a question?

The long term growth rates implied by these extrapolations result in starkly different long term growth rates between the February 2007 and October 2007 models, as shown below:

A: They had a company prepared plan for 2000 through 2012 and so somebody has to make a judgment as to what's going to happen post that period because nothing was officially endorsed or provided to us or by the company. So someone had to make a judgment about what those revenue and operating cash flow growth rates were going to look like. In this case it was Chandler. That's who I talked to every day about all this and so I think he's just giving us guidance and it's a common practice to say okay, in the last, in the five-year why don't we just assume that the business grows at the same pace or performs at the same pace as it did in the last year that we've officially projected it. So that's a common practice. It's a common assumption that we use which is just to say we don't really know what it's going to be in five years, but our best guess would be that it's going to perform at the same as it did in the five, you know, in the last year that we actually did an official projection for. And, look, from time to time Chandler would come to me and say, hey, does that sound reasonable? And I'd say yes or no, it doesn't sound reasonable and so it looks like that's what this E-mail chain is.

Q: All right. And so what was your response? Did you think it was reasonable to use that approach?

A: Yes.

Examiner's Sworn Interview of Rosanne Kurmaniak, July 7, 2010, at 137:9-139:1.

Although Ms. Kurmaniak testified that she felt that extrapolating the growth from 2012 to later years was reasonable, she acknowledged that she did not focus on the fact that 2012 was an election year and possibly an outlier. *Id.* at 139:6-14 and 140:1-4. She suggested that if something other than an extrapolation from 2012 were used, adjustments in the out-year projections would have to be made based on the timing of elections and other anticipated occurrences in those years. *Id.* at 142:20-143:13. Regardless, a justification of expected "out-year" growth rates on the basis of expected GDP growth would be contrary to Tribune's observed historical growth rates in relation to actual GDP growth historically.

COMPARISON OF GDP GROWTH RATES TO TRIBUNE HISTORICAL REVENUE GROWTH RATES 2004 - 2007 ($mm)

	2003	2004	2005	2006	2007	Notes
Real GDP	$ 11,840,700.0	$ 12,263,800.0	$ 12,638,400.0	$ 12,976,200.0	$ 13,254,100.0	[A], [B]
Real GDP Growth		*3.57%*	*3.05%*	*2.67%*	*2.14%*	
Nominal GDP	$ 11,142,100.0	$ 11,867,800.0	$ 12,638,400.0	$ 13,398,900.0	$ 14,077,600.0	[A]
Nominal GDP Growth		*6.51%*	*6.49%*	*6.02%*	*5.07%*	
Nominal Revenue	$ 5,440.8	$ 5,542.6	$ 5,426.8	$ 5,443.6	$ 5,063.0	[C]
Revenue Growth		*1.87%*	*-2.09%*	*0.31%*	*-6.99%*	

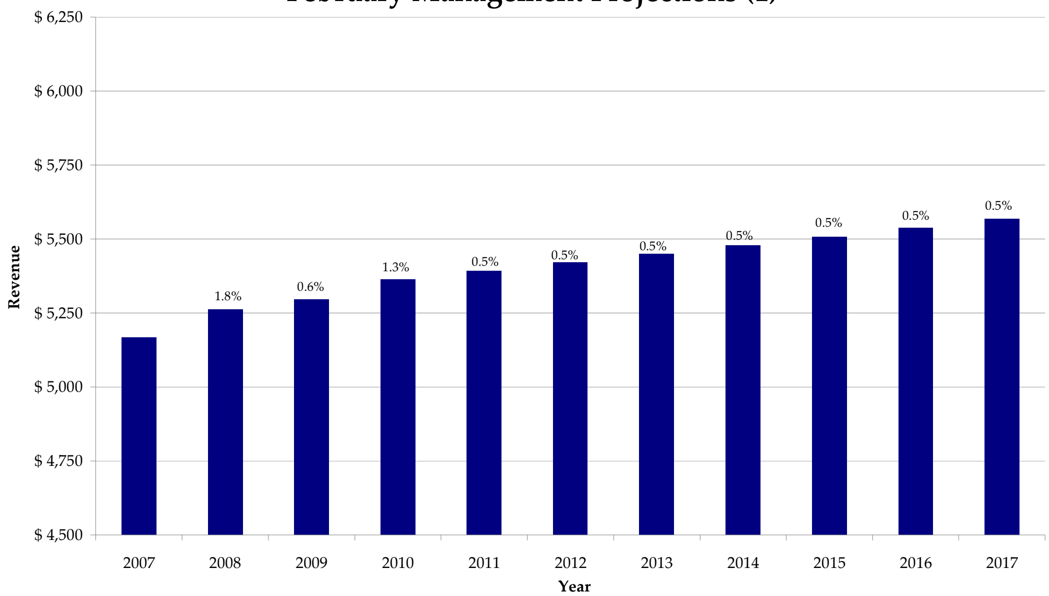
Notes:

[A] http://www.bea.gov/national/index.htm

[B] Converted to 2005 base year.

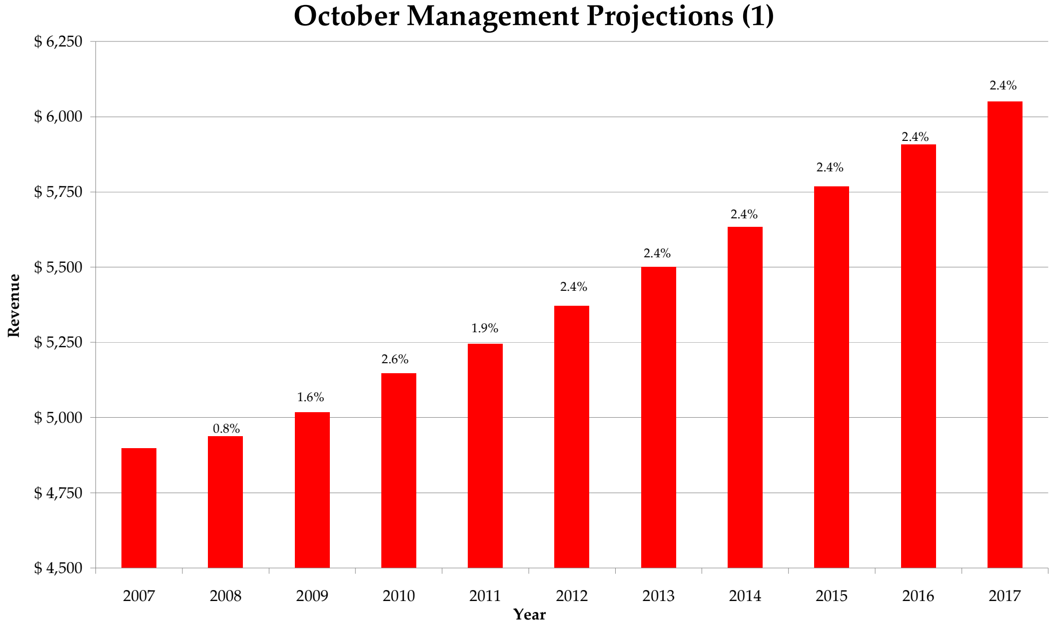
[C] Normalized Revenue from Ex. 4 (2007 Tribune Form 10-K). Results reflect operations as normalized for discontinued operations.

Tribune Consolidated Revenue ($mm)
February Management Projections (1)



(1) The revenue figures above include forecasted revenues excluding the Chicago Cubs and other discontinued operations (e.g., SCNI and Hoy, New York). Prior presentations of revenue forecasts inclusive of pro forma estimates of revenue for those businesses were necessary to facilitate a comparison of projected results to actual results, which include the Chicago Cubs and subsequently discontinued operations (SCNI and Hoy, New York) in reported amounts.

Tribune Consolidated Revenue ($mm)
October Management Projections (1)



(1) The revenue figures above include forecasted revenues excluding the Chicago Cubs and other discontinued operations (e.g., SCNI and Hoy, New York). Prior presentations of revenue forecasts inclusive of pro forma estimates of revenue for those businesses were necessary to facilitate a comparison of projected results to actual results, which include the Chicago Cubs and subsequently discontinued operations (SCNI and Hoy, New York) in reported amounts.

Both the February 2007 and October 2007 models "benchmarked" future growth expectations from the growth rates implied by the final year of the detailed annual projection. In the February 2007 model, the final year was 2011. Thus, the model extrapolated the growth rate from 2010 to 2011 in determining the growth rate from 2012 to 2016, whereas the October 2007 model added another year (*i.e.*, 2012) and extrapolated the growth rate from 2011 to 2012 in determining the growth rate from 2013 to 2017. Although this simplified the modeling assumption, the application of these growth assumptions resulted in starkly different projected outcomes for Tribune's long term revenue and profitability. Because VRC adopted these assumptions without adjustment in its Step Two opinion, this significantly (and upwardly) affected VRC's Step Two valuation conclusions by approximately $613 million.[2297]

[2297] When the Examiner asked VRC why it went from using a five-year DCF analysis at Step One to a ten-year DCF analysis at Step Two, Mr. Browning replied:

> So I think this—I don't recall any—there was no discussion that I recall that said, hey, let's move this from five-year to a ten-year. I think it was probably a natural thought process as we went through it to say it makes more sense to look at it by ten-year. We did—we may have looked at it both ways, but I don't think the outcome would be material whether it was five-year or ten-year. I don't know for sure. But there was never an intention to say the five-year doesn't work, let's make it a ten-year.

Examiner's Sworn Interview of Mose Rucker and Bryan Browning, June 30, 2010, at 148:4-18.

Mr. Rucker then added:

> And if I might add, with a DCF, in your end year, you have a terminal growth rate or terminal multiple that's supplied. And so, you know, that's an important factor, you know, in your DCF, in your overall DCF value. So the mere fact that you switched from a five to a ten, with that terminal value, it doesn't necessarily mean you are going to get a substantially different -- different answer.

Id. at 148:22-149:10.

As noted earlier in this section of the Report, the change in DCF enterprise value that resulted from adding an incremental five years of discrete period cash flow to VRC's DCF Step Two analysis (in relation to VRC's Step One analysis where only five years of discrete period cash flows were considered before adding a terminal value) added approximately $613 million to the Step Two DCF value, all other things being equal.

Because 2012 represents a presidential election year, and Tribune's forecasting model specifically recognized that election year spending enhances Tribune financial performance, the growth rate between 2011 and 2012 reflects the periodic four-year effects of such increases. By extrapolating growth rates obtained from a comparison of a non-election year financial performance to a presidential election year expectation, and applying that growth rate annually thereafter, Tribune's projection model effectively assumed compounding increases in each and every prospective forecast year. The net result, in effect, was to assume that every year from 2012 to 2017 would be a presidential election year, and bigger than the last. This explains why the out-year projections developed in the October 2007 model exceeded those used in the February 2007 model. Although one could argue that the February 2007 model contained the opposite flaw (in effect assuming that no election would occur between 2012 and 2016), in fact the 2012 to 2016 forecast contained in the February 2007 model was consistent with Tribune's historical performance, as described above. The Examiner finds it inexplicable that VRC used the 2013 to 2017 projections in developing its Step Two solvency opinion without making any adjustment in light of Tribune's historical performance trends, Tribune's performance after the

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COMPARISON OF DECEMBER DCF MODELS WITH AND WITHOUT YEARS 6 - 10
at Present Value and at Mid Range Value ($mm)

	Years 1 - 5	Years 6 - 10	Terminal Value	Total Enterprise Value
VRC December Model *10-year Interim Period Plus Terminal Value*	$ 2,644.3	$ 2,085.2	$ 5,480.4	$ 10,209.9
Alternative VRC December Model *5-year Interim Period Plus Terminal Value*	$ 2,644.3	Included in Terminal Value	$ 6,953.0	$ 9,597.3
Value Difference				$ 612.6

closing of the Step One Transactions, or the assumptions underlying the February 2007 projections or the out years.[2298]

[2298] It appears that as early as December 2, 2007, management was aware that VRC had substantially revised its analysis to include the extrapolated out-years (*i.e.*, years 2013-2017) in reaching its valuation conclusions for Tribune at Step Two. On that date, Mose Rucker e-mailed Chandler Bigelow stating:

> Please find attached a draft of our internal review document. This will not be shared with the Board. We will send out the Board Presentation as soon as it is complete.

Ex. 888 (Bigelow E-Mail, dated December 2, 2007). On that same date, Mr. Bigelow responded: "Thanks." *Id.*

A review of VRC's work papers dated December 3, 2007 reflect that VRC had revised its DCF analysis to include a ten-year interim period through 2017. Ex. 740 (VRC Internal Review Document - Tribune Company Preliminary Solvency Analysis, dated December 3, 2007). It appears that VRC first changed its DCF analysis from a five-year interim period to a ten-year interim period between sometime between November 27, 2007 and November 30, 2007. *Compare* Ex. 1003 at VRC0067889 (VRC Internal Review Document, Tribune Company Preliminary Solvency Analysis, dated November 27, 2007) *with* Ex. 742 at VRC0063401 (VRC Internal Review Document, Tribune Company Preliminary Solvency Analysis, dated November 30, 2007).

Tribune's representation letter sent to VRC at Step Two specifically referenced management's extrapolation of its projections through 2017 based on the expected growth rates from 2011 to 2012, stating as follows:

> The provided financial forecasts of Tribune, on a consolidated and pro-forma basis, (as represented in the Excel file entitled model_negotiated_proposal_november21_2007.xls" delivered to VRC via e-mail on November 21, 2007) reflect Management's best estimates of Tribune Base and Tribune Downside case forecasts. This file includes projections based on Management's five-year financial outlook through 2012 (the "Five-Year Outlook") and the subsequent extrapolation by Management of these projections through 2017 applying the revenue and operating cash flow growth rates for the fifth year of the Five-Year Outlook and other underlying assumptions as used in developing the Five-Year Outlook. While such forecasts are subject to many factors outside Management's control, in Management's view they are reasonable and attainable based on Management's involvement and understanding of the business operations, its markets, the strategic vision, the competitive landscape, and regulatory and economic trends.

Ex. 739 (Representation Letters, dated December 20, 2007).

By contrast, the analog management representation letter sent to VRC at Step One makes no mention of extrapolated projections or a longer projection period, generically stating:

> The provided financial forecasts of Tribune, on a consolidated and pro-forma basis, (as represented in the financial forecast model (ESOP Transaction Model dated April 4, 2007) provided to VRC reflect Management's best estimates, and, while such forecasts are subject to many factors outside Management's control, in Management's view they are reasonable and obtainable based on Management's involvement and understanding of the business operations, its markets, the strategic vision, the competitive landscape, and regulatory and economic trends.

Ex. 250 (Representation Letters, dated May 9, 2007).

The Examiner concludes that Tribune's management must have realized the significance of the added language in the Step Two representation letter and that VRC's valuations of Step Two would likely (if not certainly) have reflected these extrapolated projections.

It appears that the Tribune Board was never presented with the ten-year growth model (*i.e.*, with extrapolated years 2013 through 2017) that management knew VRC was utilizing to reach its valuation conclusions. *See* Examiner's Sworn Interview of Donald Grenesko, July 8, 2010, at 175:16-21 and 186:13-18. (In an errata sheet dated July 20, 2010, Mr. Grenesko changed the portions of his testimony bearing on this point. When asked whether the model presented to the Tribune Board "included the extrapolated growth rates from 2013 to 2017 or

The Examiner also evaluated the near term expectations of the Tribune Entities' financial performance in the October 2007 plan in comparison to analyst expectations in the period preceding the closing of the Step Two Transactions. The comparison reveals that Tribune management's expectations regarding Tribune's ability to generate EBITDA from gross revenues were more optimistic than expectations held by analysts. Because EBITDA is a driver of value, any overstatement in EBITDA expectations informing the October 2007 plan would result in an overstatement of valuation results accordingly:

2008 IBES FORECAST v. OCTOBER PLAN

	Revenue		EBITDA	
	Mean	**Median**	**Mean**	**Median**
August 2007	$ 4,982.1	$ 5,015.1	$ 1,081.7	$ 1,110.9
September 2007	$ 4,971.9	$ 4,983.7	$ 1,074.5	$ 1,088.4
October 2007	$ 4,993.1	$ 5,014.2	$ 1,096.7	$ 1,140.3
November 2007	$ 4,987.7	$ 5,009.0	$ 1,092.6	$ 1,135.2
Management October Plan	**$ 4,936.0**		**$ 1,193.0**	

As shown in the chart above, Tribune estimated that it could achieve $1.193 billion in EBITDA from $4.936 billion in revenue, which equated to approximately 10% higher EBITDA than analysts' estimates even though Tribune forecasted *lower* revenues than these analysts.

(2) VRC Unreasonably Ignored its Own Internal Critiques of the October 2007 Projections.

The Examiner also reviewed and assessed a detailed analysis prepared by VRC of the October 2007 projections. Of particular note is a VRC internal assessment of the reasonableness of Tribune management's revenue and expense growth rate assumptions informing Tribune

was it only a five-year model," Mr. Grenesko originally responded: "I believe that was just a five-year." *Id.* at 175:16-21. The errata sheet, which is appended to the transcript of Mr. Grenesko's sworn interview, changes the answer to: "I believe that was just a five-year model in our plan, but I believe VRC's solvency report included projections beyond the initial five years." Similarly, when asked whether the detailed numbers for years 2013 through 2017 "were [ever] provided to the board in a board meeting," Mr. Grenesko originally responded: "I don't believe so." *Id.* at 186:13-18. The errata sheet changes the answer to: "I believe VRC's solvency reports included projections beyond the original five years.")

projections that were provided to VRC in late September 2007.[2299] This assessment was memorialized in several October 29, 2007 internal VRC memoranda that, according to Bryan Browning, were the result of a routine procedure whereby analysts assisting him on valuation projects memorialized their work.[2300]

The adjustments to Tribune's projection parameters recommended by the VRC analysts in these memoranda were the result of VRC's due diligence review and analyses then conducted to date. The extent of the information gathered and processed by VRC in connection with its assessment can be gauged, to a significant degree, by the e-mails between VRC and Tribune management in which VRC requested (and management delivered) the data for VRC's analysis.[2301] VRC's October 29, 2007 memoranda include observations based on discussions with Tribune's management, independent analysis of the Tribune Entities' historical performance, and outside analyst opinions reviewed by VRC as part of its analysis.

