JOE CAHILL ON BUSINESS

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Why did Tribune Publishing roll over for this hedge fund?

As a matter of corporate governance, the deal to give Alden Global two board seats is indefensible.

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Tribune Publishing directors wasted no time capitulating to an aggressive new shareholder with a record of eviscerating local newspapers.

The publisher of the Chicago Tribune and eight other metropolitan daily newspapers yesterday announced an agreement to give hedge fund Alden Global Capital two seats on the Tribune Publishing board, which will expand to eight from six members. The deal came less than a month after Alden affiliates acquired former Tribune Publishing Chairman Michael Ferro's 25 percent stake and added another chunk of shares in private transactions, bringing its total holding to 32 percent of the company's stock.

It's an extraordinarily generous concession to an investor that has done nothing for the company. Alden hasn't provided Tribune Publishing with additional equity capital, as Ferro did when he acquired his stake from the company in 2016. Alden bought shares from other investors, not the company. Tribune Publishing gets none of the $145.4 million Alden is shelling out.

Yet Alden is getting an even sweeter deal than Tribune directors gave Ferro. Alden gets two seats, compared with only one for Ferro. In return, Alden promised—subject to certain conditions—not to buy more Tribune Publishing shares or mount a proxy fight for seven months. (Alden also accepted a few other restrictions that don't amount to much from a practical standpoint.) Ferro, by contrast, agreed to a three-year "standstill" provision.

As a matter of corporate governance, the deal is indefensible. Other shareholders don't get their own directors, and Alden's purchase of a large stake doesn't legally entitle it to anything more than the one vote per share that all Tribune stockholders get in board elections. Alden acquired its shares on that basis, but after the purchase Tribune directors agreed to give the hedge fund two board seats.

The question is why Tribune directors rolled over so readily for Alden. Publicly, the company has offered only a somewhat terse statement announcing Alden's designees to the Tribune Publishing board, Dana Goldsmith Needleman and Christopher Minnetian.

"Tribune Publishing is pleased to add these two business professionals to our board of directors," said Chairman David Dreier. "The entire board believes that quality journalism is the company's driving principle as we serve our communities and our shareholders. We look forward to working together to create new company successes."

Perhaps Tribune Publishing directors feared the hedge fund was poised to buy up more shares, giving it a majority and unfettered power to ram through its agenda. If so, they've bought precious little time at a high price. The deal keeps Alden in check for seven months, a period that includes Tribune Publishing's annual shareholder meeting in the spring.

What can Tribune Publishing directors do in the next seven months to save the company's newsrooms from the fate of other papers Alden has acquired and gutted? Clearly not reverse the long-term decline in readers and advertising dollars that puts the future of traditional newspapers in doubt. Like all publishers of metropolitan dailies, Tribune has been struggling for years to devise a viable new business model to replace an old one shattered by online competition.

Maybe directors hope to use the next several months to find an acquirer with less rapacious tendencies than Alden. But if no such savior has emerged during the company's decades of struggle, how likely is one to step forward now?

Meanwhile, Needleman and Minnetian can start pushing Alden's agenda immediately. You can bet they're coming in with marching orders and a game plan to generate quick returns on Alden's investment. A pair of directors working together can have outsized boardroom clout, especially when they represent a company's largest shareholder.

Perhaps they'll argue for a merger with MNG, the entity through which Alden controls more than 60 dailies, including the Denver Post, Boston Herald and St. Paul Pioneer Press. Or maybe they'll press for a sale to Gatehouse, which recently took over Gannett to form the country's largest newspaper chain.

Needleman and Minnetian also will have plenty of time to agitate for the kind of cost savings Alden has demanded at other papers. Staffing at Alden properties has **dropped 75 percent,** according to data from NewsGuild, a union representing newspaper workers. That's three times the rate of job cuts at other fast-shrinking newspaper companies. Tribune Publishing, for example, eliminated 900 jobs in the past two years alone.

Don't be surprised if Alden's directors decide Tribune hasn't cut deeply enough. As board members, they'll be well within their rights to argue for aggressive profitability targets that company managers can meet only by axing more workers. They'll also have a platform to push for bigger dividends, diverting cash flows to shareholders like Alden rather than new investments and innovations that might improve Tribune Publishing's long-term prospects.

And if other Tribune directors suddenly start showing some spine, seven months isn't long to wait.

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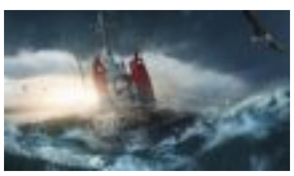

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