ORIGINAL

IN THE COURT OF COMMON PLEAS OF ALLEGHENY COUNTY, PENNSYLVANIA

MARGARET R. SCAIFE, Plaintiff, v. RICHARD M. SCAIFE, Defendant.	FAMILY DIVISION No. FD 06-002384-001 **(RECORD UNDER SEAL)** Pacses No. 677108037 Sealed **DEFENDANT'S PRETRIAL STATEMENT – SPOUSAL SUPPORT** Code Filed on behalf of Richard M. Scaife, Defendant Counsel of Record for this Party: H. Yale Gutnick, Esquire Pa.I.D. No. 01226 Reid B. Roberts, Esquire Pa I.D. No. 41007 STRASSBURGER McKENNA GUTNICK & POTTER Firm #278 Four Gateway Center 22nd Floor 444 Liberty Avenue Pittsburgh, PA 15222 (412) 281-5423

IN THE COURT OF COMMON PLEAS OF ALLEGHENY COUNTY, PENNSYLVANIA

MARGARET R. SCAIFE,	:	FAMILY DIVISION
Plaintiff,	:	
v.	:	No. FD 06-002384-001 **(RECORD UNDER SEAL)**
RICHARD M. SCAIFE,	:	
Defendant.	:	

DEFENDANT'S PRETRIAL STATEMENT – SPOUSAL SUPPORT

AND NOW, comes the Defendant, Richard M. Scaife ("Husband"), by and through his attorneys, H. Yale Gutnick, Reid B. Roberts and Strassburger McKenna Gutnick & Potter, and files this Defendant's Pretrial Statement – Spousal Support as follows:

A. WITNESSES

1. Richard M. Scaife.
2. Margaret R. Scaife.
3. David N. Scaife.
4. Jennie K. Scaife.
5. David Kaplan, CPA/ABV, JD, CVA (**Reports attached**.)
6. Jeffrey S. Lehman.
7. James M. Ferguson, III.
8. Raymond H. Hartung, Jr.
9. Ralph J. Martin.
10. Edward H. Harrell.
11. Frank L. Craig.
12. Mary Ruffing.

13. Colleen M. Xenakis.
14. Dennis E. Bradshaw.
15. Matthew A. Groll.
16. Anthony DiFalco.
17. Xiomara Rios.
18. Martha R. Guel.
19. All witnesses listed in Wife's pretrial statement.
20. All witnesses necessary for authentication of records.
21. All witnesses necessary for rebuttal.

B. EXHIBITS

1. David Kaplan report - Disposable Income Calculation of Richard M. Scaife. **(Attached)**

2. David Kaplan report – Margaret R. Scaife Historic Spending Analysis. **(Attached*)** **(*Appendices "A," "B," and "C" of this report are too voluminous to be attached to the pretrial statement. However, full and complete copies of this report, including those appendices, have been provided to opposing counsel and the Court simultaneous with the filing of this pretrial statement.)**

3. David Kaplan curriculum vitae. **(Attached)**

4. Husband's Forms 1040 federal tax returns and supporting documents for tax years 2002 through 2005.

5. Wife's Forms 1040 federal tax returns and supporting documents for tax years 2002 through 2005.

13. Colleen M. Xenakis.

14. Dennis E. Bradshaw.

15. Matthew A. Groll.

16. Anthony DiFalco.

17. Xiomara Rios.

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5. Wife's Forms 1040 federal tax returns and supporting documents for tax years 2002 through 2005.

6. Husband's Forms PA 40 state tax returns and supporting documents for tax years 2002 through 2005.

7. Wife's Forms PA 40 state tax returns and supporting documents for tax years 2002 through 2005.

8. Forms 1120, 1120S and PA corporate tax returns and supporting documents for Tribune Review Publishing Company ("TRPC") for tax years 2000 through 2005.

9. Financial statements for TRPC for years 2000 through 2005.

10. TRPC/WHI summary of historic circulation. (**Attached**.)

11. TRPC Summary Income Statement Budget for the year ending December 31, 2006. (**Attached**.)

12. TRPC unaudited Summary Balance Sheet June 25, 2006. (**Attached**.)

13. TRPC unaudited Summary Income Statement June 25, 2006. (**Attached**.)

14. TRPC unaudited Cash Flow – Balance Sheet June 25, 2006. (**Attached**.)

15. TRPC Board of Director binders 2001 through 2005.

16. TRPC shareholder and director minutes 1995 through 2005.

17. TRPC 1998-1999 five-year plan.

18. Trib Total Media Historical Financial Performance and Projections Chart. (**Attached**.)

19. Harrell memo dated October 24, 2000. (**Attached**.)

20. Hartung memo dated November 21, 2000. (**Attached**.)

21. TRPC ten-year cash projection dated October 24, 2000. (**Attached**.)

22. TRPC revenue analysis 2000/2001.

23. TRPC 1999 and 2000 operating budgets.

24. Forms 1120S and PA 20S corporate tax returns and supporting documents for Westminster Holdings, Inc. ("WHI") for tax years 2003 through 2005.

25. Financial statements for WHI for years 2004 through 2005.

26. WHI shareholder and director minutes 2004 through 2005.

27. 1935 Trust Waiver, Release, Discharge and Indemnification Agreements.

28. 1935 Trust Ratifications of Actions of Trustees.

29. 1935 Trust Promissory Notes.