Changes to Tribune management's revenue and expense growth rate projections, as recommended by VRC analysts, were incorporated by VRC into a DCF valuation.[2302] The

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[2299] Importantly, these projections, with respect to forecasted revenue and EBITDA, agreed with the projection model ultimately relied on by VRC in rendering its Step Two solvency opinion.

[2300] *See* Ex. 1004 at VRC0034756-85 (Mednik E-Mail, dated October 31, 2007). Mr. Browning was asked about the nature of the document at his Rule 2004 examination:

> Q. Did you see memoranda like this prepared by Mr. Mednik in the October 2007 timeframe?
>
> A: Yes, memorandum like this. I told all my analysts to put their assumptions to file, so it was a general kind of procedure.

Ex. 262 at 121:10-16 (Rule 2004 Examination of Bryan Browning, December 4, 2009).

[2301] *See, e.g.*, Ex. 953 (Bigelow E-Mail, dated September 20, 2007); Ex. 897 (Bigelow E-Mail, dated September 21, 2007); Ex. 901 (Bigelow E-Mail, dated September 21, 2007); Ex. 902 (Bigelow E-Mail, dated September 21, 2007); Ex. 903 (Bigelow E-Mail, dated September 21, 2007); Ex. 904 (Bigelow E-Mail, dated September 21, 2007); Ex. 905 (Bigelow E-Mail, dated September 25, 2007); Ex. 906 (Litman E-Mail, dated September 26, 2007); Ex. 907 (Mednik E-Mail, dated September 27, 2007); Ex. 908 (Bigelow E-Mail, dated September 28, 2007); Ex. 909 (Bigelow E-Mail, dated September 30, 2007); Ex. 910 (Bigelow E-Mail, dated October 3, 2007); Ex. 911 (Bigelow E-Mail, dated October 3, 2007); Ex. 912 (Bigelow E-Mail, dated October 15, 2007).

[2302] Ex. 1004 at VRC0034756-85 (Mednik E-Mail, dated October 31, 2007). VRC analysts contributing to the October 29, 2007 memoranda included Leonid Mednik (Broadcasting Revenue Assumptions), Shakespeare resulting valuation indications were included in VRC's internal analysis and contrasted sharply with valuation indications based on DCF valuation conclusions derived from Tribune's projections without adjustment. The difference at the estimated midpoint[2303] of the two DCF valuations approximated $1.240 billion (Tribune management-based DCF mid-point value of $10.1105 billion versus VRC's DCF mid-point value of $8.8705 billion).[2304]

The specific differences between Tribune management's revenue and EBITDA growth rates on a consolidated basis and the resulting nominal estimations related thereto, as well as VRC's growth rates and estimations, are presented below. The table also includes the growth rates and amounts adopted by VRC for purposes of its final valuation of Tribune's operating assets. Notably, despite the fact that several internal VRC memoranda suggested that it was appropriate to make different assumptions and reach different conclusions than those reached by

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James (Broadcasting Expense Assumptions), and Mose Rucker (Publishing Assumptions, Classified Assumptions, Circulation Assumptions, and Interactive Assumptions).

2303 Rather than actually calculating a mid-point of their range of discount rates and exit multiple combinations, VRC typically calculated a simple average of the extreme end-points of the value indications generated from their range of combinations for purposes of their presentation of ranged DCF values. The Examiner refers to this mid-point as the "estimated" mid-point, and refers to the mid-point based on application of the specified parameters yielding a mid-point valuation indication as the "actual" or "calculated" mid-point.

2304 As is typical with shorter duration interim period DCF models, most of the DCF model value is situated in the terminal period rather than in the discreet interim period projections of both models. Of the $1.240 billion difference in mid-point value indication between the VRC and Tribune DCF indications, 70.5%, or $873 million, is explained by the difference in terminal period values of the two models. This concentration of value difference in the terminal period highlights the significance of the EBITDA parameters estimated for the last interim period—$1.383 billion in the case of Tribune's projections and $1.220 billion in the case of VRC's downwardly revised estimate—since VRC used an "exit multiple" of EBITDA to estimate terminal value. The difference of $163 million in the two terminal period EBITDA multiples is the result of VRC's application of lower growth and profitability rates during the interim projection period than those applied by Tribune management. The $163 million in ending EBITDA difference also explains the substantial difference in terminal values between the two models, since exactly the same exit multiples and discount rate combinations are applied to the two respective model's final period EBITDA to estimate the terminal values for each. When "capitalized" through application of the exit multiple and brought to present value, the $163 million terminal period EBITDA difference explains $873.4 million of the total $1.240 billion of total DCF difference. It should be noted that in this particular version of VRC's DCF model, six years of interim period projections (2008 through 2013) are forecast before a terminal period (perpetuity) value is calculated based on the application of exit multiples ranging from 8.0x to 9.0x.

Tribune management, as explained in more detail below, VRC nonetheless adopted management's numbers in its solvency analysis:

CONSOLIDATED ASSUMPTION COMPARISON ($mm)

Revenue Assumptions - Base Case	FY 2007P	FY 2008E	FY 2009E	FY 2010E	FY 2011E	FY 2012E	FY 2013E
Tribune October 28, 2007 Analysis	$ 4,856.7	$ 4,936.4	$ 5,016.1	$ 5,146.8	$ 5,244.8	$ 5,371.1	$ 5,500.4
Growth Rate		1.6%	1.6%	2.6%	1.9%	2.4%	2.4%
VRC October 29, 2007 Analysis	$ 4,856.7	$ 4,831.1	$ 4,856.1	$ 4,898.7	$ 4,953.9	$ 5,015.2	$ 5,077.3
Growth Rate		-0.5%	0.5%	0.9%	1.1%	1.2%	1.2%
VRC December 20, 2007 Analysis	$ 4,856.7	$ 4,936.4	$ 5,016.1	$ 5,146.8	$ 5,244.8	$ 5,371.1	$ 5,500.4
Growth Rate		1.6%	1.6%	2.6%	1.9%	2.4%	2.4%
Operating Cash Flow Assumptions - Base Case	**FY 2007P**	**FY 2008E**	**FY 2009E**	**FY 2010E**	**FY 2011E**	**FY 2012E**	**FY 2013E**
Tribune October 28, 2007 Analysis	$ 1,160.3	$ 1,193.3	$ 1,236.8	$ 1,282.1	$ 1,298.6	$ 1,348.8	$ 1,382.7
OCF Margin	23.9%	24.2%	24.7%	24.9%	24.8%	25.1%	25.1%
VRC October 29, 2007 Analysis	$ 1,160.3	$ 1,106.4	$ 1,131.5	$ 1,152.6	$ 1,172.7	$ 1,202.8	$ 1,219.7
OCF Margin	23.9%	22.9%	23.3%	23.5%	23.7%	24.0%	24.0%
VRC December 20, 2007 Analysis	$ 1,160.3	$ 1,193.3	$ 1,236.8	$ 1,282.1	$ 1,298.6	$ 1,348.8	$ 1,382.7
OCF Margin	23.9%	24.2%	24.7%	24.9%	24.8%	25.1%	25.1%

The differences between Tribune management's revenue and EBITDA growth rates for the Publishing Segment (and the resulting nominal estimations related thereto) and the growth rates applied by VRC (and resulting estimations), are shown below:

PUBLISHING SEGMENT PROJECTIONS COMPARISON ($mm)

Revenue - Base Case	FY 2007P	FY 2008E	FY 2009E	FY 2010E	FY 2011E	FY 2012E	FY 2013E
Tribune October 28, 2007 Analysis	$ 3,692.6	$ 3,679.9	$ 3,752.0	$ 3,840.2	$ 3,927.6	$ 4,019.3	$ 4,113.1
Growth Rate	-6.6%	-0.3%	2.0%	2.4%	2.3%	2.3%	2.3%
VRC October 29, 2007 Analysis	$ 3,692.6	$ 3,599.4	$ 3,596.7	$ 3,611.0	$ 3,637.3	$ 3,668.9	$ 3,700.7
Growth Rate	-6.6%	-2.5%	-0.1%	0.4%	0.7%	0.9%	0.9%
VRC December 20, 2007 Analysis	$ 3,692.6	$ 3,679.9	$ 3,752.0	$ 3,840.2	$ 3,927.6	$ 4,019.3	$ 4,113.1
Growth Rate	-6.6%	-0.3%	2.0%	2.4%	2.3%	2.3%	2.3%
Operating Cash Flow - Base Case	**FY 2007P**	**FY 2008E**	**FY 2009E**	**FY 2010E**	**FY 2011E**	**FY 2012E**	**FY 2013E**
Tribune October 28, 2007 Analysis	$ 818.2	$ 786.1	$ 814.2	$ 844.2	$ 874.8	$ 906.3	$ 927.5
OCF Margin	22.2%	21.4%	21.7%	22.0%	22.3%	22.5%	22.5%
VRC October 29, 2007 Analysis	$ 818.2	$ 744.9	$ 754.7	$ 766.4	$ 786.1	$ 803.8	$ 810.8
OCF Margin	22.2%	20.7%	21.0%	21.2%	21.6%	21.9%	21.9%
VRC December 20, 2007 Analysis	$ 818.2	$ 786.1	$ 814.2	$ 844.2	$ 874.8	$ 906.3	$ 927.5
OCF Margin	22.2%	21.4%	21.7%	22.0%	22.3%	22.5%	22.5%

A comparison of Tribune management's and VRC's Publishing Segment EBITDA projections indicates that the lower EBITDA projected by VRC is explained not only by reductions in projected revenues but also by modest reductions in EBITDA margin, which appears to average approximately 60 to 80 basis points lower in VRC's estimates.[2305]

The following table similarly compares Tribune management's and VRC's rates and nominal estimates of revenue and EBITDA projections for the Broadcasting Segment:

BROADCASTING SEGMENT PROJECTIONS COMPARISON ($mm)

Revenue - Base Case	FY 2007P	FY 2008E	FY 2009E	FY 2010E	FY 2011E	FY 2012E	FY 2013E
Tribune October 28, 2007 Analysis	$ 1,164.1	$ 1,256.5	$ 1,264.1	$ 1,306.6	$ 1,317.2	$ 1,351.8	$ 1,387.4
Growth Rate	-4.7%	7.9%	0.6%	3.4%	0.8%	2.6%	2.6%
VRC October 29, 2007 Analysis	$ 1,164.1	$ 1,231.6	$ 1,259.3	$ 1,287.7	$ 1,316.7	$ 1,346.3	$ 1,376.6
Growth Rate	-4.7%	5.8%	2.2%	2.3%	2.3%	2.2%	2.3%
VRC December 20, 2007 Analysis	$ 1,164.1	$ 1,256.5	$ 1,264.1	$ 1,306.6	$ 1,317.2	$ 1,351.8	$ 1,387.4
Growth Rate	-4.7%	7.9%	0.6%	3.4%	0.8%	2.6%	2.6%
Operating Cash Flow - Base Case	**FY 2007P**	**FY 2008E**	**FY 2009E**	**FY 2010E**	**FY 2011E**	**FY 2012E**	**FY 2013E**
Tribune October 28, 2007 Analysis	$ 383.7	$ 448.5	$ 463.9	$ 479.3	$ 465.0	$ 483.8	$ 496.5
OCF Margin	33.0%	35.7%	36.7%	36.7%	35.3%	35.8%	35.8%
VRC October 29, 2007 Analysis	$ 383.7	$ 402.7	$ 418.1	$ 427.5	$ 427.9	$ 440.2	$ 450.1
OCF Margin	33.0%	32.7%	33.2%	33.2%	32.5%	32.7%	32.7%
VRC December 20, 2007 Analysis	$ 383.7	$ 448.5	$ 463.9	$ 479.3	$ 465.0	$ 483.8	$ 496.5
OCF Margin	33.0%	35.7%	36.7%	36.7%	35.3%	35.8%	35.8%

Importantly, these tables compare Tribune's "base" case projections to VRC's "base" case, so there is no apparent basis to assert that the difference between VRC's and Tribune's projections is explained by comparing a "base" case on the one hand to a "downside" or more pessimistic case on the other. In fact, VRC's internal memoranda, prepared for all of the businesses within each of the Publishing Segment[2306] and the Broadcasting Segment, explicitly

[2305] VRC's October 29, 2007 memoranda apparently do not discuss Publishing Segment expenses (and therefore margins) despite having a section devoted to projected Broadcasting Segment expense growth and despite clear evidence that VRC downwardly adjusted Tribune's Publishing Segment margins in establishing VRC's projected operating cash flows. It is possible that VRC downwardly adjusted the Publishing Segment's overall EBITDA margin to account for VRC's lower estimate of Tribune interactive revenue. A reduction in interactive revenue would result in a reduction in overall publishing EBITDA *margin* because of the elimination of interactive's EBITDA contribution at approximately 40% of its revenue, which is much higher than the EBITDA margin of the Publishing Segment's without the interactive unit. *See* Ex. 1004 (Mednik E-Mail, dated October 31, 2007).

[2306] The segments addressed by VRC memoranda include print advertising segments "Retail," "National," and "Classified," as well as the Publishing Segment's "Circulation" and "Interactive" business units. The only unit discuss Tribune's projected growth rates in terms of "reasonableness" and are prepared for "base" case as well as "downside" case scenarios.[2307] Moreover, the identified differences between Tribune's and VRC's growth rates are the result of VRC-proposed alternative growth rates based on VRC's independent assessment of Tribune data as well as third-party analyst benchmarks and expectations, among other sources of relevant information (including information obtained at a two-day meeting with Tribune management in September 2007).[2308]

It is clear from the comparison of Publishing Segment projected revenue and operating cash flow that the gap between Tribune's and VRC's projections grows over time based on the differences in growth rates applied. These differences result in significant disparity in the present values of the interim cash flows as well as the respective present values of Tribune's terminal period value. In fact, the difference in the final year (2013) of the interim period projections of Publishing Segment operating cash flow (approximately $116.7 million of the $163 million difference in consolidated EBITDA) explains the majority of the overall difference in present value between the DCF indications of terminal period value informed by Tribune's projections and those informed by VRC's projections. Moreover, the difference in projected final year Publishing Segment EBITDA explains approximately $625.1 million of the $873.4 million difference (71.6%) between the two terminal period valuations at the mid-point and approximately 50% of the overall $1.240 billion difference.

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not specifically addressed in materials reviewed to date is the Publishing Segment's "Other" unit, that includes disparate business units like contract delivery and printing, Tribune Media and Tribune's direct mail business, among others. *See id.*

[2307] *Id.* at VRC0034756-85.

[2308] Moreover, VRC actually upwardly revised at least one Tribune growth rate projection, apparently because it believed management's projection to be too conservative. VRC projected a negative growth rate of 1.3% for 2009 national advertising revenue. *Id.* at VRC0034777. By contrast, Tribune management's projected growth rate was negative 2.4%.

It also appears that the different assumptions applied to the interactive business by Tribune management and VRC accounts for a substantial portion of the difference in resulting enterprise values. To generally gauge the impact that management's and VRC's differing treatment of the interactive business had on their respective valuations,[2309] the Examiner applied a 40% OCF margin to the difference in revenues of approximately $191.9 million projected by Tribune and VRC for the interactive business in 2012:

INTERACTIVE ASSUMPTION COMPARISON ($mm)

Revenue Assumptions - Base Case	FY 2007P	FY 2008E	FY 2009E	FY 2010E	FY 2011E	FY 2012E
Tribune October 28, 2007 Analysis	$ 262.0	$ 318.0	$ 406.3	$ 507.9	$ 603.8	$ 712.5
Growth Rate	15.9%	21.4%	27.8%	25.0%	18.9%	18.0%
VRC October 29, 2007 Analysis	$ 262.0	$ 308.9	$ 358.0	$ 407.7	$ 460.7	$ 520.6
Growth Rate	15.9%	17.9%	15.9%	13.9%	13.0%	13.0%
VRC December 20, 2007 Analysis	$ 262.0	$ 318.0	$ 406.3	$ 507.9	$ 603.8	$ 712.5
Growth Rate	15.9%	21.4%	27.8%	25.0%	18.9%	18.0%

From this comparison, the significance of the interactive business as an element of the Publishing Segment's value becomes apparent. The interactive business' OCF contribution of $76.8 million explains approximately 75% of the total $102.5 million difference between the two projection models in 2012. This difference is demonstrated in the chart below:

[2309] Unfortunately, because VRC stopped projecting revenues and margins for the specific units of the Publishing Segments at 2012, and forecasted aggregate Publishing Segment revenue and margin in 2013 based on a "blended" 2012 revenue growth rate and observed 2012 EBITDA margin, calculating the specific impact that the interactive business had on the terminal value is extremely difficult. Neither management's projections nor the DCF models used by VRC contain sufficient detail within the computations to establish the interactive business' EBITDA margin. However, based on profitability projections contained in a summary of projected Tribune's interactive business operating performance, the interactive business was forecast to contribute to operating cash flow at a substantial 40% OCF margin. Ex. 956 (Tribune Interactive 2006-2012 Projections).

INTERACTIVE V. PUBLISHING EBITDA CONTRIBUTION ($ mm)				
		Interactive	**Publishing**	
		FY2012E	*FY2012E*	
Revenues				
Tribune October 28, 2007 Analysis (1)		$ 712.5	$ 4,019.3	
VRC October 29, 2007 Analysis (2)		$ 520.6	$ 3,668.9	
Difference		**$ 191.9**	**$ 350.4**	
EBITDA				
Tribune October 28, 2007 Analysis (1), (3)	**@ 40%**	$ 285.0	$ 906.3	
VRC October 29, 2007 Analysis (2), (3)	**@ 40%**	$ 208.2	$ 803.8	
Difference		**$ 76.8**	**$ 102.5**	**74.9%**

(1) Ex. 1004 at VRC0034787 (Mednik E-Mail, dated October 31, 2007).
(2) Ex. 1004 at VRC0034798 (Mednik E-Mail, dated October 31, 2007).
(3) EBITDA for Interactive under both Tribune and VRC analyses has been assumed to be a 40% EBITDA Margin. EBITDA Figures presented under Publishing for both Tribune and VRC are as seen in Ex. 1004 at VRC0034787 and VRC0034798 (Mednik E-Mail, dated October 31, 2007).

