

**VALUATION ANALYSIS**

## Valuation Analysis<sup>1</sup>

### A. Overview.

The Debtors have been advised by Blackstone Advisory Services L.P. (“**Blackstone**”) with respect to the valuation of the Reorganized Debtors in connection with the Plan and Disclosure Statement. Blackstone has prepared a valuation analysis (the “**Valuation Analysis**”) of the consolidated Reorganized Debtors for the purpose of estimating value available for distribution to holders of Claims (“**Creditors**”) pursuant to the Plan and to analyze the relative recoveries to Creditors thereunder. The Valuation Analysis has also been undertaken for the purpose of evaluating whether the Plan meets the so-called “best interests test” under section 1129(a)(7) of the Bankruptcy Code.

This Valuation Analysis should be read in conjunction with the Plan and the Disclosure Statement.

Blackstone developed a valuation for the consolidated Reorganized Debtors (the “**Valuation**”) based on the financial projections for the consolidated Reorganized Debtors provided in Appendix D of the Disclosure Statement (the “**Financial Projections**”).

Based on the Financial Projections, the enterprise value (the “**Enterprise Value**”) of the consolidated Reorganized Debtors is estimated to range from approximately \$118 million to \$144 million. This valuation range assumes an Effective Date of September 27, 2009 and reflects the going concern value of the consolidated Reorganized Debtors after giving effect to the implementation of the Plan.<sup>2</sup>

The estimated equity value available for distribution (the “**Equity Value**”) is estimated to range from approximately \$18 million to \$44 million.<sup>3</sup>

With respect to the Financial Projections, Blackstone assumed that such projections have been reasonably prepared on the basis of best currently available estimates and good faith judgments of the Debtors as to the future operating and financial performance of the Reorganized Debtors. The Valuation Analysis incorporates numerous qualifications and contingencies, including but not limited to: (i) the Debtors’ ability to achieve all aspects of the Financial Projections, (ii) the state of the capital and credit markets as of the Effective Date and (iii) no material adverse change to the industry or in the Debtors’ operations due to economic slowdowns, as well as other unexpected events not forecasted by the Debtors.

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<sup>1</sup> Unless otherwise defined herein, each capitalized term shall have the meaning ascribed to it in the Disclosure Statement to which this Valuation Analysis is attached.

<sup>2</sup> The Financial Projections and the Valuation Analysis do not incorporate the effects of any Fresh Start Accounting principles. It is not anticipated that Fresh Start Accounting principles would have a significant effect on the Valuation Analysis; however, neither the Financial Projections nor the Valuation Analysis will be updated if Fresh Start Accounting is used.

<sup>3</sup> The Valuation Analysis does not include the effects of the Profit Sharing Plan, the terms of which are under discussion and which shall be included in a Plan Supplement. This Valuation Analysis will not be updated to account for the Profit Sharing Plan.

In preparing this Valuation Analysis, Blackstone (i) reviewed certain internal financial and operating data of the Debtors, including projections provided by management relating to the Debtors' businesses and prospects; (ii) met with certain members of senior management of the Debtors' to discuss operations, capital structure considerations, and future prospects; (iii) reviewed publicly available financial data and considered the market value of public companies that Blackstone deemed generally comparable to the operating businesses of the Debtors; (iv) considered certain economic and industry information relevant to the Debtors' operating businesses; and (v) conducted such other studies, analyses, inquiries and investigations as Blackstone deemed appropriate.

## **B. Valuation Methodology.**

The following is a brief summary of the financial analyses performed by Blackstone to arrive at this Valuation Analysis. Blackstone relied primarily on the comparable company analysis ("**Comparable Company Analysis**") and the discounted cash flow analysis ("**DCF**"). Blackstone also analyzed the net present value that could be realized from a sale of the Company's real estate at its headquarters based on certain assumed realized sale proceeds. This analysis takes into account the cost to rent an appropriate amount of office space and the loss of parking lot revenues. The net present value derived from this analysis is added to the results of the following valuation methods. Blackstone completed these financial analyses and reviewed the assumptions with the management of the Debtors.

Blackstone's estimated valuation must be considered as a whole and selecting just one methodology or portions of the analysis, without considering the analysis as a whole, could create a misleading or incomplete conclusion.

### **1. Comparable Company Analysis.**

A Comparable Company Analysis estimates the value of a company based on a comparison of such company's financial statistics with the financial statistics of public companies that are similar to the particular company being analyzed. Criteria for selecting comparable companies for this analysis include, among other relevant characteristics, similar lines of businesses, business risks, growth prospects, maturity of businesses, market presence, size and scale of operations. The analysis establishes benchmarks for valuation by deriving financial multiples and ratios for the comparable companies, standardized using common variables such as revenue or EBITDA.

