

Tribune execs to share 8% cut

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Tribune Co. executives stand to gain a windfall equal to 8 percent of the media giant's value after it goes private in an \$8.2 billion transaction later this year, according to merger documents filed Thursday with the Securities and Exchange Commission.

The management incentives could be worth hundreds of millions of dollars if billionaire Sam Zell, who is orchestrating the buyout, and company leaders successfully pay down the more than \$13 billion in debt that Tribune will carry following the deal, which comes at a time when advertising and circulation revenues are under pressure.

In a marathon bargaining session Sunday, company directors approved the new incentive plan that will be distributed after the deal closes.

They also approved \$6.5 million in cash bonuses to be paid out to 38 executives and employees who are "playing a critical role in overseeing the completion" of the leveraged employee stock ownership plan (ESOP) buyout, the filing said.

The identities of the executives and employees covered under the plan were not known.

Dennis FitzSimons, the company's chairman, president and CEO, elected not to accept a bonus, merger documents show. However, Donald Grenesko, the company's senior vice president for finance and administration, will be paid a \$600,000 bonus if the deal is completed, while Scott Smith, president of Tribune Publishing Co., will be paid \$400,000.

Large payouts to management are commonplace in going-private transactions, says Chicago compensation expert Don Delves.

But the largess may not sit well with the company's new majority owners, its rank-and-file employees, who will shoulder much of the risk for the deal, notes Charles Elson, director of the University of Delaware's Weinberg Center for Corporate Governance.

"I have a feeling this deal is going to be very controversial, on many fronts," Elson said. "I don't think this is the end of the story." Tribune's market value, based on Monday's transaction, is about \$8.2 billion. So if Tribune's management and "key employees" were to get 8 percent of today's company, their payout would work out to \$656 million.

But equity in the new, private Tribune will be worth much less at first because debt will account for most of Tribune's capitalization.

If Tribune can retire that debt on schedule, the equity value will rise quickly, just like it does for homeowners who pay down their mortgages. The equity becomes more valuable with each dollar of debt retired.

Likewise, if the company can't pay its debt, the 8 percent won't be worth much.

"That 8 percent is small now but it has a substantial upside to it," said Delves, president of the Delves Group. "They just have to perform to make it work."

Improved performance also would increase the value of the ESOP shares, which will represent 60 percent of the company -- a stake that would be worth about \$5 billion if held in today's company. The theory is that if everybody pulls together to pay down the debt, everybody wins. But managers selected to participate in the incentive arrangement have an advantage: Their payout will come by cashing in phantom stock paid out by the company and its employee owners.

Phantom stock isn't actual equity, but it is a promise to pay an executive the value of a share of stock sometime in the future, Delves said.

Under the incentive plan, seemingly as complex as the deal it accompanies, "certain members of management and other key employees" will receive two types of phantom stock. One series, with a value equal to 5 percent of the outstanding common stock, will vest over a three-year period. Half of the other series of phantom stock, equivalent to 3 percent of the outstanding company stock, will vest immediately when it is granted to plan participants. The other 50 percent will vest a year after the grant date.

The filings don't say how many Tribune managers will be eligible to participate in the plan. A company spokeswoman declined to comment, saying the documents speak for themselves.

Elson, the corporate governance expert, notes that United Airlines, another Chicago icon, generated much ill will when it awarded its management team 8 percent in the company after the airline emerged from bankruptcy last year.

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