The differences between Tribune management's and VRC's forecasts of projected annual revenue for the interactive unit are substantial. Included in VRC's October 29, 2007 memoranda is a write-up of "Interactive Assumptions" apparently authored by VRC's Mose Rucker. In that document, Mr. Rucker makes a series of observations in arriving at his downward adjustment of the growth rates that management had applied to projected interactive revenue to forecast performance of the interactive unit over the period 2008—2012.[2310] Negative factors considered by Mr. Rucker included the competitiveness of the interactive space, Oppenheimer's and Credit Suisse's estimated growth for the interactive business generally, and the specific decline in interactive growth experienced by Tribune in 2007.[2311]

[2310] Ex. 1004 at VRC0034784-85 (Mednik E-Mail, dated October 31, 2007).

[2311] *Id.* at VRC0034784.

On the other hand, Mr. Rucker acknowledged that the amount of Tribune's planned investment was a mitigating factor as was management's positive view of its new Metro Mix offering.[2312] In the end, apparently based on the fact that Tribune management's projected growth rates greatly exceeded "industry anticipated growth rates," among other factors, Mr. Rucker downwardly revised management's projections.[2313]

The VRC October 29, 2007 memoranda also contain, among other things, several memoranda from Mr. Rucker memorializing observations and analysis of revenue forecasted for all units of Tribune's Publishing Segment with the exception, as mentioned earlier, of the "Other" category of the Publishing Segment's businesses. Revenue projections for Tribune print advertising segments, "National," "Retail," and "Classified" are each addressed in separate memoranda, as are the "Circulation" and interactive business segments.[2314] Each memorandum includes observations made by management, VRC summaries of analyst research, and the results of VRC's own analysis of Tribune's historical performance.[2315] Each memorandum also contains VRC's conclusions as to adjustments to revenue growth rates used by Tribune's management to project base case, downside, and "most stringent" case revenue performance for the Publishing Segment.[2316]

The following tables show the disparities (and similarities) between Tribune management's revenue projections and VRC's adjusted forecasts for the Publishing Segment. The tables also provide the projected performance as contained in VRC's December 20, 2007 model:

[2312] *Id.* at VRC0034785.

[2313] *Id.*

[2314] *Id.* at VRC0034772-85.

[2315] *Id.*

[2316] *Id.*

NATIONAL PUBLISHING ASSUMPTION COMPARISON ($mm)

Revenue Assumptions - Base Case	FY 2007P	FY 2008E	FY 2009E	FY 2010E	FY 2011E	FY 2012E
Tribune October 28, 2007 Analysis	$ 661.7	$ 651.6	$ 636.1	$ 620.1	$ 611.1	$ 598.7
Growth Rate	-5.0%	-1.5%	-2.4%	-2.5%	-1.4%	-2.0%
VRC October 29, 2007 Analysis	$ 661.7	$ 648.4	$ 639.7	$ 623.6	$ 614.6	$ 602.1
Growth Rate	-5.0%	-2.0%	-1.3%	-2.5%	-1.4%	-2.0%
VRC December 20, 2007 Analysis	$ 661.7	$ 651.6	$ 636.1	$ 620.1	$ 611.1	$ 598.7
Growth Rate	-5.0%	-1.5%	-2.4%	-2.5%	-1.4%	-2.0%

RETAIL PUBLISHING ASSUMPTION COMPARISON ($mm)

Revenue Assumptions - Base Case	FY 2007P	FY 2008E	FY 2009E	FY 2010E	FY 2011E	FY 2012E
Tribune October 28, 2007 Analysis	$ 1,231.0	$ 1,231.5	$ 1,237.2	$ 1,242.5	$ 1,255.5	$ 1,267.4
Growth Rate	-3.9%	0.0%	0.5%	0.4%	1.0%	0.9%
VRC October 29, 2007 Analysis	$ 1,231.0	$ 1,214.4	$ 1,202.3	$ 1,199.3	$ 1,196.3	$ 1,193.3
Growth Rate	-3.9%	-1.4%	-1.0%	-0.2%	-0.3%	-0.2%
VRC December 20, 2007 Analysis	$ 1,231.0	$ 1,231.5	$ 1,237.2	$ 1,242.5	$ 1,255.5	$ 1,267.4
Growth Rate	-3.9%	0.0%	0.5%	0.4%	1.0%	0.9%

CLASSIFIED PUBLISHING ASSUMPTION COMPARISON ($mm)

Revenue Assumptions - Base Case	FY 2007P	FY 2008E	FY 2009E	FY 2010E	FY 2011E	FY 2012E
Tribune October 28, 2007 Analysis	$ 739.3	$ 650.5	$ 637.2	$ 625.1	$ 604.5	$ 579.8
Growth Rate	-21.2%	-12.0%	-2.0%	-1.9%	-3.3%	-4.1%
VRC October 29, 2007 Analysis	$ 739.3	$ 621.0	$ 591.5	$ 575.2	$ 559.4	$ 544.0
Growth Rate	-21.2%	-16.0%	-4.7%	-2.8%	-2.7%	-2.8%
VRC December 20, 2007 Analysis	$ 739.3	$ 650.5	$ 637.2	$ 625.1	$ 604.5	$ 579.8
Growth Rate	-21.2%	-12.0%	-2.0%	-1.9%	-3.3%	-4.1%

CIRCULATION PUBLISHING ASSUMPTION COMPARISON ($mm)

Revenue Assumptions - Base Case	FY 2007P	FY 2008E	FY 2009E	FY 2010E	FY 2011E	FY 2012E
Tribune October 28, 2007 Analysis	$ 528.1	$ 511.1	$ 495.4	$ 479.9	$ 464.6	$ 449.8
Growth Rate	-5.2%	-3.2%	-3.1%	-3.1%	-3.2%	-3.2%
VRC October 29, 2007 Analysis	$ 528.1	$ 509.1	$ 492.8	$ 477.1	$ 461.8	$ 447.1
Growth Rate	-5.2%	-3.6%	-3.2%	-3.2%	-3.2%	-3.2%
VRC December 20, 2007 Analysis	$ 528.1	$ 511.1	$ 495.4	$ 479.9	$ 464.6	$ 449.8
Growth Rate	-5.2%	-3.2%	-3.1%	-3.1%	-3.2%	-3.2%

OTHER PUBLISHING ASSUMPTION COMPARISON ($mm)						
Revenue Assumptions - Base Case	**FY 2007P**	**FY 2008E**	**FY 2009E**	**FY 2010E**	**FY 2011E**	**FY 2012E**
Tribune October 28, 2007 Analysis	$ 270.6	$ 317.1	$ 339.7	$ 364.7	$ 388.1	$ 411.2
Growth Rate	6.8%	17.2%	7.1%	7.3%	6.4%	6.0%
VRC October 29, 2007 Analysis	$ 270.6	$ 297.6	$ 312.5	$ 328.1	$ 344.5	$ 361.8
Growth Rate	6.8%	10.0%	5.0%	5.0%	5.0%	5.0%
VRC December 20, 2007 Analysis	$ 270.6	$ 317.1	$ 339.7	$ 364.7	$ 388.1	$ 411.2
Growth Rate	6.8%	17.2%	7.1%	7.3%	6.4%	6.0%

There are also several VRC memoranda authored by Leonid Mednik critiquing Tribune management's projections of revenue under "base," "downside," and "recession" cases for the Broadcasting Segment.[2317] The difference between management's and VRC's projected revenues for the Broadcasting Segment is partially obscured by the differing projection approaches taken by each. For purposes of its projection of Broadcasting Segment revenues for the interim periods 2009 through 2012, VRC used a "smoothed" estimate of growth based on an average annual growth rate to approximate the results otherwise obtained through application of a "stair step" form of projection.[2318] In contrast, the stair step projection approach used by Tribune management arguably better and more accurately captures the timing of expected cyclicality of revenue performance due to the alternating two year impact of presidential and midterm election years which boost expected revenue as a result of extra advertising spending associated with political campaigns. Application of the smoothed projection rate, however, is not a fatal simplification of the stair step projection, since projections based on the uniform growth rate results in overestimation one year and underestimation the next, all other things being equal.

[2317] *Id.* at VRC0034756-64.

[2318] *Id.*

BROADCASTING SEGMENT PROJECTIONS COMPARISON ($mm)							
Revenue Assumptions - Base Case	**FY 2007P**	**FY 2008E**	**FY 2009E**	**FY 2010E**	**FY 2011E**	**FY 2012E**	**FY 2013E**
Tribune October 28, 2007 Analysis	$ 1,164.1	$ 1,256.5	$ 1,264.1	$ 1,306.6	$ 1,317.2	$ 1,351.8	$ 1,387.4
Growth Rate	-4.7%	7.9%	0.6%	3.4%	0.8%	2.6%	2.6%
VRC October 29, 2007 Analysis	$ 1,164.1	$ 1,231.6	$ 1,259.3	$ 1,287.7	$ 1,316.7	$ 1,346.3	$ 1,376.6
Growth Rate	-4.7%	5.8%	2.2%	2.3%	2.3%	2.2%	2.3%
Difference	$ 0.0	($ 24.9)	($ 4.8)	($ 18.9)	($ 0.5)	($ 5.5)	($ 10.8)
Nominal Margin Percentage Difference	0.0%	-2.1%	1.6%	-1.1%	1.4%	-0.4%	-0.4%
% Difference	0.0%	-2.0%	-0.4%	-1.4%	0.0%	-0.4%	-0.8%
Operating Cash Flow - Base Case	**FY 2007P**	**FY 2008E**	**FY 2009E**	**FY 2010E**	**FY 2011E**	**FY 2012E**	**FY 2013E**
Tribune October 28, 2007 Analysis	$ 383.7	$ 448.5	$ 463.9	$ 479.3	$ 465.0	$ 483.8	$ 496.5
OCF Margin	33.0%	35.7%	36.7%	36.7%	35.3%	35.8%	35.8%
VRC October 29, 2007 Analysis	$ 383.7	$ 402.7	$ 418.1	$ 427.5	$ 427.9	$ 440.2	$ 450.1
OCF Margin	33.0%	32.7%	33.2%	33.2%	32.5%	32.7%	32.7%
Difference	$ 0.0	($ 45.8)	($ 45.8)	($ 51.8)	($ 37.1)	($ 43.6)	($ 46.4)
Nominal Margin Percentage Difference	0.0%	-3.0%	-3.5%	-3.5%	-2.8%	-3.1%	-3.1%
% Difference	0.0%	-10.2%	-9.9%	-10.8%	-8.0%	-9.0%	-9.3%

In the case of the Broadcasting Segment, VRC's significant departure from Tribune's EBITDA projections principally results not from differences in the respective projections of revenue, but rather from VRC's adjustments to operating expenses based on divergent assumptions about expense margins and the rate of growth of Broadcasting Segment expenses. The difference in operating cash flow margin ranges between 300 and 350 basis points. Such differences in OCF margin result in nominal OCF differences ranging between approximately 8.0% and 10.8% and result, for example, in a year-end 2013 difference in projected OCF of approximately $46.4 million.

Also among VRC's October 29, 2007 internal memoranda is a write-up of "Tribune Base Case—Broadcasting Expense Assumptions" authored by VRC's Shakespeare James.[2319] In one of his memoranda, Mr. James explicitly acknowledged planned cost savings (and related Broadcasting Segment EBITDA margin) associated with the sale of the low-margin Chicago Cubs and Tribune entertainment units as well as management's planned effort to reduce costs by

[2319] *Id.* at VRC0034765-68.

$200 million during 2007 and 2008.[2320] As with other assumptions made by Tribune management, however, Mr. James appears to have considered Tribune's claims of improved performance within the context of Tribune's historical performance and other pertinent factors and determined that Tribune's projected margin improvements were unreasonable. Mr. James concluded:[2321]

> VRC has assumed a margin at the midpoint of the base case and the historical 10 year average to conservatively reflect achieving only 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 ration of 65.2% for 2008, 64.7% for 2009, 63.7% for 2010, 65.4% for 2011 and 65.1% for 2012.

Most notably, as is discussed elsewhere herein, the revisions that VRC made to Tribune's operating cash flow projections, as memorialized in its internal October 29, 2007 memoranda, appear to be one of only two times that VRC adjusted Tribune's projections.[2322] The projections underlying VRC's models both before and after this date adhere to the amounts presented as Tribune's projections in every other iteration of VRC's models.

The above-discussed memoranda demonstrate that VRC performed detailed analyses of management's October 2007 projections and made multiple (principally) downward adjustments. Yet, in the end, VRC inexplicably ignored *all* of the conclusions it reached in these memoranda and proceeded to use the October 2007 projections *without change* in its Step Two solvency opinion.[2323] The critiques contained in the memoranda are difficult to reconcile with VRC's

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[2320] *Id.* at VRC0034765.

[2321] *Id.* at VRC0034768.

[2322] The other time was in connection with VRC's determination of an enterprise value in connection with its December 20, 2007 opinion in which VRC work papers reflect that VRC considered alternative revenue and profitability expectations. Ex. 913 at VRC0019373-74 (VRC Draft Model, dated December 20, 2007). However, as with the October 29, 2007 revisions that VRC considered, VRC ignored these numbers as well.

[2323] The Examiner did not have the opportunity to evaluate these memoranda before his interview with Mr. Rucker and Mr. Browning or senior Tribune financial management and, accordingly, this is an area that may warrant further investigation.

ultimate conclusion that management's projections were reasonable and should not be adjusted.[2324] The Examiner finds it troubling that VRC performed comprehensive analyses of management's projections (much of which the Examiner finds astute), reached substantial downward valuation conclusions based on that analysis, and yet proceeded to use the October 2007 projections without adjustment, purporting to rely on Tribune's representation letter concerning the reasonableness of the October 2007 projections.

As a result, because both VRC's Step Two valuation analysis (in part),[2325] and its cash flow tests (in full) were ultimately predicated on management's October 2007 projections containing the flaws discussed above (many of which were identified but ultimately ignored by

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[2324] When interviewed by the Examiner, Mr. Browning testified as follows:

> Q: At any time throughout your work for Tribune Company and given what you have learned about Tribune to date, do you have reason to believe that Tribune's projections that were provided to VRC in connection with VRC's work in issuing both solvency opinions were unreasonable at the time?
>
> A: I believe at the time that—and, frankly, I still believe this now, is that management was giving us what they believed were their forecasts what they believed could be achieved. I don't believe there was any attempt -- at least in my opinion—and, you know, we are paid to look at management or look at companies that give us that to discern whether or not these things are right or not. And discern if somebody is telling us a story or not. And at the time, I believe that they thought those forecasts were achievable and I do believe that they thought they were conservative. But—and so—and so no I think they were reasonable.

Examiner's Sworn Interview of Mose Rucker and Bryan Browning, June 30, 2010, at 330:5-331:7.

Earlier in the interview, Mr. Rucker echoed similar sentiments:

> Q: What do you recall, if anything, about the discussions you had with Tribune management in relation to the change in revenue growth from .5 percent at Step 1 to 2.4 percent at Step 2?
>
> A: The general -- my general recollection was because things were in a slight decline now or they were declining now, that management would anticipate that in the outer years, that as the economy recovered and things recovered, that there would be higher growth rates.
>
> Q: And did VRC believe that that was a reasonable assumption?
>
> A: We concluded that it was reasonable.

Id. at 162:3-21.

[2325] Although VRC relied on management's projections, it also developed its own cohort company multiples to which VRC then applied Tribune metrics (*e.g.,* EBITDA) in calculating operating asset values.

VRC), the Examiner concludes that VRC's valuation conclusions were improperly upwardly biased.[2326]

(3) VRC's Step Two Solvency Analysis Contained Several Other Significant Errors.

In addition to the preceding problems, VRC's Step Two solvency opinion suffers from numerous other problems. In particular, the Examiner finds that:

- VRC used discount rates in its DCF analysis that did not properly reflect the risk of achieving forecasted future cash flows, particularly regarding assumptions for growth in Tribune's interactive business.[2327]

2326 To compound matters, whereas VRC used years 2007 through 2012 from the February 2007 projections to determine Tribune's interim period value for its Step One solvency opinion (after which VRC added a terminal value based on the application of an exit multiple), VRC used year 2008 through 2017 projections (ten years) for purposes of determining Tribune's interim period value in its Step Two solvency opinion. *See* Ex. 721 (Tribune Company Model, dated November 21, 2007). The Examiner finds that this change in methodology was unreasonable because Tribune's growth projections during this ten-year time horizon were inconsistent with the reasonable expectations at the time. By incorporating an additional five years of projected operating performance (for the period from 2013 through 2017) into its DCF valuation model, VRC adopted a consolidated Tribune growth rate of approximately 2.41% for five years, at which point it estimated a terminal value for Tribune, using perpetuity growth rates ranging from 0.38% to 2.13%. As noted, according to VRC's December 20, 2007 Step Two solvency opinion, the projected cash flows for years 2013 through 2017 were extrapolated from the five-year projection (2008 through 2012) provided to VRC by Tribune management (and referred to by VRC as the "Base Case Forecast") by applying the "revenue and operating cash flow growth rates for the fifth year of the Base Case Forecast and underlying assumptions as used in developing the Base Case Forecast (the 'Management Five-Year Extrapolation')." *See* Ex. 728 at TRB0294013 (VRC Step Two Solvency Opinion, dated December 20, 2007). Had VRC simply calculated a terminal value after the first five years of projections and used the same implied mid-point perpetuity growth rate as it actually did in its December valuation, the value of Tribune based on a DCF approach would have been approximately $612.5 million less than the $10.210 billion it actually calculated (based on its mid-point terminal value estimate), as described previously.