In performing the Comparable Company Analysis for the Valuation, the publicly traded companies (the "**Consolidated Peer Group**") deemed generally comparable include: EW Scripps Co., Gannett Co. Inc., Journal Communications Inc., Lee Enterprises, McClatchy Co., Media General, The New York Times Company and Washington Post Co. Blackstone deemed multiples of trailing-twelve-months EBITDA, 2009E EBITDA and 2010E EBITDA most relevant for analyzing the Consolidated Peer Group.

### **2. Discounted Cash Flow Analysis.**

The DCF methodology relates the value of an asset or business to the present value of expected future cash flows generated by that asset or business. The DCF discounts the expected

future cash flows by a theoretical or observed discount rate, in this case determined by estimating the average cost of debt and equity for the subject company based upon analysis of similar publicly traded companies. This approach has two components: (i) calculating the present value of the projected un-levered after-tax free cash flows for a determined period and (ii) adding the present value of the terminal value of cash flows. The terminal value represents the portion of Enterprise Value that lies beyond the time horizon of the available projections.

The DCF calculations were performed on un-levered after-tax free cash flows for the period beginning September 27, 2009 and running through December 23, 2012 (the “**Projection Period**”) discounted to the Effective Date of September 27, 2009. Blackstone utilized management’s Financial Projections for performing these calculations.

In performing the DCF calculation, Blackstone made assumptions for (i) the weighted average cost of capital (the “**Discount Rate**”), which is used to calculate the present value of future cash flows and (ii) the terminal EBITDA multiple, which is used to determine the value of the Debtors represented by the time period beyond the Projection Period. Blackstone used a range of Discount Rates from 10.4% to 14.4% for the Reorganized Debtors, which reflects a number of company and market-specific factors, and is calculated based on the cost of capital for companies that Blackstone deemed comparable. Blackstone used a terminal EBITDA multiple of 4.50x – 5.50x for the Reorganized Debtors, a multiple range consistent with the ranges used in the Comparable Company Analysis.

The Discounted Cash Flow Analysis assumes that Reorganized Star Tribune does not inherit any Net Operating Losses (“**NOLs**”) from the Debtors, as previously accumulated NOLs are used to shield cancellation-of-indebtedness income resulting from emergence.

### **C. Recoveries.**

As described above, Blackstone estimates an Equity Value range of \$18 million to \$44 million. The midpoint of the equity valuation range is approximately \$30 million. Based on the New Secured Term Notes, the Equity Value estimate and a Claim from the First Lien Lenders of approximately \$393 million, Blackstone estimates the hypothetical recovery to the First Lien Lenders to be 29.8% to 36.1%. Based on the Equity Value estimate and an estimated pool of Unsecured Claims for the Reorganized Debtors of \$150 million, Blackstone estimates the hypothetical recovery to the holders of Unsecured Claims to be 0.5% to 1.3% as based on the receipt by the holders of General Unsecured Claims of up to 4.5% of the New Common Stock.<sup>4</sup>

The projected recovery ranges listed above are estimates derived from the Financial Projections and other assumptions, including an estimated \$150 million of Unsecured Claims. The projected recoveries are substantially based on the assumptions in the business plans underlying the Financial Projections in Appendix D. The projected recoveries do not take into account shares of the Reorganized Debtors to be issued under the Reorganized Star Tribune Incentive Plan; the deduction of such shares will cause the projected recoveries to be lower than those specified dependant upon future management and company performance. The actual

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<sup>4</sup> The stated recovery ranges do not account for potential dilution from the issuance of stock under the Reorganized Star Tribune Incentive Plan or the New Warrants.

recoveries may be different than projected recoveries based upon, among other things: (x) the market price of shares of New Common Stock, (y) the dilutive or accretive effects of issuance of shares of New Common Stock by Reorganized Star Tribune from time to time (including the dilutive effect of future issuances under the Star Tribune Incentive Plan) and (z) the actual amount of Allowed Unsecured Claims against the Debtors.

#### **D. Additional Valuation Considerations.**

Blackstone considered valuation analyses based upon precedent or comparable transactions, which estimate value by examining public merger and acquisition transactions that involve companies similar to the Reorganized Debtors. However, due to newspaper industry dynamics in recent years and the general scarcity of recent data points in this respect, Blackstone concluded precedent transactions were not applicable to this Valuation Analysis.