2327 The Examiner notes that VRC applied the same range of discount rates in performing its December 2007 evaluation as used in its May 2007 evaluations, despite the recognition that Tribune had performed unfavorably to plan for virtually every month in 2007, except September. *See* Ex. 271 at VRC0051430 (Mednik E-Mail, dated May 4, 2007); Ex. 240 (Brown Book for Period 1, 2007); Ex. 241 (Brown Book for Period 2, 2007); Ex. 915 (Brown Book for Period 3, 2007); Ex. 78 (Brown Book for Period 4, 2007); Ex. 635 (Brown Book for Period 5, 2007); Ex. 636 (Brown Book for Period 6, 2007); Ex. 637 (Brown Book for Period 7, 2007); Ex. 638 (Brown Book for Period 8, 2007); Ex. 639 (Brown Book for Period 9, 2007); Ex. 640 (Brown Book for Period 10, 2007); Ex. 641 (Brown Book for Period 11, 2007); Ex. 642 (Brown Book for Period 12, 2007). Based on an evaluation of historical and projected Tribune interactive revenue and operational performance, and as confirmed by Timothy Landon and Harry Amsden in their respective interviews with the Examiner, Tribune's interactive business was a higher growth, higher risk business than any of its counterpart businesses in the Publishing Segment and the Broadcasting Segment. Examiner's Interview of Timothy Landon, June 22, 2010; Examiner's Interview of Harry Amsden, July 2, 2010. Mr. Amsden indicated that the projected cash flow performance of the interactive business was informed by expectations regarding product development and

- VRC improperly gave equal weighting to values derived using a multiples-based approach and a DCF approach, because the DCF derived value is based on a specific forecast of Tribune's cash flow generating characteristics and attributes (including, for example, significant geographic concentration on Florida and California), and cohort companies identified by VRC as comparable to Tribune can be differentiated from Tribune both qualitatively and quantitatively.[2328]

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acquisitions that had not, at the time of the projections, been undertaken or completed. Examiner's Interview of Harry Amsden, July 2, 2010. Mr. Landon indicated that an appropriate discount rate to apply to such projected cash flows would be "double digit." Examiner's Interview of Timothy Landon, June 22, 2010. Mr. Amsden also spoke of the projections related to internal development and acquisitions as "speculative." Examiner's Interview of Harry Amsden, July 2, 2010. Accordingly, the Examiner finds that the cash flow projections related to Tribune's interactive business require application of a discount rate considerably higher than the rate otherwise applicable to the non-Interactive portion of the legacy Publishing Segment and Tribune's Broadcasting Segment.

In developing its equity cost for purposes of determining an appropriate discount rate for its DCF, VRC observed capital structure information for selected Tribune cohorts. In an effort to assess the extent to which the cohorts' betas might reflect risk associated with internet-based operations similar in nature to Tribune's interactive business, the Examiner reviewed available information for each company comprising the group VRC selected. The group was comprised of E.W. Scripps Co., McClatchy Co. Holding, The New York Times Co., Belo Corp., and Media General, Inc. Of the three companies for which interactive revenues could be ascertained, only E.W. Scripps Co. reported interactive revenues at a level commensurate with Tribune (E.W. Scripps Co. $271 million v. Tribune $265 million). The other two companies, McClatchy Co. Holding and Media General Inc., reported modest revenues from interactive activity of approximately $47 million and $21 million respectively, (representing 2.8% and 2.2% of their total revenues, respectively). The New York Times Co. appears to have considerable interactive business exposure but the revenues associated therewith were not ascertainable for 2006. In its SEC filings, Belo Corp. indicates an interactive component to its business, but revenues associated therewith were likewise not ascertainable.

Of note is the fact that E.W. Scripps Co. and The New York Times Co., two cohorts apparently with substantial exposure to interactive, exhibited among the lowest betas observed by VRC (E.W. Scripps Co.—Raw: .51 and Adjusted: .70; New York Times Co.—Raw: .81 and Adjusted: .89). Ex. 742 at VRC0063430 (VRC Preliminary Solvency Analysis, dated November 30, 2007). It would appear unlikely therefore that the risk associated with the interactive businesses within these companies was driving their risk profiles in any significant manner. This may be a result of the relative maturity of the interactive components of these companies, or differing expectations regarding growth and profitability within their respective businesses.

It is important to recall that the projections developed for Tribune's interactive business, although premised on the existing business, also based a substantial portion (approximately 40% by 2012) of projected future operating cash flows on the realization of then-nascent, potential start-up projects and unidentified acquisitions. Ex. 956 at VRC0026119; Examiner's Interview of Harry Amsden, July 16, 2010. In this way, Tribune's interactive business is distinguishable.

2328 For example, many "comparables" perform better than Tribune across important financial metrics such as growth rates and profitability margins or are qualitatively distinguishable on the basis of service and product offerings.

Based on the weighting used by VRC in a version of their valuation summary that was developed for and included in a May 9, 2007 *draft* presentation, the weighting of the approaches was as follows:

VALUATION METHOD
Comparable Companies (25%)
Comparable Transactions (10%)
Discounted Cash Flow (40%)
Sum of Business Segments (25%)

Ex. 1117 at VRC 0038534 (Draft of VRC Solvency Opinion Analysis, dated May 9, 2007).

When these "preliminary" weightings are applied to the valuation indications generated for VRC's December 20, 2007 solvency opinion, the average operating enterprise value is computed as follows:

VRC SUMMARY DECEMBER 20, 2007 (at original weighting)

	Valuation Summary		
Valuation Method	**Low**	**Mid**	**High**
Comparable Companies (25%)	$ 9,248.1	$ 9,865.3	$ 10,482.5
Comparable Transactions (10%)	$ 10,782.0	$ 11,081.5	$ 11,381.0
Discounted Cash Flow (40%)	$ 9,525.6	$ 10,234.4	$ 10,943.2
Sum of Business Segments (25%)	$ 9,316.8	$ 9,909.7	$ 10,502.5
Average Operating Enterprise Value	**$ 9,529.7**	**$ 10,145.7**	**$ 10,761.6**
VRC December 20 Value (Based on Equal Weighting)	**$ 9,718.1**	**$ 10,272.7**	**$ 10,827.3**

A comparison of the December 2007 average operating enterprise values derived under the original and actual December 2007 weightings indicates differences under each of the ranged categories, from low to high. Although the differences in average operating enterprise value are not large, the significance of the differences, when considered in the context of concluded *equity* value or solvency, become more apparent. *See* Ex. 917 (VRC Solvency Model):

CHANGE IN CONCLUDED RANGE USING EQUAL v. ORIGINAL WEIGHTING

	Valuation Summary		
Valuation Method	**Low**	**Mid**	**High**
Average Operating Enterprise Value (Revised)	$ 9,718.1	$ 10,272.7	$ 10,827.3
Average Operating Enterprise Value (Original)	$ 9,529.7	$ 10,145.7	$ 10,761.6
Difference Due to Changed Weighting	**$ 188.4**	**$ 127.0**	**$ 65.7**
Concluded Equity Value (Original)	$ 743.2	$ 1,650.2	$ 2,557.1
Concluded Equity Value (Revised)	**$ 931.6**	**$ 1,777.2**	**$ 2,622.8**
% Increase in Concluded Equity Range	**25.4%**	**7.7%**	**2.6%**

When asked by the Examiner whether for purposes of solvency opinions he equally weighted or weighted differentially the value indications from his valuation methodologies, Mr. Browning indicated that he had "seen some that are weighted and some that are not. . . ." Examiner's Sworn Interview of Mose Rucker and Bryan Browning, June 30, 2010, at 78:7-78:10. But when asked whether one approach was more typical than the other, Mr. Browning answered that "it is more typical to average them, to look at them equally." Examiner's Sworn Interview of Mose Rucker and Bryan Browning, June 30, 2010, at 78:17-78:19. When asked the same question, Mr. Rucker said, "I don't think I've ever done a solvency opinion . . . where you haven't looked at all evaluation methodologies equally to determine a range of values." Examiner's Sworn Interview of Mose

- VRC appears to have failed to reasonably calculate comparable company trading multiples by adjusting the comparable companies' total asset value, when appropriate, to remove the fair market value of each comparable company's equity investments from its

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Rucker and Bryan Browning, June 30, 2010, at 78:22-79:3. The authors of a leading treatise on business valuation note:

> The final value opinion regarding the subject business enterprise or business interest should be derived from the analyst's reasoning and judgment of all the factors considered and from the impartial weighting of all the market-derived valuation evidence.

Shannon P. Pratt, Robert F. Reilly, and Robert P. Schweihs, VALUING A BUSINESS: THE ANALYSIS AND APPRAISAL OF CLOSELY HELD COMPANIES at 444 (4th ed. 2000).

When asked during his December 4, 2009 Rule 2004 examination about the circumstances in which one valuation method might be weighed more heavily than others, Mr. Browning testified, "[G]enerally speaking, if you have more confidence in one approach than the other, you may weight it heavier." Ex. 262 at 70:14-17 (Rule 2004 Examination of Bryan Browning, December 4, 2009). Later in his examination, Mr. Browning recalled the impetus for the change in weightings to the arithmetic averaging of results from the four valuation methods. Speaking about a discussion with VRC's "opinion committee about the decision to weight the results equally," Mr. Browning testified:

> Q: What do you remember about the discussion?
>
> A: That this isn't an appraisal from the standpoint of where you—you weight and indication and that's the point indication. It's really a range of values that you are looking at, so it's better to look at that range without putting any kind of constraints on or—if you will.

Id. at 100:10-18.

When Mr. Rucker was asked at his December 3, 2009 Rule 2004 examination why he thought it would be inappropriate to overweight the discounted cash flow indication of value in the case of Tribune's solvency, he responded:

> The way we have traditionally done our solvency opinions in the past and the way we do it now, we look at each indication of value and we treat each indication of value equally. And I would say in general the industry as a whole looks at each indication of value equally.

Ex. 264 at 77:19-78:2 (Rule 2004 Examination of Mose Rucker, December 3, 2009).

With respect to "mechanical" weightings or averaging weightings applied to value indications, Dr. Pratt and his colleagues observe:

> Occasionally, an arithmetic average to arrive at a final value estimate is appropriate. Using the arithmetic average implies that *all of the valuation methods have equal validity and equal weight*. While this may occur in certain instances, this is usually not the case. When it is the case, it should be based on a conscience decision on the part of the analyst – and not on a naïve averaging of all value indications."

Shannon P. Pratt, Robert F. Reilly, and Robert P. Schweihs, VALUING A BUSINESS: THE ANALYSIS AND APPRAISAL OF CLOSELY HELD COMPANIES at 444 (4th ed. 2000) (emphasis added).

observed total enterprise value before computing the multiple of earnings for the comparable company.[2329]

- VRC used an exit multiple for purposes of calculating a terminal value in its DCF analysis that reflected an excessive implied terminal growth rate.[2330]

2329 VRC apparently attempted to address this issue by reducing the observed total enterprise value of the cohorts by the book value of the cohorts' equity investments which would only partially mitigate the potential overvaluation problem. As a consequence of using the potentially inflated total enterprise values when calculating the cohorts' multiples, the multiples were inflated. When the inflated cohort multiples were applied to Tribune's performance metrics, the result was a valuation of Tribune which (impliedly and inappropriately) likely included significant value ostensibly related to Tribune's equity investments. This resulted in a significant potential double counting of value when VRC added the separately determined value of Tribune's equity investments to the value determined for its operating cash flows.

The potential impact of the overstatement of calculated total enterprise value (TEV) on the multiple derived therefrom can be illustrated by calculating a multiple of earnings for Tribune in the same way VRC would have done had Tribune been one of the companies it included as a cohort for purposes of its market method valuation analysis. Observed Tribune equity value of approximately $7.35 billion at December 31, 2006 (*See* Ex. 14 (Tribune 2006 Form 10-K)) is added to Tribune's net debt of $4.83 billion to estimate total enterprise value of $12.18 billion at December 31, 2006. The EBITDA earnings multiple (for example) calculated based on Tribune's year end 2006 total enterprise value and its latest twelve months EBITDA ($1.28 billion) is 9.52 (12.18/1.28). If Tribune held no equity investments, this multiple would capture Tribune's EBITDA multiple based on operating performance. However, Tribune, like other cohorts, owns equity investments and other non-operating assets with substantial value. In order to develop a multiple for estimating cohort enterprise value related to *operating* cash flow, exclusive of the value of Tribune's equity and other non-operating investments (which is consistent with the goal of the VRC analysis), the fair market value of Tribune's equity investments needs to be eliminated from Tribune's total enterprise value. For purposes of its analysis, VRC estimated the fair market value of these investments based on the book carrying value of the investments. Adjusting Tribune's TEV to eliminate the book value of Tribune's equity investments reduces TEV by approximately $500 million. The resulting multiple of 9.13 (11.68/1.28) is lower than the multiple based on the unadjusted TEV. This is essentially the multiple calculated by VRC and used to inform its market method valuations. However, when the fair market value of Tribune's equity and other non-operating assets and investments ($3.4 billion, as quantified by VRC) is eliminated from TEV (for this example, the mid-point of VRC's range of estimated values for "equity investments and other assets" in its December 20, 2007 presentation is used), the resulting multiple of 6.86 ((12.18-3.4)/1.28) is considerably lower than the one developed by removing the book carrying value of these non-operating assets.

2330 For example, as evidenced in its February 2007 projections, Tribune was, at that time, forecasting modest long-term growth. In contrast, VRC adopted terminal period growth rates of up to more than 2% as part of the range of values it determined in its Step Two evaluation.

IMPLIED GROWTH RATES per VRC at STEP TWO

	Multiples		
WACC	**7.25**	**7.75**	**8.25**
7.50%	0.38%	0.81%	1.19%
8.00%	0.84%	1.28%	1.66%
8.50%	1.31%	1.75%	2.13%

• VRC failed to incorporate into its multiples-based valuations "lower-end" multiples observed from the cohort data on which it relied.[2331]

• Furthermore, in selecting a range of multiples to apply to Tribune LTM, CFY, and NFY EBITDA, VRC selected ranges of multiples that are inappropriately excessive compared to the cohort company multiples it analyzed. For example, in connection with the application of LTM multiples, VRC selected and applied a range of 8.25x to 8.75x. When this

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[2331] The multiples informing VRC's value conclusions do not comport with either the average or median statistics presented in its own supporting analytical schedules. For example, VRC applied a range of pro forma LTM EBITDA multiples of 8.25x to 8.75x to Tribune EBITDA despite the fact that the mean figure, per VRC, was 8.0x and the median figure was 7.7x. The table below shows the actual "Weighted Consolidated Multiples" computed by VRC in comparison to the mean and median values actually quantified by VRC. As noted in the tables below, VRC's failure to use the actual mean or median statistics flowing from its own analysis resulted in a potential over quantification of operating asset value ranging from approximately $356 million to $537 million:

COMPARABLE COMPANIES
IMPACT OF VRC'S FAILURE TO USE ITS ACTUAL WEIGHTED MEAN OR MEDIAN

COMPARABLE COMPANIES METHOD (per VRC)

Period	Financial Metric Adjusted EBITDA	Multiples Low	Multiples High	Enterprise Value Low	Enterprise Value High
PF LTM	$ 1,198.0	8.25	8.75	$ 9,883.5	$ 10,482.5
2007P	$ 1,191.4	8.00	8.50	$ 9,531.6	$ 10,127.3
2008P	$ 1,193.3	7.75	8.25	$ 9,248.1	$ 9,844.8
Operating Enterprise Value Range				$ 9,248.1	$ 10,482.5

COMPARABLE COMPANIES METHOD (adjusted by LECG)

Period	Financial Metric Adjusted EBITDA	Multiples Low (1)	Multiples High (2)	Enterprise Value Low	Enterprise Value High
PF LTM	$ 1,198.0	7.70	8.00	$ 9,224.6	$ 9,584.0
2007P	$ 1,191.4	8.10	8.50	$ 9,650.3	$ 10,126.9
2008P	$ 1,193.3	7.30	7.70	$ 8,711.1	$ 9,188.4
Operating Enterprise Value Range				$ 8,711.1	$ 10,126.9
			Difference	**$ 537.0**	**$ 355.6**

Notes:
(1) Low figure represents the lower of the mean or median values as computed by VRC. Ex. 742 at VRC0063399 (VRC Draft Solvency Analysis, dated November 30, 2007).
(2) High figure represents the higher or the mean or median values as computed by VRC. Ex. 742 at VRC0063399 (VRC Draft Solvency Analysis, dated November 30, 2007).

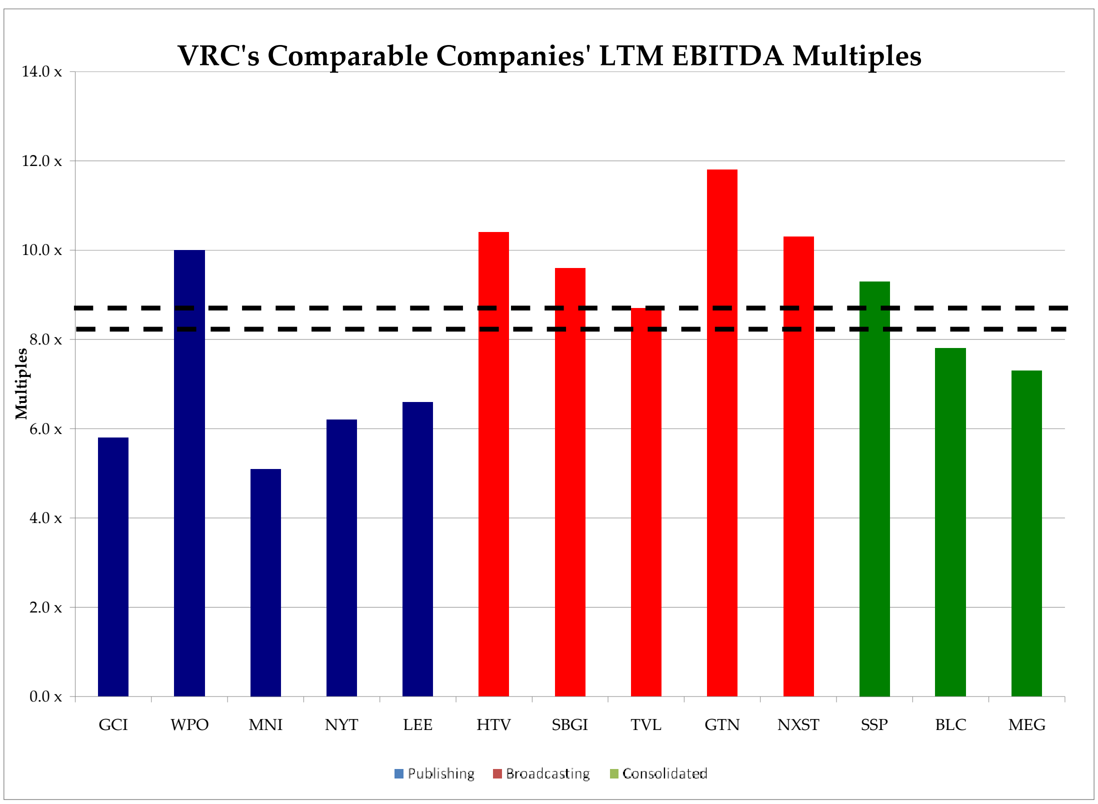
VRC also inappropriately utilized a 2007 pro forma EBITDA which included the EBITDA contribution of the Chicago Cubs. *See* Ex. 721 at VRC 0012546 (Tribune Company Model, dated November 21, 2007), thus double counting the value of the Chicago Cubs in its analysis.

range is contrasted with the cohort multiples from which VRC's range was determined, the multiples are demonstrably excessive.[2332]

- VRC failed to apply any minority or marketability discounts in connection with its determination of the value of Tribune's equity investments, despite the fact that, with limited exceptions, Tribune held less than a 50% ownership interest in those investments, and despite the fact that most of Tribune's investments were in non-public, closely-held businesses.

- VRC used discount rates in conducting DCF analyses to determine the value of certain equity investments that failed to incorporate any size premium into the cost of

[2332] As reflected in the table below, VRC identified cohort multiples for each of the Publishing Segment and the Broadcasting Segment, as well as multiples ostensibly applicable to Tribune on a consolidated basis. For 2007, the Publishing Segment contributed almost 70% of total EBITDA. Furthermore, in selecting publishing comparables, VRC included The Washington Post metrics despite the fact that The Washington Post is demonstrably not comparable to Tribune, as discussed below. By selecting a range of multiples that exceeded publishing cohort and consolidated company cohort multiples, VRC, in the Examiner's opinion, upwardly biased its selected range of LTM EBITDA multiples.



capital determinations, despite a justifiable need to have done so given the smaller size of the firms in which Tribune was invested.

- VRC relied on market based valuation approaches that used companies materially different from Tribune or its investments.[2333]

- When conducting its cash flow stress test, VRC improperly "stressed" cash flows which contained the revenue and earnings performance of certain assets that Tribune had designated held for sale.[2334] This mistake resulted in a projection of "stressed" Broadcasting Segment cash flows that actually are greater in amount than the cash flows without including the assets held for sale.[2335]

[2333] Several of the cohort firms identified and used by VRC for purposes of its trading multiples analysis appear insufficiently comparable to Tribune Co. to allow for meaningful valuation conclusions to be drawn. For example, E.W. Scripps, a cohort relied on by VRC, generated over 42% of its 2006 revenues and nearly 75% of its 2006 income from continuing operations (before income taxes and minority interests) from its network investments, including HGTV, TV Food Network, DIY, Fine Living and GAC. Ex. 918 (The E. W. Scripps Company 2006 Form 10-K). In contrast, the vast majority (74%) of Tribune's 2006 revenues were associated with the Publishing Segment. Ex. 14 (Tribune 2006 Form 10-K). Removing E. W. Scripps from the VRC multiples analysis causes the resultant multiples to decline substantially. Specifically, based on this single change, VRC's consolidated comparables mean LTM revenue multiple falls from 2.1 to 1.7 (a decline of approximately 19%) while the mean LTM EBITDA multiple falls from 8.1 to 7.6 (a decline of approximately 6%). Similarly, The Washington Post, another VRC identified comparable firm, generated substantial revenue from its education business, Kaplan, Inc. This segment of The Washington Post's business generated approximately 43% of the firm's 2006 operating revenues and 28% of the firm's 2006 operating income. Ex. 919 (The Washington Post Company 2006 Form 10-K). Further, this segment of The Washington Post's business grew 19% (as measured by year-over-year revenue growth from fiscal 2005 to fiscal 2006) representing the company's fastest growing segment in 2006. *Id.* In addition to its education segment, The Washington Post provided cable service (through its Cable One subsidiary) to over 690,000 subscribers, further differentiating its business from that of the Tribune Entities. *Id.*

When Mr. Rucker was asked why The Washington Post was added to the group of comparable companies, he stated that he could not recall specifically why it was added. Examiner's Sworn Interview of Mose Rucker and Bryan Browning, June 30, 2010, at 188:9-189:4. Nor was Mr. Rucker able to recall how it was that he concluded that The Washington Post was in fact a comparable company. Examiner's Sworn Interview of Mose Rucker and Bryan Browning, June 30, 2010, at 189:15-18. If The Washington Post is removed from the multiples calculation performed by VRC, the mean LTM EBITDA publishing multiple falls from 6.7 (inclusive of The Washington Post) to 5.9 (exclusive of The Washington Post), representing a decline of approximately 12%. *Notably, VRC did not identify The Washington Post as a cohort company in connection with its Step One solvency analysis. See, e.g.*, Ex. 271 at VRC0051422 (Mednik E-Mail, dated May 4, 2007). Indeed, Cristina Mohr stated to the Examiner that it was Citigroup's judgment that The Washington Post was not an appropriate comparable for purposes of valuing Tribune. Examiner's Interview of Cristina Mohr, June 29, 2010.

[2334] Those assets included the Chicago Cubs, SCNI, and Hoy, New York.

[2335] The following tables show the impact of the mistake:

(4) Public Market Data Readily Available to VRC did not Support VRC's Solvency Conclusions at Step Two.

Finally, in evaluating the reasonableness of VRC's December 20, 2007 solvency opinion, the Examiner considered certain market information that should have been readily available to VRC and, in the Examiner's view, bears on reasonableness. For example, during the period between the Step One Financing Closing Date and the Step Two Financing Closing Date, (a) the secondary market for the Step One Debt began reflecting modest discounts, (b) Tribune's publicly traded bonds began trading at steep discounts to par (particularly during the period immediately preceding the Step Two Closing),[2336] (c) the pricing on credit default securities increased significantly, and (d) Tribune Common Stock traded at values as low as $25.41 per

VRC 12/20/2007 MODEL											
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Publishing Segment Revenue	$ 3,713	$ 3,680	$ 3,752	$ 3,840	$ 3,928	$ 4,019	$ 4,113	$ 4,209	$ 4,307	$ 4,408	$ 4,511
Broadcasting Segment Revenue (incl Radio)	$ 1,383	$ 1,257	$ 1,264	$ 1,307	$ 1,317	$ 1,352	$ 1,387	$ 1,424	$ 1,461	$ 1,500	$ 1,539
Total Revenue	**$ 5,096**	**$ 4,936**	**$ 5,016**	**$ 5,147**	**$ 5,245**	**$ 5,371**	**$ 5,500**	**$ 5,633**	**$ 5,769**	**$ 5,907**	**$ 6,050**
Publishing Segment EBITDA	$ 818	$ 786	$ 814	$ 844	$ 875	$ 906	$ 927	$ 949	$ 971	$ 994	$ 1,017
Broadcasting Segment EBITDA (incl Radio)	$ 415	$ 448	$ 464	$ 479	$ 465	$ 484	$ 497	$ 510	$ 523	$ 537	$ 551
Corporate Expenses	($ 42)	($ 41)	($ 41)	($ 41)	($ 41)	($ 41)	($ 41)	($ 41)	($ 41)	($ 41)	($ 41)
Total EBITDA	**$ 1,191**	**$ 1,193**	**$ 1,237**	**$ 1,282**	**$ 1,299**	**$ 1,349**	**$ 1,383**	**$ 1,417**	**$ 1,453**	**$ 1,489**	**$ 1,527**

VRC 12/20/2007 SENSITIVITY CASE											
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Publishing Segment Revenue	$ 3,713	$ 3,532	$ 3,404	$ 3,309	$ 3,220	$ 3,139	$ 3,061	$ 2,984	$ 2,910	$ 2,837	$ 2,766
Growth		*-4.9%*	*-3.6%*	*-2.8%*	*-2.7%*	*-2.5%*	*-2.5%*	*-2.5%*	*-2.5%*	*-2.5%*	*-2.5%*
Broadcasing Segment Revenue (incl Radio)	$ 1,383	$ 1,409	$ 1,387	$ 1,424	$ 1,413	$ 1,442	$ 1,473	$ 1,504	$ 1,535	$ 1,567	$ 1,600
Growth		*1.9%*	*-1.6%*	*2.7%*	*-0.8%*	*2.1%*	*2.1%*	*2.1%*	*2.1%*	*2.1%*	*2.1%*
Total	**$ 5,096**	**$ 4,941**	**$ 4,791**	**$ 4,733**	**$ 4,632**	**$ 4,582**	**$ 4,533**	**$ 4,488**	**$ 4,445**	**$ 4,404**	**$ 4,366**
Publishing Segment EBITDA		$ 731	$ 674	$ 645	$ 625	$ 609	$ 594	$ 579	$ 564	$ 550	$ 537
Margin		*20.7%*	*19.8%*	*19.5%*	*19.4%*	*19.4%*	*19.4%*	*19.4%*	*19.4%*	*19.4%*	*19.4%*
Broadcasting Segment EBITDA		$ 459	$ 462	$ 484	$ 442	$ 453	$ 462	$ 472	$ 482	$ 492	$ 502
Margin		*32.6%*	*33.3%*	*34.0%*	*31.3%*	*31.4%*	*31.4%*	*31.4%*	*31.4%*	*31.4%*	*31.4%*
Corporate Expenses		-41.3	-41.3	-41.3	-41.3	-41.3	-41.3	-41.3	-41.3	-41.3	-41.3
Total		**$ 1,149**	**$ 1,095**	**$ 1,088**	**$ 1,025**	**$ 1,021**	**$ 1,015**	**$ 1,010**	**$ 1,005**	**$ 1,001**	**$ 998**

[2336] Those bonds further declined in value after the closing of the Step Two Transactions, as additional information regarding Tribune's fourth quarter 2007 performance was disclosed in early 2008. *See* Ex. 77 (Tribune Bond Pricing). Although not publicly disclosed before the closing of Step Two, much of the financial performance data for the fourth quarter of 2007 was known to management prior to the closing of Step Two (*e.g.,* Brown Book data for periods 10 and 11 of 2007).

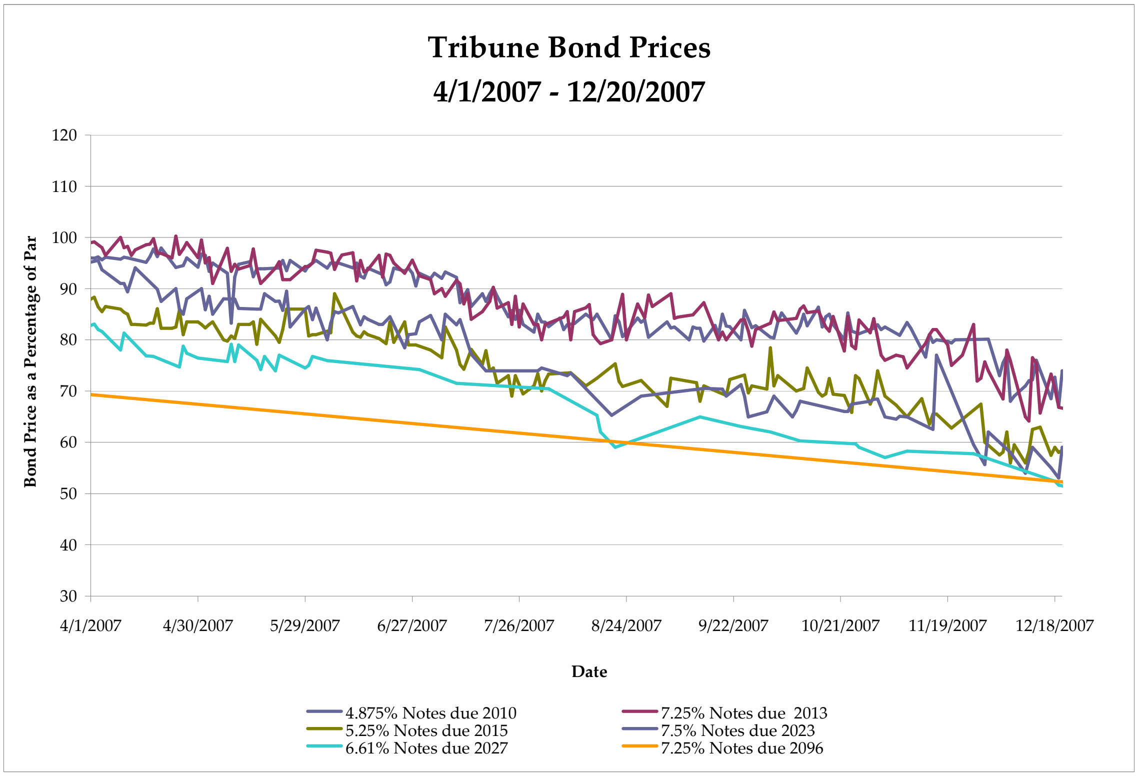
share. These factors (none of which VRC appears to have considered explicitly) further undermine VRC's Step Two valuation conclusions.[2337]

As evidenced by a chart prepared by Morgan Stanley in connection with a November 21, 2007 presentation,[2338] Tribune's Tranche B Facility debt, despite having traded near par value in May 2007, declined to approximately 91% of par value as of mid-November 2007, reflecting a significant discount not only to the trading value of Tribune's Tranche X Facility debt (which as of November 2007 was trading at 97.5% of par value), but also a discount to the benchmark index selected by Morgan Stanley for comparative purposes. Between the Step One Financing Closing Date and Step Two Financing Closing Date, Tribune's longer term debt traded at an almost 10% discount in the secondary market.

Similarly, as the chart below indicates, the price of Tribune's publicly traded debt eroded steadily between the Tribune Board's approval of the Leveraged ESOP Transactions on April 1, 2007 and the Step Two Financing Closing Date. At the time of the closing of Step Two, Tribune's bonds were trading between approximately 50% and 75% of par value:

[2337] As explained elsewhere in the Report, significant market indicia did not support a conclusion that Tribune was solvent at Step Two. *See* Report at § IV.B.5.d.(10).

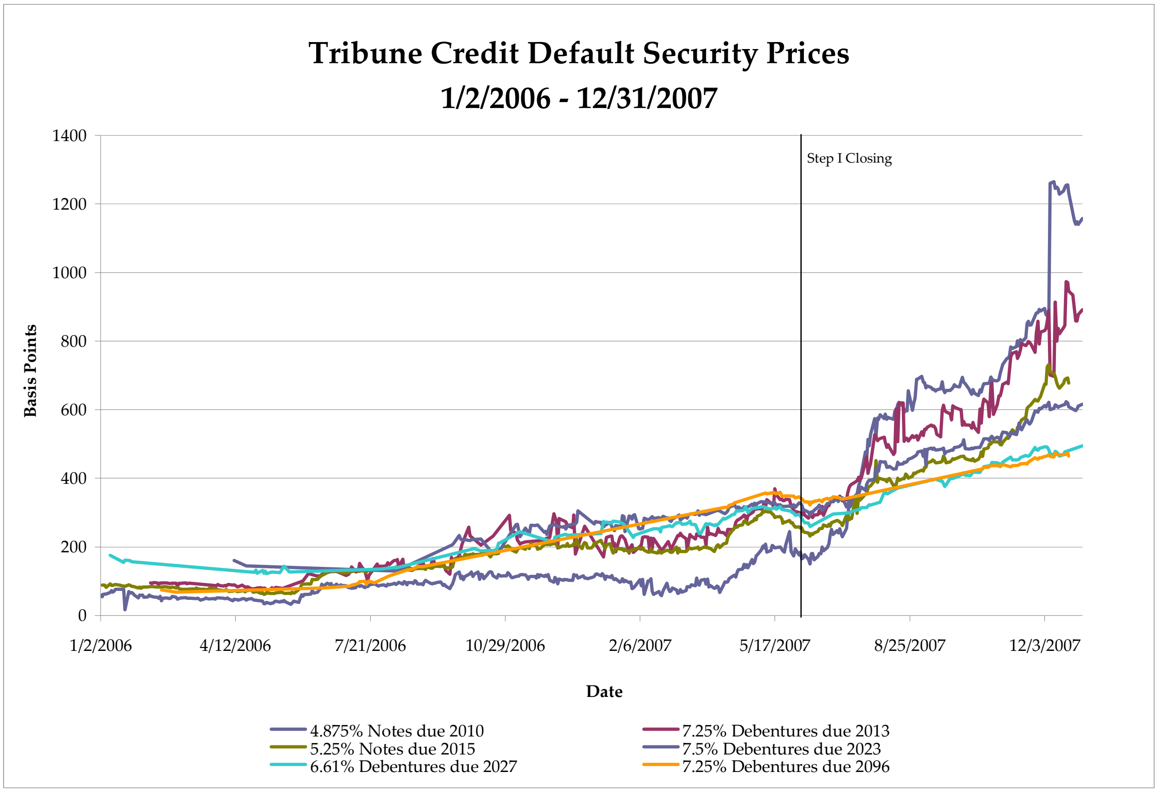
[2338] Ex. 920 (Morgan Stanley Project Tower Discussion Materials, dated November 21, 2007). These materials appear to correspond to materials presented to the Tribune Board at the November 21, 2007 Tribune Board meeting, based on a description of Morgan Stanley's presentation as contained in the meeting minutes. *See* Ex. 702 (Tribune Board Meeting Minutes, dated November 21, 2007).