THE SUMMARY SET FORTH ABOVE DOES NOT PURPORT TO BE A COMPLETE DESCRIPTION OF THE ANALYSES PERFORMED BY BLACKSTONE. THE PREPARATION OF A VALUATION ESTIMATE INVOLVES VARIOUS DETERMINATIONS AS TO THE MOST APPROPRIATE AND RELEVANT METHODS OF FINANCIAL ANALYSIS AND THE APPLICATION OF THESE METHODS IN THE PARTICULAR CIRCUMSTANCES, ALL OF WHICH ARE NOT ABLE TO BE DESCRIBED IN A SUMMARY DESCRIPTION. IN PERFORMING ITS ANALYSES, BLACKSTONE MADE NUMEROUS ASSUMPTIONS WITH RESPECT TO INDUSTRY PERFORMANCE, BUSINESS AND ECONOMIC CONDITIONS AND OTHER MATTERS. THE ANALYSES PERFORMED BY BLACKSTONE ARE NOT NECESSARILY INDICATIVE OF ACTUAL VALUES OR FUTURE RESULTS, WHICH MAY BE SIGNIFICANTLY MORE OR LESS FAVORABLE THAN SUGGESTED BY SUCH ANALYSES.

In addition, Blackstone did not independently verify management's Financial Projections in connection with the estimates of Enterprise Value and estimated Equity Value for the Debtors contained herein, and no independent valuations or appraisals of the Debtors were sought or were obtained in connection herewith. Valuation estimates were developed solely for the analysis of implied relative recoveries to holders of Claims under the Plan. Such estimates reflect computations of the estimated Valuation through the application of various valuation techniques and do not purport to reflect or constitute appraisals, liquidation values or estimates of the actual market value that may be realized through the sale of any securities to be issued pursuant to the Plan, which may be significantly different than the amounts set forth herein.

The value of an operating business is subject to numerous uncertainties and contingencies that are difficult to predict and will fluctuate with changes in factors affecting the financial condition and prospects of such a business. As a result, the estimated valuations set forth herein are not necessarily indicative of actual outcomes, which may be significantly more or less favorable than those set forth herein. Because such estimates are inherently subject to uncertainties, neither the Debtors, Blackstone, nor any other person assumes responsibility for such estimates' accuracy. In addition, the valuation of newly-issued securities is subject to additional uncertainties and contingencies, all of which are difficult to predict. Actual market prices of such securities at issuance will depend upon, among other things, prevailing interest rates, conditions in the financial markets, the anticipated holding period of securities received by

pre-petition Creditors, some of whom may prefer to liquidate their investment rather than hold it on a long-term basis, and other factors which generally influence the prices of securities.

Blackstone's valuation represents a hypothetical value that reflects the estimated intrinsic value of the Debtors derived through the application of various valuation techniques. Such analysis does not purport to represent valuation levels which would be achieved in, or assigned by, the public or private markets for debt and equity securities. Estimates of value do not purport to be appraisals or necessarily reflect the values which may be realized if assets are sold as a going concern, in liquidation, or otherwise.

This Valuation Analysis was developed solely for purposes of the formulation and negotiation of the Plan and to enable the holders of Claims and Interests entitled to vote under the Plan to make an informed judgment about the Plan and should not be used or relied upon for any other purpose, including the purchase or sale of securities of, or Claims or Interests in, the Debtors.

EVENTS AND CIRCUMSTANCES OCCURRING SUBSEQUENT TO THE DATE ON WHICH THIS VALUATION ANALYSIS WAS PREPARED MAY BE DIFFERENT FROM THOSE ASSUMED, OR, ALTERNATIVELY, MAY HAVE BEEN UNANTICIPATED, AND THUS THE OCCURRENCE OF THESE EVENTS MAY AFFECT THESE ANALYSES IN A MATERIALLY ADVERSE OR MATERIALLY BENEFICIAL MANNER. BLACKSTONE, THE DEBTORS AND THE REORGANIZED DEBTORS DO NOT INTEND AND DO NOT UNDERTAKE ANY OBLIGATION TO UPDATE OR OTHERWISE REVISE THE VALUATION ANALYSIS TO REFLECT EVENTS OR CIRCUMSTANCES EXISTING OR ARISING AFTER THESE ARE INITIALLY FILED OR TO REFLECT THE OCCURRENCE OF UNANTICIPATED EVENTS. THEREFORE, THE VALUATION ANALYSIS MAY NOT BE RELIED UPON AS A GUARANTEE OR OTHER ASSURANCE OF THE ACTUAL RESULTS THAT WILL OCCUR. IN DECIDING WHETHER TO VOTE TO ACCEPT OR REJECT THE PLAN, HOLDERS OF CLAIMS OR INTERESTS MUST MAKE THEIR OWN DETERMINATIONS AS TO THE REASONABLENESS OF SUCH ASSUMPTIONS AND THE RELIABILITY OF THE VALUATION ANALYSIS.