Moreover, and related to the market indicators above, the pricing of Tribune credit default securities increased significantly during this period:[2339]

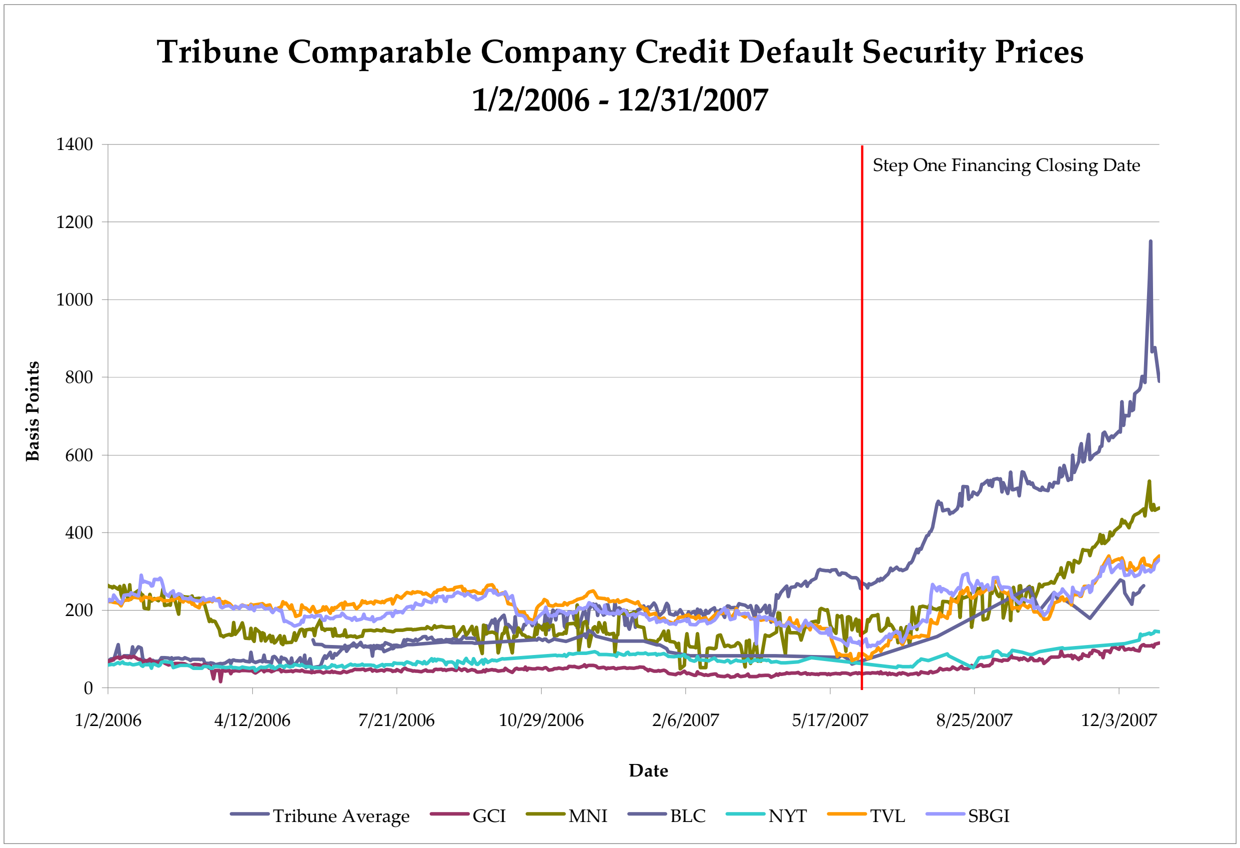
[2339] Ex. 921 (Tribune Company CDS Prices Chart). The Examiner notes that VRC was, or should have been, aware of this fact in conducting its analysis. *See, e.g.*, Ex. 922 (Edge E-Mail, dated July 22, 2007), referring to a Bloomberg article which observed:

> Tribune Co. has a 50-50 chance of missing interest payments on some of the $13 billion in debt it will have after real estate investor Sam Zell buys the company, trading in the company's credit-default swaps shows.
>
> Prices of the swaps, financial contracts used to speculate on a company's ability to repay debt, have jumped $331,000 since the first step in the sale was completed in May. It costs $770,000 to protect $10 million of Tribune bonds for five years, according to CMA Datavision, indicating a more than 50 percent risk of default. . . .
>
> Tribune swaps prices imply investors consider the company the fourth-riskiest debt issuer among the almost 1,200 worldwide whose credit-default swaps were quoted this week by London-based CMA. Tribune is perceived as more likely to default on its bonds than Ford Motor Co., the Dearborn, Michigan-based automaker that reported a record $12.6 billion lost last year. Ford credit-default swaps trade at $682,000, CMA prices show. . . .
>
> The company's sales are running behind even the most pessimistic scenario evaluated by its banker, New York-based Morgan Stanley. Tribune would be worth as little as $14.21 a share if newspaper sales were to fall 3 percent a year and broadcasting cash flow declined 1 percent annually through 2011, Tribune said in the filing, citing a Morgan Stanley analysis.



And, when contrasted with other identified cohort company credit default pricing, Tribune securities evidenced more significant pricing differentiation:[2340]

[2340] The consolidated Tribune credit default prices were calculated as the average of all credit default security prices on a given day across all of Tribune's bonds. The credit default prices for Gannett, McClatchy, and LIN TV were also derived using this methodology. Belo Corp., The New York Times, and Sinclair Broadcast Group only had data for one security, and as a result, only that security is illustrated in the graph.



Finally, between the closing of the Step One Transactions and the closing of the Step Two Transactions, Tribune Common Stock traded at times below $26 per share. Thus, the trading price of Tribune Common Stock could be construed to evidence insolvency, given that the Tribune Common Stock would be replaced with debt in an amount equivalent to $34 per share (and considering that the trading price of the Tribune Common Stock was likely upwardly biased due to the prospect of receiving $34 per share on the Step Two Financing Closing Date). This fact in isolation, however, does not conclusively demonstrate that Tribune would be insolvent on the consummation of the Merger.[2341] First, a price of $34 per share could reflect Tribune's value in the hands of a purchaser that could realize synergies that others could not. In such case, the differential between the $34 Tender Offer price and the observed trading price of a

[2341] *See* Report at § IV.B.5.d.(10).

share of Tribune Common Stock might represent a "control premium" associated with such synergies.[2342] Second, a price of $34 per share could reflect a unique attribute of the buyer that adds value to the enterprise (and thereby permits the buyer to pay more than fair market value for the Tribune Entities' assets), such as the tax attributes of the proposed S-Corporation/ESOP structure that would only be available following consummation of the Merger. This "added value" (the $8 per share premium Tender Offer price over the trading price) equates to approximately $935 million.[2343] As discussed in the Report, however, the Examiner concludes that the value associated with these particular tax attributes cannot be included in a solvency determination under a fair market value standard because such attributes are unique to the particular buyer and transaction ownership structure in this case.[2344] As a result, "synergistic" and "tax attribute" considerations would not refute the inference that the significant difference between the $26 per share trading price of Tribune Common Stock and the $34 per share Tender Offer price reflected insolvency at Step Two.

In sum, market-based information that was (or should have been) readily available to VRC contradicts VRC's Step Two opinion that Tribune was solvent as of December 20, 2007 when viewed from the perspective of the fair market value of the Tribune Entities' assets at that time.

[2342] Strategic purchasers often pay more for a company than financial buyers due to these synergies. In this case, however, Tribune's auction process yielded bids from two competing buyers, neither of which could be considered a strategic buyer. It would therefore be unlikely that the differential between the trading price of Tribune Common Stock and the Tender Offer price could be explained by the value associated with potential synergies.

[2343] The calculation assumes approximately 117 million shares of Tribune Common Stock were outstanding at such time. Of note, this $935 million value is roughly equivalent to the $876 million S-Corporation/ESOP tax savings calculated by VRC in its December 18, 2007 solvency analysis (not taking into account other potential savings associated with the proposed S-Corporation/ESOP structure such as 401(k) savings). Ex. 705 at TRB0414949 (Tribune Board Meeting Materials, dated December 18, 2007).

[2344] Such attributes do afford their owners value, unique to the particular owner, that is often referred to as "investment value."

g. The VRC Refinancing Representation Letter.

Tribune's prospective ability to refinance in 2014 and 2015 approximately $8 billion of debt arising from the Leveraged ESOP Transactions was one of four "key assumptions" VRC listed in its December 18, 2007 presentation to the Tribune Board,[2345] and, as noted in the Report, was the subject of a representation letter delivered by Tribune's management and cited and relied on in VRC's Step Two solvency opinion.[2346] The issue arose because of the large principal repayments Tribune was required to make on the Tranche B Facility and the Bridge Facility in 2014 and 2015. Specifically, for the first six years following the Leveraged ESOP Transactions, Tribune was projected to have relatively manageable debt servicing obligations. Excluding repayment of the Tranche X Facility (to be accomplished in large part through the sale of the Chicago Cubs), Tribune's scheduled debt repayments were $110.7 million in 2008, $77.7 million in 2009, $527.6 million in 2010, $77.9 million in 2011, $78.8 million in 2012, and $160.8 million in 2013.[2347] In 2014 and 2015, however, a large portion of the LBO Lender Debt was slated to come due, with a $6.325 billion repayment scheduled to be made on the Tranche B Facility in 2014 and a $1.695 billion repayment scheduled to be made on the Bridge Facility in 2015.[2348] Neither Tribune's $750 million Revolving Credit Facility nor the cash Tribune was projected to have on hand and available for debt repayments in 2014 and 2015 was sufficient to make the scheduled debt repayments.[2349] Nor, under the parameters of VRC's Step Two

[2345] Ex. 738 at VRC0109242 (VRC Preliminary Solvency Analysis, dated December 18, 2007) ("Assumes that the Company can refinance guaranteed debt after the expiration of the credit agreements").

[2346] Ex. 739 at 10 (Representation Letters, dated December 20, 2007); Ex. 728 at TRB0294013 (VRC Step Two Solvency Opinion, dated December 20, 2007).

[2347] Ex. 740 at VRC0061018 (VRC Preliminary Solvency Analysis, dated December 3, 2007).

[2348] *Id.*

[2349] *Id.* at VRC0061017. *See also* Ex. 628 at 47-48 (Tribune Form 10-Q, filed August 9, 2007) (cautioning that because Tribune "currently [has] substantial debt and other financial obligations [and expects] to incur significant additional debt in connection with the Leveraged ESOP Transactions," risk factors investors should consider include the ability of Tribune to refinance the LBO Lender Debt on or before maturity).

solvency analysis, were the proceeds of any additional asset sales (other than those incorporated in Tribune's downside projections) to be considered a source for satisfying debt in 2014 and 2015.[2350]

Tribune's ability to refinance its debt was more central to VRC's solvency analysis at Step Two than at Step One. Although VRC assumed at Step One "that the Company will be able to refinance debt when they mature,"[2351] VRC's Step One solvency analysis did not project that Tribune would be unable to meet its maturing obligations with existing cash flow.[2352] Additionally, Tribune would be significantly more leveraged following Step Two than it was following Step One, and therefore would likely have more difficulty accessing the capital markets.[2353] As Bryan Browning of VRC explained, Tribune's ability to refinance following its assumption of the Step Two Debt was essential "in order to continue to operate in a normal fashion."[2354] It was against this backdrop that management and VRC approached the refinancing issue in November and December 2007.

2350 *See* Ex. 728 at TRB0294013 (VRC Step Two Solvency Opinion, dated December 20, 2007) ("VRC . . . has assumed that the Company would be able to refinance . . . without the need for asset sales other than those incorporated into the Downside Case Forecast."). As discussed more fully elsewhere in the Report, it was VRC's assumption of no additional asset sales that led one banker to consider VRC's analysis conservative. *See* Report at § III.G.1.

2351 Ex. 268 at TRB0149972 (VRC Step One Solvency Opinion, dated May 9, 2007).

2352 Ex. 274 at TRB0149957 (VRC Solvency Opinion Analysis, dated May 9, 2007).

2353 One JPM banker described this concern as follows, albeit with regard to bonds set to mature between 2008 and 2010: "[I]f we were to fund the second step commitments, one would then reasonably have to assume that the company would not have access to [the capital] markets to refinance these, except perhaps at extreme coupons, that would likely result in the company not be [sic] able to cover the interest. Can we contact solvency firm to let them know they should not be assuming markets would be open to Trib to refi their maturities?" Ex. 741 (Jacobson E-Mail, dated September 6, 2007).

2354 Examiner's Sworn Interview of Mose Rucker and Bryan Browning, June 30, 2010, at 207:17-18. *See also id.* at 207:21-208:22 (Mr. Rucker: "[I]f you have debt outstanding, when it matures, you either have one or two options: You either have to pay off the debt with existing cash proceeds, or you have to refinance it. . . . Based upon the projections that management gave us, . . . management anticipated that . . . it would have to be refinanced.").

(1) VRC's November 30, 2007 Cash Flow Analysis.

VRC's November 30, 2007 internal analysis revealed that although Tribune would have sufficient cash flow available for debt repayments in 2008 through 2013, scheduled repayments due in 2014 and 2015 would vastly exceed available cash—even under the more optimistic base case assumptions provided by management.[2355] Specifically, under management's base case, only $605 million in cash would be available to cover more than $5 billion in debt repayments scheduled for 2014 and only $709 million in cash would be available to cover more than $2 billion in debt repayments scheduled for 2015.[2356] The outlook under management's downside case showed that Tribune would have only $275 million in cash available for debt repayments in 2014 and only $307 million in cash available for debt repayments in 2015.[2357]

In its November 30, 2007 internal analysis, VRC addressed these significant cash shortfalls in 2014 and 2015 by noting that: "Term Loan B and Bridge Note are assumed to be refinanced in 2014 and 2015, respectively."[2358] The footnote supporting that assumption in the base case states that "VRC believes that this assumption is reasonable given that the Company was able to reduce [g]uaranteed debt to 4.25x in 2014 and 3.89x in 2015."[2359] A similar footnote in the downside case reads: "VRC believes that this assumption is reasonable given that the Company was able to reduce guaranteed debt to 5.75x in 2014 and 5.68x in 2015 assuming the sale of the Company's interest in Career[B]uilder."[2360] No mention is made in the November 30,

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[2355] Ex. 742 at VRC0063418 (VRC Preliminary Solvency Analysis, dated November 30, 2007).

[2356] *Id.*

[2357] *Id.* at VRC0063423.

[2358] *Id.* at VRC0063418 and VRC0063423.

[2359] *Id.* at VRC0063418.

[2360] *Id.* at VRC0063423.

2007 VRC analysis of any representation from management or Tribune's financial advisors regarding refinancing.

(2) Events of December 1, 2007.

VRC discussed its refinancing assumption at an internal VRC opinion committee meeting on Saturday, December 1, 2007, just three days before a Tribune Board meeting at which VRC was scheduled to present its preliminary Step Two solvency analysis.[2361] In the handwritten notes of Bryan Browning (who attended the opinion committee meeting), refinancing is the only topic mentioned by name:[2362]

> Met again to address outstanding issues with committee. Significant time was spent on the assumption of refinancing. The committee asked for more data to look at and consider potential asset sales.

When asked about this opinion committee meeting during his interview with the Examiner, Mr. Browning testified that "typically it was three or four people that are involved in the committee other than those that are . . . completing the project."[2363] Mr. Browning explained that "because of the size of the debt . . . [the opinion committee] wanted to make sure that we were satisfied that [refinancing was] a fair assumption."[2364]

Mose Rucker of VRC also was at the December 1, 2007 opinion committee meeting.[2365] After the meeting, Mr. Rucker telephoned Tribune Treasurer Chandler Bigelow.[2366] Although neither Mr. Rucker nor Mr. Bigelow has a specific, independent recollection of their

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[2361] Ex. 743 (Handwritten Notes of Bryan Browning, dated December 1, 2007); Ex. 736 (Tribune Board Meeting Materials, dated December 4, 2007).

[2362] Ex. 743 (Handwritten Notes of Bryan Browning, dated December 1, 2007).

[2363] Examiner's Sworn Interview of Mose Rucker and Bryan Browning, June 30, 2010, at 226:4-10.

[2364] *Id.* at 226:17-22.

[2365] *Id.* at 227:16-19.

[2366] Ex. 744 (Kenney E-Mail, dated December 2, 2007).

December 1, 2007 conversation,[2367] Mr. Bigelow sent an e-mail that evening to Donald Grenesko, Tribune's Senior Vice President/Finance and Administration, copying Tribune General Counsel Crane Kenney and Tribune Chief Executive Officer Dennis FitzSimons, which reads in pertinent part:[2368]

> I just spoke to [Mr. Rucker]. VRC has three issues/concerns that we need to resolve prior to an internal VRC committee meeting scheduled for tomorrow at 1130 am Chicago time.
>
> VRC is concerned about refinancing risk with our new debt in 2014. They want us to rep that it is reasonable to assume that we will be able to refinance the new debt in 2014 even in the downside. They would like our rep to indicate that we have conferred with one of our financial advisors and that our advisor concurs with this assumption. . . .
>
> For the first point, I think we need Morgan Stanley. But, to be clear, it is reasonable to assume we can refi in 2014. . . .
>
> I suggest we have a call tomorrow at 730 if possible.

During his interview with the Examiner, Mr. Rucker recalled asking Mr. Bigelow to speak with Tribune's financial advisor and ask "the financial advisor to agree that it is reasonable to assume that this debt could be refinanced."[2369] Mr. Rucker does not believe he asked Mr. Bigelow to determine whether the financial advisor "concurs" that the debt could be refinanced.[2370] Mr. Rucker explained that VRC sought to use this representation as one factor in

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[2367] Examiner's Sworn Interview of Chandler Bigelow, June 17, 2010, at 180:1-181:20; Examiner's Sworn Interview of Mose Rucker and Bryan Browning, June 30, 2010, at 230:7-24.

[2368] Ex. 744 (Kenney E-Mail, dated December 2, 2007).

[2369] Examiner's Sworn Interview of Mose Rucker and Bryan Browning, June 30, 2010, at 237:7-18.

[2370] *Id.* at 237:7-23 ("Q. Do you remember asking Chandler Bigelow or anybody else to get an indication that the financial advisor concurs with the refinancing assumption? A. Not those specific terms of concur. I think that the way that I termed it or phrased it to Chandler Bigelow is we would want the financial advisor to agree that it is reasonable to assume that this debt could be refinanced. I don't know about confers [sic]—I don't think I used the word 'confers' [sic]. I think more I would have used the term that it is reasonable to assume that it can be refinanced.").

VRC's ultimate determination that Tribune could refinance its debt and thereby maintain adequate cash flow:[2371]

> Q. Mr. Rucker, how was VRC able to make this assumption [that Tribune could refinance its debts in the future]?
>
> A. Well, there are two things . . . that we did in this process in determining whether or not it is reasonable to assume that management would be able to refinance the debt. Number one, we looked at the debt levels in those outer years. We also looked at the [covenants] and how much cushion was available on the [covenants] at that time. One additional thing that we also did was we received a representation letter from management, that based upon management's assumptions and management's discussions with Morgan Stanley, if management would be able to refinance those debts when they matured, if they believed it was reasonable.

When asked why VRC "went beyond [a general management representation] in this case and asked that [management] also have discussions with Morgan Stanley," Mr. Browning explained that VRC requested that management confer with Morgan Stanley "[b]ecause [this] was a highly leveraged transaction, and we wanted to make sure that [the prospective ability to refinance] was a fair assumption. So we took it very seriously. It [was something that] the committee wanted to make sure . . . was looked at very closely."[2372] Nonetheless, VRC apparently did not expect to receive written confirmation from Morgan Stanley that it believed Tribune could refinance its debt in the future:[2373]

[2371] Examiner's Sworn Interview of Mose Rucker and Bryan Browning, June 30, 2010, at 208:23-209:20. *See also id.*, at 216:10-14 (Mr. Browning: "[W]e insisted, as we always do, that the company provide us a rep that they believe they have the ability to refinance the debt when it becomes mature.").

[2372] *Id.* at 216:15-217:7.

[2373] *Id.* at 221:24-222:14. *See also id.* at 242:13-243:5 ("Q. [I]f it wasn't . . . an absolute requirement to get Morgan Stanley's involvement in some way, why did you ask for it? A. [W]e asked for it [as] a way of getting additional comfort to see if our assumptions . . . were reasonable. So it was just a way of getting . . . additional comfort to ask for it. Q. But you knew you weren't likely to get that comfort, right? A. That doesn't mean you don't ask for it.").

> [K]nowing the way that the investment banks work with respect to solvency opinions and how they typically will not issue solvency opinions, I would say I would not be surprised if they would say we will not opine on that particular issue as far as giving a written opinion. We might say that we think it can be refinanced, but we are not prepared to write a written opinion saying it can be refinanced, because that may be almost equivalent to a solvency opinion because we know they don't participate in that sector of the business.

(3) Tribune Management's December 2, 2007 Telephone Call with Morgan Stanley.

On the morning of Sunday, December 2, 2007, Mr. Bigelow sent an e-mail to Thomas Whayne and Charles Stewart of Morgan Stanley, asking, "Would you be available for a quick call this morning at 1015 NYC time? Want to get you caught up with the VRC process and one question that they have asked about our ability to refinance in 2014."[2374] Mr. Stewart circulated a dial-in number for a telephone call to Mr. Whayne, Mr. FitzSimons, Mr. Grenesko, and Mr. Bigelow of Tribune.[2375] Mr. Whayne informed his boss, Paul Taubman, of the telephone call: "fyi—we have a call at 10:15 am this morning with Dennis, Don and Chandler to get an update on the VRC process. No need for you to join, just wanted to let you know."[2376]

Mr. Whayne summarized the December 2, 2007 call in an e-mail to Mr. Taubman that afternoon:[2377]

> Charlie and I just finished a call with Dennis, Don and Chandler, who wanted to give us an update on the VRC process. VRC is scheduled to present to the TRB board on Tuesday with regards to their solvency analysis, and are having their final internal committee meeting at noon today. They called the company on

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[2374] Ex. 745 at MS_97054 (Whayne E-Mail, dated December 2, 2007).

[2375] *Id.*

[2376] *Id.*

[2377] Ex. 746 (Whayne E-Mail, dated December 2, 2007). The Friday call referred to in Mr. Whayne's e-mail may actually have taken place on Saturday, December 1, 2007, given that Mr. Browning's notes place the VRC opinion committee meeting on that date. Ex. 743 (Handwritten Notes of Bryan Browning, dated December 1, 2007).

> Friday to discuss some committee pushback that they have received thus far.
>
> First, they requested a TRB management rep to the effect that it is reasonable to assume that the debt can be refinanced in 2014, and that the financial projections have been prepared by management in good faith. VRC also asked management to discuss this issue with advisors.

After discussing an issue arising from the potential timing of EGI-TRB's exercise of the Warrant[2378] and corroboration for a tax savings analysis,[2379] Mr. Whayne closed his e-mail with: "As a result, all issues appear manageable with VRC."[2380]

During his sworn interview with the Examiner, Mr. Whayne's recollection of his December 2, 2007 telephone call with Mr. FitzSimons, Mr. Grenesko, and Mr. Bigelow was: (a) that he received "an update of what VRC . . . had requested," (b) "a fairly . . . open discussion around . . . what Zell would do with exercising his option," (c) "having a discussion around the fact that [the anticipated tax savings] was core to the way that rating agencies looked at multiples," and (d) "being told that the management was being asked to make [the refinancing] rep."[2381] With regard to the refinancing representation, specifically, Mr. Whayne explained that "on this call I just remember being told about the issue."[2382] Although "there was discussion around the [tax savings and Warrant exercise issues]," Mr. Whayne does not recall "much discussion between ourselves and management regarding the refinancing rep, only that they were

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2378 Ex. 746 (Whayne E-Mail, dated December 2, 2007) ("Second, someone on the VRC committee expressed nervousness that Zell could exercise his option early and force the company to pay his associated taxes, which would be economically irrational and that the board could prevent—so, it appears that this is a mere misunderstanding.").

2379 *Id.* ("Finally, VRC wants management to review their analysis of the PV of tax savings associated with being an S-corp, which they put at approximately $1 billion. This is consistent with the company's analysis, and in fact, the company has this analysis included as part of their rating agency and bank presentations.").

2380 *Id.*

2381 Examiner's Sworn Interview of Thomas Whayne, July 2, 2010, at 62:17-63:20.

2382 *Id.* at 64:4-5.

being asked to do it."[2383] Mr. Whayne interpreted his statement to Mr. Taubman that the issues with VRC appeared "manageable" to mean that "management . . . will have a discussion with [VRC] and educate them on the [Warrant] issue and . . . the tax saving issue,"[2384] *i.e.*, that management would work with VRC to resolve these issues.[2385]

The Examiner asked each of Mr. FitzSimons, Mr. Grenesko, and Mr. Bigelow for their respective recollections of the December 2, 2007 telephone call with Mr. Whayne and Mr. Stewart. Mr. FitzSimons had no specific recollection of the telephone call.[2386] Mr. Grenesko remembered participating in such a telephone call "during the December 2nd and 3rd timeframe," and recalled with respect to what Morgan Stanley said about Tribune's ability to refinance: "I thought they said that, yes, it would be reasonable to assume that the company could refinance in 2014."[2387] Although Mr. Bigelow did not tie his recollection to a specific telephone call or date, when the Examiner questioned Mr. Bigelow about the statement "I think

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[2383] *Id.* at 64:6-16. Mr. Whayne opined that the brevity of his reference to the refinancing representation in his e-mail to Mr. Taubman indicated that the topic was not extensively discussed: "[T]his is an E-mail to Paul Taubman who was and is my boss, and I tend to be fairly precise in what I wrote to Paul. So there were three issues that were laid out to us by management, and two, the last two . . . I remember a fairly active discussion around those issues because obviously I shared with Paul that I had a point of view about those issues that I shared with management that they ought to take that to VRC. . . ." *Id.* at 65:2-16.

[2384] *Id.* at 67:21-68:3.

[2385] *Id.* at 68:8-10.

[2386] *See* Examiner's Sworn Interview of Dennis FitzSimons, June 25, 2010, at 91:15-92:19:

> Q: Are you aware of any discussions [with Morgan Stanley] in or around December 2007 with respect to whether or not [Tribune] would have the ability to refinance its debt that it was assuming in this transaction in 2014?
>
> A: In preparation for this examination, I was shown some e-mails and asked what my recollection was. I was on so many conference calls during this whole process, during the auction process and beyond, I can't remember specifically, but seeing these e-mails, it made it clear that [Morgan Stanley was] asked about . . . refinancing in 2014. . . .
>
> Q: And do you actually remember any of these events?
>
> A: No, I wouldn't have remembered. If somebody would have asked me that question without the e-mails, I would not have remembered.

[2387] Examiner's Sworn Interview of Donald Grenesko, June 25, 2010, at 100:10-101:4. Mr. Grenesko did not make any notes of this conversation, nor did he prepare any confirmatory e-mail, letter, or memorandum, "because we thought that they were in agreement." *Id.* at 101:12-14, 102:15-19, and 103:3-5.

we need Morgan Stanley" in his December 1, 2007 e-mail, Mr. Bigelow appeared to be describing the December 1, 2007 telephone call when he explained:[2388]

> Q. So what were you intending to use or rely upon from Morgan Stanley?
>
> A. I guess I was suggesting that Morgan Stanley be conferred with.
>
> Q. Did you do that?
>
> A. I—so I did ultimately speak to Morgan Stanley about that.
>
> Q. Who did you speak with?
>
> A. You know, my present recollection is that I spoke with Tom Whayne. If I had a document in front of me, we could probably talk about it if there is one, but I think it was Tom Whayne.
>
> Q. Well, before we start looking at more documents, tell me what you recall about a conversation with Tom Whayne.
>
> A. Again, my present recollection is that I spoke to Tom Whayne about this request.
>
> Q. And what—let me make sure that I'm understanding you. When you say "this request," what specific request are you talking about? What would you—
>
> A. Wanted to get—Tribune Company obviously wanted to get Morgan Stanley's view on the reasonableness that the company could refinance the new debt in 2014.
>
> Q. And you made that ask to Morgan Stanley?
>
> A. I think specifically what I did was spoke to them about that to see if they could provide me with some feedback about that request, some market color, some precedent, you know, comparables in the market, get their view.
>
> Q. Did you ask Morgan Stanley to give you a representation at that time that the company could refinance?
>
> A. I don't specifically recall. I may have.

[2388] Examiner's Sworn Interview of Chandler Bigelow, June 17, 2010, at 178:1-180:1.

Q. Do you recall anything else about your conversation with Mr. Whayne, I think it was Mr. Whayne, at that time?

A. My recollection is that I might have asked to see if they would give me a rep, and, you know, I think he said that he could not do that but that he could give me information based on their experience that would certainly lend support to saying it was reasonable that we could refinance our debt in 2014, and I believe that they did that.

Similarly, at a later point in his sworn interview with the Examiner, Mr. Bigelow characterized management's discussions with Morgan Stanley as having "left us with the impression that it would be reasonable to assume we could refinance."[2389]

(4) Tribune Management's December 2, 2007 Telephone Call with VRC.

Following the December 2, 2007 telephone call from Mr. FitzSimons, Mr. Grenesko, and Mr. Bigelow to Morgan Stanley, a subsequent telephone call was placed by Mr. Bigelow, Mr. Grenesko, and Mr. Kenney to Mr. Browning of VRC.[2390] Mr. Browning made one set of notes during the telephone call,[2391] and then re-wrote those notes at a later point.[2392] Mr. Browning's original notes appear below:[2393]

[2389] *Id.* at 199:5-6.

[2390] Ex. 747 (Original Handwritten Notes of Bryan Browning, dated December 2, 2007); Ex. 748 (Revised Handwritten Notes of Bryan Browning, dated December 2, 2007).

[2391] Ex. 747 (Original Handwritten Notes of Bryan Browning, dated December 2, 2007).

[2392] Ex. 748 (Revised Handwritten Notes of Bryan Browning, dated December 2, 2007). *See* Examiner's Sworn Interview of Mose Rucker and Bryan Browning, June 30, 2010, at 255:4-256:4.

[2393] Ex. 747 (Original Handwritten Notes of Bryan Browning, dated December 2, 2007).

1. Reasons for Refinance Debts in Downside Scenario

A. Talked through these points

1 Talked to Morgan Stanley
They concur with their view that they
2 would be able to Refinance
considered the downside Based upon
that it is still Refinanceable. Based.

3 B. Significant Benefit on
The Horizon of Selling assets

4 C. Will Provide a letter

D. Banks have made an
assumption that they were
Refinanceable. => In The Beginning

Mr. Browning re-wrote his notes apparently shortly thereafter as follows:[2394]

> Discussions about the assumption that the Company can refinance the guaranteed debt in 2014 and 2015.
>
> 1. Tribune talked to Morgan Stanley and they looked at the downside case provided to VRC. MS said that they believe it would be refinanceable at the levels outlined in the downside case and that would be before any assets sales.
>
> 2. They believed that the environment that we are currently in would refinance at those levels.

[2394] Ex. 748 (Revised Handwritten Notes of Bryan Browning, dated December 2, 2007). Mr. Rucker believes that he participated in this telephone call, too, but he could not specifically recall. Examiner's Sworn Interview of Mose Rucker and Bryan Browning, June 30, 2010, at 256:5-16.

3. They said that all lenders when making these types of loans anticipate the loans being refinanced after the debt comes due.

   Tribune also looked at the fact that 3 years after the guaranteed debt comes due [*illegible*]. The lenders will be most likely considering the S-Corp Structure and the significant benefit of waiting 3 more years to sell assets when they establish a new tax basis and no capital gains will be paid.

   This will save the Company significant cash flow and will give lending some cushion to be repaid in a timely fashion.

4. We asked Tribune (Chandler) to see if Morgan Stanley will provide documentation (leveraged comps) to support their statement. They will get back to us.

5. Management will provide a letter of representation that the refinancing is a reasonable assumption.

Mr. Browning explained during his sworn interview with the Examiner that it was his belief, based on his discussions with Tribune's management, that Morgan Stanley had told management that Tribune could refinance:[2395]

> We had discussions with management about refinancing and where the sources of refinancing would be, generally speaking. Then we also had, during those discussions, . . . I think management said, well, Morgan Stanley has told us that we can refinance at those levels even . . . under the downside scenario, they believed they still could refinance the debt. . . .
>
> And then we asked how they knew that or why they thought that, and they said Morgan Stanley has data that would support them being able to do that. And I think it was a number of comparables or a number of transactions that were out there. And we asked if they could provide that information to us, which they did. They provided a schedule of transactions that had high LBO debt.

[2395] Sworn Interview of Mose Rucker and Bryan Browning, June 30, 2010, at 214:10-215:12. *See also id.* ("[W]e felt that what management was telling us that Morgan Stanley said was, in fact, the case."). When asked "who at the company did you speak with?" Mr. Browning replied: "I think it was a team of people. Probably Chandler [Bigelow], maybe Don Grenesko, and maybe Crane Kenney . . . and others. I'm not sure, but there was a team that we typically talked to when we had conference calls." *Id.* at 215:21-216:8.

Mr. Rucker similarly stated that he understood from management "that Morgan Stanley also believed that the debt could be refinanced."[2396] Nevertheless, Mr. Browning and Mr. Rucker understood following the telephone call with management that Morgan Stanley was unwilling to provide a written representation to that effect.[2397]

Mr. Bigelow has no independent recollection of this December 2, 2007 telephone call with VRC,[2398] but when asked about Mr. Browning's notes during his sworn interview with the Examiner, Mr. Bigelow stated:[2399]

> A. I believe that while I don't recall my phone conversation with Tom Whayne, which I just described, I think it's pretty clear from the notes that Bryan Browning wrote that I had had a call with Morgan Stanley and they had, you know, discussed with me and said they would get precedent comparables to help support what they told me, that it's reasonable and fair to assume that we could—that Tribune Company could refinance in the future. . . .
>
> Q. Do you think Morgan Stanley ever told you that they believed the company could refinance?
>
> A. I believe Morgan Stanley told me that. I know they weren't willing to write a formal document to Valuation Research in a formal representation standpoint. I believe that Morgan Stanley communicated to me and supported that communication with a document, which, I mean, we've got to be able to find.
>
> Q. We have the comparable—
>
> A. Okay. And they communicated that it was reasonable for us to believe that we could refinance.

[2396] *Id.* at 211:16-18.

[2397] *Id.* at 272:8-273:17.

[2398] Examiner's Sworn Interview of Chandler Bigelow, June 17, 2010, at 185:4-8 ("Q. [Do] you recall a call with VRC on Sunday [, December 1, 2007]? A. Again, it was a long time ago. I [do not] recall a call, but clearly I was on a call.").

[2399] *Id.* at 200:7-201:20. *See also id.* at 210:9-15 ("Q. What I'm asking is, do you have any specific recollection of Morgan Stanley telling you that it would be reasonable to refinance? A. Again, I don't recall the conversation, but my present recollection as I sit here today and look at these materials is yes, they did that.").

Mr. Grenesko testified that he does not specifically recall the details of the December 2, 2007 telephone call either,[2400] but he told the Examiner that he believes management "told [VRC] about the conversation earlier with Morgan Stanley and that Morgan Stanley was in agreement that, yes, this could be refinanced in 2014."[2401] Mr. Kenney has no independent recollection of the December 2, 2007 telephone call or anything pertaining to a refinancing representation or assumption.[2402]

The Examiner questioned Mr. Whayne about the statements Tribune management made to VRC concerning Morgan Stanley's views on Tribune's ability to refinance its debt, using Mr. Browning's notes of what management claimed that Morgan Stanley said:[2403]

> Q. [L]ook at the paragraph labeled Number 1. According to Mr. Browning's notes it says Tribune talked to Morgan Stanley and [Morgan Stanley] said that they believe it would be refinanceable at the levels outlined in the downside case and that would be before any asset sales. . . . Do you recall anyone from Morgan Stanley having any discussions at any time in that regard with Tribune?
>
> A. No. I remember discussions of the requests being made around this assumption, but I remember us saying that we are not going to . . . address that.
>
> Q. Let's look at Number 2. Number 2 says: They believe that the environment that we are currently in would refinance at those levels. . . . Did Morgan Stanley ever make a statement to management in that regard at any time?
>
> A. No.
>
> Q. Let's look at Number 3. Number 3 states: They said that all lenders when . . . making these types of . . . loans anticipate

[2400] Examiner's Sworn Interview of Donald Grenesko, June 25, 2010, at 121:4-6 ("I believe there was a call, but I don't specifically remember the details of the call."); *id.* at 121:18-20 ("Q. What do you recall was told to the VRC people on the telephone call? A. I don't recall.").

[2401] *Id.* at 123:18-21.

[2402] Examiner's Sworn Interview of Crane Kenney, July 8, 2010, at 36:7-44:16.

[2403] Examiner's Sworn Interview of Thomas Whayne, July 2, 2010, at 84:13-87:21.

. . . the loans being refinanced after the debt comes [due]. . . . Did Morgan Stanley ever have any discussions to your knowledge with Tribune in that regard?

A. No. . . .

Q. Now just to be complete for the record, there is more to Paragraph 3 in [Mr. Browning's] notes on the backside of the page. It then goes on to talk about Tribune. If you could just briefly look at that and tell us, if anything, in the remainder of that Paragraph 3 changes your answer. . . . Does anything in there impact your answer that makes you want to add or change anything . . . [r]egarding what Morgan Stanley told Tribune [or] didn't tell Tribune?

A. No.

Mr. Whayne did, however, explain that he may have told Tribune management that *management* (not Morgan Stanley) could make assumptions that sufficient debt would have been paid down by 2014 "that you could refinance it, . . . with the emphasis on you [*i.e.*, management] could make that assumption, but . . . I never would have said [Morgan Stanley] would make that assumption."[2404]

(5) December 2, 2007 E-Mail Exchange Between Mr. Bigelow and Mr. Whayne, and Morgan Stanley's Precedent Transactions.

After the telephone call between management and VRC, Mr. Bigelow sent the following e-mail to Mr. Whayne:[2405]

> Heard back from VRC. They have given us the green light. Probably will not see a draft of the presentation until late tonight. I will send it to you when I get it.

[2404] Examiner's Sworn Interview of Thomas Whayne, July 2, 2010 at 75:17-76:6 and 79:5-9. *See also* Examiner's Sworn Interview of Chandler Bigelow, June 17, 2010, at 201:18-20 (asserting that Morgan Stanley "communicated that it was reasonable for us to believe that we could refinance"); *id.* at 199:5-6 (characterizing management's discussions with Morgan Stanley as having "left us with the impression that it would be reasonable to assume we could refinance").

[2405] Ex. 749 (Whayne E-Mail, dated December 2, 2007); Examiner's Sworn Interview of Chandler Bigelow, June 17, 2010, at 195:5-7.

> VRC has asked that we get them precedent debt issuance transactions of companies with the level of senior secured leverage that we will have in 2014. VRC's calc of this sr secured leverage is in the 6.5x level. Do you think you can come up with some precedent transactions that show companies [issuing] debt at these levels? VRC additional [sic] has asked if Morgan Stanley would rep to our ability to refi in 2014. I said I would ask you, but that I doubted it. In any event, the important deliverable is to get precedent transactions to them, ideally by tomorrow sometime.

Mr. Whayne interpreted Mr. Bigelow's e-mail to consist of two distinct requests: "[O]ne is just a request for us to give them data and one is a request for . . . us to give them a judgment. . . . And we were always helpful in providing data, but related to solvency we were always unwilling to provide judgments."[2406] Mr. Whayne responded to Mr. Bigelow's e-mail within the hour, writing: "We will look for precedents, although may be difficult to pull together today. You were correct regarding our inability to rep."[2407]

Morgan Stanley did, in fact, forward "some [leveraged] loan and [high yield] issuance precedents for TV/Newspaper companies going back to mid-2006."[2408] When asked by the Examiner why Morgan Stanley provided the precedent transactions requested by Mr. Bigelow, Mr. Whayne explained:[2409]

> A. Because they asked us for precedent transactions and we were always prepared to help provide them data regarding other deals that had been done in the market or public market debt trading levels or where public market companies were trading.
>
> Q. Did you have an understanding as to why they were asking for these debt, for these precedent transactions? . . .

[2406] Examiner's Sworn Interview of Thomas Whayne, July 2, 2010, at 91:4-10.

[2407] Ex. 749 (Whayne E-Mail, dated December 2, 2007).

[2408] Ex. 750 (Williams E-Mail, dated December 3, 2007).

[2409] Examiner's Sworn Interview of Thomas Whayne, July 2, 2010, at 91:22-93:8. During his informal interview with the Examiner, Mr. Whayne noted that it was his personal belief that a refinancing for Tribune's debt in 2014 and 2015 was not "an unreasonable assumption at the time" it was made, in December 2007. Examiner's Interview of Thomas Whayne, June 11, 2010.

A. [I] believe they were . . . trying to . . . get a view as to . . . different points in time where different companies had issued loans or issued bonds . . . to the market to just get a historical perspective.

Q. Did you have discussions with management about how they might be able to use these transactions, these precedent transactions in any way?

A. Well, I'm sure we gave them . . . perspective as to where company A, B or C . . . financed at different points in the marketplace from a historical perspective.

VRC found the Morgan Stanley precedent transactions persuasive. Mr. Rucker explained:[2410]

Q. What did Morgan Stanley supply you with?

A. [T]hey supplied us with a list of deals that had been done and what leverage ratios for EBITDA.

Q. And what is the relevance of those deals and leverage ratios in 2007 to a refinancing of $6 billion of debt in 2014?

A. It gives you an indication of how much leverage in today's market you can put on a company. So you would have to make an assumption that things would stay equivalent or some range in 2014.

Q. Is that a reasonable assumption?

A. Yes, because that's—truthfully, when you look at these things, typically, that's the only data that you have, is current data, because you are projecting out.

Mr. Browning concurred, stating that "comparables help us determine in a normal market, is it reasonable to make that assumption. . . . [Y]ou are trying to see what its normal

[2410] Examiner's Sworn Interview of Mose Rucker and Bryan Browning, June 30, 2010, at 246:8-247:6. *See also* Examiner's Sworn Interview of Donald Grenesko, June 25, 2010, at 97:12-98:4 ("I remember we wanted to know whether or not there were precedents for this and what type of financings had been done during the last 18 months, 2 years, to see whether or not deals of this type, meaning with this type of leverage, could be completed, and I believe Charlie Stewart had mentioned several transactions sort of during our call that he had remembered, and I recall one being Univision, for example, that he had mentioned. And so we had requested [that Morgan Stanley] provide us with a list of comparable transactions, and they ended up sending that to us early the next week, Monday I think after the weekend, and we had indicated to VRC that, yes, we felt that we could provide this type of representation.").

level of transaction multiples or multiples associated with debt. . . . So that gives us—in a sense, it passed that sort of smell test, if you will."[2411]

Even though he agreed to provide the precedent transactions, and even though he personally believed that it was not "an unreasonable assumption at the time" for management to assume Tribune could refinance its debt in 2014 and 2015,[2412] Mr. Whayne testified that he was "crystal clear" that Morgan Stanley was not making or offering its own assessment that Tribune could refinance its debt, or agreeing with Tribune's assessment.[2413] He recalls that Mr. Grenesko "was looking for us very actively to help him with the work underlying his solvency [certificate]," including "to do the analysis for him and actually to do the [calculations] . . . to prove that there was equity value."[2414] Mr. Whayne refused, and explained to Mr. Grenesko that Morgan Stanley was willing to do no more than provide information such as "publicly available data around where high yield bond or leverage loans are trading . . . but what we will not do is go beyond that. So we'll provide you facts, but not judgments."[2415]

(6) December 2, 2007 Draft VRC Refinancing Representation Letter.

The first draft of what would ultimately become the December 20, 2007 VRC refinancing representation letter from Mr. Grenesko to VRC appears to have been initially circulated on the

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2411 Examiner's Sworn Interview of Mose Rucker and Bryan Browning, June 30, 2010, at 248:23-249:12. *See also id.* at 285:10-18 ("[W]e [were] trying to put ourselves in what could be the scenario in 2014, . . . so [we] look[ed] at transactions—not just from 2007 [that were] in this industry, what the [debt] levels were, the multiples were. And that's what [we were] relying on.").

2412 Examiner's Interview of Thomas Whayne, June 11, 2010.

2413 Examiner's Sworn Interview of Thomas Whayne, July 2, 2010, at 94:17-96:20.

2414 *Id.* at 95:3-14.

2415 *Id.* at 96:1-13.

evening of December 2, 2007 by Mr. Rucker of VRC.[2416] The first paragraph of the December 2, 2007 draft reads, in pertinent part:[2417]

> Based upon management's best understanding of the debt and loan capital markets and management's recent discussions with Morgan Stanley, it is reasonable and appropriate for VRC to assume that in the Tribune Downside Forecast dated November 21, 2007 that Tribune would be able to refinance any outstanding balances of Term Loan B that matures in 2014 and the Bridge Note that matures in 2015 without the need for any asset sales.

This first paragraph is followed by two paragraphs in which management appears to link Tribune's ability to refinance its debt to the satisfaction of particular leverage tests in 2014 and 2015:[2418]

> Management believes that it is reasonable and appropriate for VRC to assume that in the Tribune Downside Forecast dated November 21, 2007 that Tribune will be able to refinance any Guaranteed Debt (as defined in the indenture) that matures in 2014 *if* the Guaranteed Debt to Covenant EBITDA (as defined in the indenture) is 6.95 times and the Covenant EBITDA to Cash Interest Expenses (as defined in the indenture) is 1.3 times without the need for any asset sales.
>
> Management believes that it is reasonable and appropriate for VRC to assume that in the Tribune Downside Forecast dated November 21, 2007 that Tribune will be able to refinance any Guaranteed Debt (as defined in the indenture) that matures in 2015 *if* the Guaranteed Debt to Covenant EBITDA (as defined in the indenture) is 6.77 times and the Covenant EBITDA to Cash Interest Expenses (as defined in the indenture) is 1.3 times without the need for any asset sales.

These final two paragraphs, as distinct from the first, make no reference to discussions between management and Morgan Stanley. Nor does the December 2, 2007 draft letter explain

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[2416] Ex. 751 (Hianik E-Mail, dated December 3, 2007). Mr. Rucker stated in his sworn interview with the Examiner that he believed "the crux of the letter, the core of the letter" came from Tribune. Examiner's Sworn Interview of Mose Rucker and Bryan Browning, June 30, 2010, at 270:10-25. The earliest iteration of this particular representation letter in the documentary record, however, appears to have been sent as part of Mr. Rucker's December 2, 2007 e-mail. Ex. 751 (Hianik E-Mail, dated December 3, 2007).

[2417] Ex. 752 at VRC0056532 (Draft VRC Representation Letter, dated December 2, 2007).

[2418] *Id.* (emphasis added).

the potential inconsistency underlying (a) the unconditional assumption made in the first paragraph (which states that it is reasonable and appropriate for VRC to assume that Tribune will be able to refinance the stated debt in 2014 and 2015) versus (b) the conditional assumptions made in the last two paragraphs (which state that it is reasonable and appropriate for VRC to assume that Tribune will be able to refinance the stated debt in 2014 and 2015 *if* the specified ratios are met in 2014 and 2015). The multiple references to leverage ratios do imply, however, that management's assumption that Tribune would be able to refinance in the future was based, at least in part, on comparable transactions in which other companies meeting the specified leverage ratios successfully refinanced their debt.

There is no evidence that Morgan Stanley personnel were furnished drafts of the December 2, 2007 VRC refinancing representation letter. In addition, in his interview with the Examiner, Mr. Whayne said that he had never seen the VRC refinancing representation letter or VRC's Step Two solvency opinion.[2419] Based on the Examiner's review of the relevant e-mails and Mr. Whayne's testimony, neither Mr. Bigelow, Mr. FitzSimons, Mr. Grenesko, nor Mr. Kenney ever told Morgan Stanley that the VRC refinancing representation letter or VRC's opinion would refer to Morgan Stanley. Mr. Whayne credibly testified during his interview with the Examiner that neither he nor Mr. Stewart told Mr. FitzSimons, Mr. Grenesko, or Mr. Bigelow that Morgan Stanley believed or concurred with any belief that Tribune could refinance indebtedness in the future,[2420] and that had Mr. Whayne seen the VRC refinancing representation letter or a draft of it, he would have said "take our name out. You're not allowed to . . . rely on anything that we said for purposes of this relationship that you have with VRC."[2421]

[2419] Examiner's Sworn Interview of Thomas Whayne, July 2, 2010, at 21:6-24:5 & 138:10-139:22.

[2420] *Id.* at 75:7-80:14.

[2421] *Id.* at 140:1-8.

(7) Tribune Management's December 3, 2007 Mark-Up of the Draft VRC Refinancing Representation Letter.

On December 3, 2007, Mark Hianik of Tribune sent Mose Rucker and Bryan Browning of VRC (with a copy to Mr. Bigelow) a mark-up of the draft VRC management representation letters, including the letter regarding refinancing.[2422] The VRC refinancing representation letter was revised to, among other changes, specifically state that "*management* believes that it is reasonable and appropriate" for VRC to assume refinancing (whereas the original draft read only that "it is reasonable and appropriate" for VRC to assume refinancing).[2423] The revised first paragraph reads:[2424]

> Based upon (i) management's best understanding of the debt and loan capital markets and (ii) management's recent discussions with Morgan Stanley, management believes that it is reasonable and appropriate for VRC to assume that Tribune, in the downside forecast described in the Excel file . . . delivered to VRC via email on November 21, 2007 ("Tribune Downside Forecast"), would be able to refinance (i) any outstanding balances of Term Loan B under the Credit Agreement dated May 17, 2007, as amended (the "Credit Agreement"), that mature in 2014 and (ii) any outstanding balances under the Senior Unsecured Interim Loan Agreement to be dated as of the closing date (or any notes issued to refinance such facility) that mature in 2015, in each case, without the need for any asset sales other than those incorporated into the Tribune Downside Forecast.

Management's edits to the second and third paragraphs (discussing indebtedness ratios) appear to harmonize these paragraphs with the opening paragraph by making them explanatory:[2425]

[2422] Ex. 751 (Hianik E-Mail, dated December 3, 2007).

[2423] *Compare* Ex. 752 at VRC0056532 (Draft VRC Representation Letter, dated December 2, 2007) *with* Ex. 751 at VRC0179131 (Hianik E-Mail, dated December 3, 2007) (emphasis added). *See also* Examiner's Sworn Interview of Chandler Bigelow, June 17, 2010 at 201:18-20 (Morgan Stanley "communicated that it was reasonable for us to believe that we could refinance.").

[2424] Ex. 751 at VRC0179131 (Hianik E-Mail, dated December 3, 2007).

[2425] *Id.*

> The Tribune Downside Forecast assumes that in 2014 (i) the Total Guaranteed Leverage Ratio (as defined in the Credit Agreement) will be approximately 7.0:1.0, (ii) the Interest Coverage Ratio (as defined in the Credit Agreement) will be approximately 1.3:l.0 and (iii) the ratio of total consolidated indebtedness (excluding the Zell Notes) to last twelve months EBITDA will be approximately 8.1:l.0.
>
> The Tribune Downside Forecast assumes that in 2015 (i) the Total Guaranteed Leverage Ratio (as defined in the Credit Agreement) will be approximately 7.0:1.0, (ii) the Interest Coverage Ratio (as defined in the Credit Agreement) will be approximately 1.3:l.0 and (iii) the ratio of total consolidated indebtedness (excluding the Zell Notes) to last twelve months EBITDA will be approximately 7.9:1.0.

Unlike the final two paragraphs in the December 2, 2007 draft VRC refinancing representation letter, these revised paragraphs do not make any explicit representations concerning what VRC should or should not assume. Instead, they simply set out what the leverage ratios are expected to be in 2014 and 2015 under the referenced forecast.

(8) VRC's December 3, 2007 Cash Flow Analysis.

VRC updated its internal analysis on December 3, 2007, the day before the Tribune Board meeting.[2426] In the section analyzing cash flow under management's base case, the projections were less favorable than they were in VRC's November 30, 2007 internal analysis: only $597 million in cash would be available to cover more than $6.2 billion in debt repayments scheduled for 2014, and only $699 million in cash would be available to cover more than $2 billion in debt repayments scheduled for 2015.[2427] Projections in the section analyzing cash flow under management's downside case were worse, too, with only $180 million in cash

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[2426] Ex. 740 (VRC Preliminary Solvency Analysis, dated December 3, 2007).

[2427] *Id.* at VRC0061017.

available to cover $6.3 billion in scheduled debt repayments in 2014 and only $197 million in cash available to cover more than $2 billion in debt repayments in 2015.[2428]

VRC's notation that "Term Loan B and Bridge Note are assumed to be refinanced in 2014 and 2015, respectively" remained the same on both the base case and downside case pages of VRC's December 3, 2007 analysis as it was on the corresponding pages of VRC's November 30, 2007 analysis.[2429] However, the footnote supporting that assumption in the base case was revised to read that "VRC believes that this assumption is reasonable given that the Company was able to reduce [g]uaranteed debt to 4.31x in 2014 and 3.96x in 2015"[2430] (versus "4.25x in 2014 and 3.89x in 2015" in VRC's November 30, 2007 analysis[2431]). The corresponding footnote in VRC's December 3, 2007 downside case was revised to read: "As a result of its delevering, the Company is able to reduce guaranteed debt to 6.37x in 2014 assuming the sale of the Company's interest in Career[B]uilder."[2432] As with VRC's November 30, 2007 preliminary analysis, VRC's December 3, 2007 preliminary analysis makes no mention of any representation from management or Tribune's financial advisors regarding refinancing.

(9) Cash Flow Projections in VRC's December 4, 2007 Tribune Board Presentation.

VRC presented its preliminary Step Two solvency analysis to the Tribune Board on December 4, 2007.[2433] Consistent with its internal analysis from the day before, VRC's presentation indicated that under the base case, only $597 million in cash would be available to

[2428] *Id.* at VRC0061022.

[2429] *Id.* at VRC0061017 and VRC0061022.

[2430] *Id.* at VRC0061017.

[2431] Ex. 742 at VRC0063418 (VRC Preliminary Solvency Analysis, dated November 30, 2007).

[2432] Ex. 740 at VRC0061022 (VRC Preliminary Solvency Analysis, dated December 3, 2007).

[2433] Ex. 727 at TRB415677 (Tribune Board Meeting Minutes, dated December 4, 2007); Ex. 737 (VRC Preliminary Solvency Analysis, dated December 4, 2007).

cover more than $6.2 billion in debt repayments scheduled for 2014, and only $699 million in cash would be available to cover more than $2 billion in debt repayments scheduled for 2015; and under the downside case (which was renamed the "Sensitivity Case"), only $180 million in cash would be available to cover $6.325 billion in debt repayments scheduled for 2014 and only $197 million in cash would be available to cover more than $2 billion in debt repayments scheduled for 2015.[2434]

Unlike VRC's December 3, 2007 internal analysis, VRC's December 4, 2007 presentation to the Tribune Board did not explicitly state that the "Term Loan B and Bridge Note are assumed to be refinanced in 2014 and 2015, respectively,"[2435] nor did the Tribune Board presentation contain a corresponding footnote explaining the basis for VRC's refinancing assumption. Instead, VRC inserted a slide at the beginning of the presentation with a list of "Key Assumptions," including "that the Company can refinance guaranteed debt after the expiration of the credit agreements."[2436] The charts setting out cash flow projections under the base case and downside case account for this refinancing as a credit on a line titled "Other Financing Activities."[2437]

Mr. Whayne of Morgan Stanley was present at the portion of the December 4, 2007 Tribune Board meeting at which VRC presented its preliminary solvency analysis,[2438] and he also received advance copies of the VRC presentation the night before it was presented to the

[2434] Ex. 737 at TRB0272819 and TRB0272823 (VRC Preliminary Solvency Analysis, dated December 4, 2007).

[2435] Ex. 740 at VRC0061017 and VRC0061022 (VRC Preliminary Solvency Analysis, dated December 3, 2007).

[2436] Ex. 737 at TRB0272811 (Draft Preliminary Solvency Analysis, dated December 4, 2007).

[2437] *Id.* at TRB0272819 and TRB0272823.

[2438] Examiner's Sworn Interview of Thomas Whayne, July 2, 2010, at 100:5-7; Ex. 727 at TRB415676-77 (Tribune Board Meeting Minutes, dated December 4, 2007).