30. Richard M. Scaife Capital Contribution Account #[redacted] statements and check registers.

31. R.M. Scaife Business Account #[redacted] statements and check registers.

32. R.M. Scaife Aircraft Account #[redacted] statements and check registers.

33. Thirty-Ninth Floor Account #[redacted] statements and check registers.

34. R.M. Scaife Special Account #[redacted] statements and check registers.

35. R.M. Scaife & Other Employees Administrators Funds Account #[redacted] statements and check registers.

36. Richard M. Scaife DBA RMS/301 Capital Mall #[redacted] statements.

37. Mellon Bank Account #[redacted] statements and checks.

38. Trust Agreements for: The Richard M. Scaife December 9, 2005 Revocable Trust, Restated Trust Agreement dated 1999 restating R.M. Scaife Revocable Trust dated September 22, 1994, as amended July 10, 1996, R.M. Scaife Family January 15,1965 No. 3, R.M. Scaife Family April 7, 1961 No. 2, Richard M Scaife Charitable Remainder Unit Trust, R.M. Scaife Family December 16, 1958 No. 1, Richard M. Scaife Grantor Trust and S.M. Scaife for Richard December 30, 1935.

39. Trust tax returns and supporting documents for each trust identified in Exhibit #38.

40. Year-end account information statements for each trust identified in Exhibit #38.

41. Hawthorn/PNC Advisors Scaife Family Trusts reports 2000 through 2005.

42. TRPC income and expense projections 2004 through 2006.

43. WHI income and expense projections 2004 through 2006.

44. List of Wife's 2005 charitable contributions. (**Attached**.)

45. List of Wife's 2004 charitable contributions. (**Attached**.)

46. Wife's check request forms directed to Husband for issuance of checks/reimbursements and allowance.

47. Summaries of "TWB" expenses paid by W.

48. Wife's PNC VISA Account #xxxx xxxx xxxx [redacted] statements.

49. Wife's PNC MasterCard Account #xxxx xxxx xxxx [redacted] statements.

50. Wife's PNC VISA Account #xxxx xxxx xxxx [redacted] statements.

51. Wife's PNC VISA Account #xxxx xxxx xxxx [redacted] statements.

52. Wife's PNC VISA Account #xxxx xxxx xxxx [redacted] statements.

53. Wife's AT&T Universal Card Account #xxxx xxxx xxxx [redacted] statements.

54. Bergdorf Goodman Account #xx xxxx x [redacted] statements.

55. Wife's Saks Account #xx xxxx xxx [redacted] statements.

56. Wife's Chase MasterCard Account #xxxx xxxx xxxx [redacted] statements.

57. Wife's Neiman Marcus Account #xx xxxx x [redacted] statements.

58. Wife's Tiffany Account #xxxx xxxx xxxx [redacted] statements.

59. Martha R. Guel payroll and employee benefits records.

60. Xiomara Rios payroll and employee benefits records.

61. Sarah LaCasse employee benefits records.

62. Documentation of Wife's homeowner's insurance expenditures.

63. Documentation of Wife's car insurance expenditures.

64. Documentation of Wife's real estate expenditures.

65. Documentation of Wife's home security expenditures.

66. Documentation of Wife's home maintenance expenditures.

67. Documentation of Wife's home utility expenditures.

68. Documentation of Wife's home landscaping and tree service expenditures.

69. Documentation of Wife's health insurance and medical/dental/prescription expenditures.

70. Documentation of Wife's food and beverage expenditures.

71. Documentation of Wife's clothing expenditures.

72. Documentation of Wife's linen expenditures.

73. Documentation of Wife's fresh flower expenditures.

74. Documentation of Wife's pet expenditures.

75. Documentation of private club expenditures by Wife.

76. Documentation of Wife's Spa expenditures.

77. Wife's 2006 Quickbooks Pro transaction ledger.

78. Wife's National City Money Market Checking Account #xxxxx[redacted] statements, check registers and checks.

79. Wife's National City Brokerage Account #xxxx xxxx [redacted] statements, check

registers and checks.

80. Wife's National City Agency Account #xx xx-xxxx-[redacted] statements.

81. Wife's National City Sub-Agency Account #xx xx-xxxx-[redacted] statements.

82. Wife's PNC Interest Checking Account #xx-xxxx-[redacted] statements, checks and check registers.

83. Wife/Westray Battle PNC Premium Money market Account #xx-xxxx-[redacted] statements, checks and credit/debit memos.

84. Westray Battle & Pietragallo Bosick & Gordon Money Market Account #xx-xxxx-[redacted] statements, checks and check registers.

85. Mary Ruffing memos to PNC Advisors directing inter and intra account transfers.

86. Wife's personal checking account breakdowns prepared by Mary Ruffing.

87. "Household Expenses Paid By Mrs. Scaife" summaries.

88. Invoices and documentation of Wife's expenses paid by Husband.

89. Wife's PNC Advisors/Hawthorn Portfolio Account #xx-xx-xxx-xx[redacted] statements and related reports.

90. Wife's PNC Penguin Court Design Interest Checking Account #xx-xxxx-[redacted] statements, check registers and checks.

91. Wife's PNC Interest Checking Account #xx-xxxx-[redacted] statements, check registers and checks.

92. Wife's PNC Nantucket Interest Checking Account #xx-xxxx-[redacted] statements, checks and check registers.

93. Wife's PNC Checking Account #xx-xxxx-[redacted] statements, checks and check

registers.

94. Wife's PNC Line of Credit Approval Letter dated September 10, 2004. (**Attached.**)

95. Wife's PNC $100,000 Note and related Agreements.

96. Wife's National City $1M line of credit note and related documents.

97. All documents relied upon as sources of information by David Kaplan as set forth in his reports appended hereto.

98. All pleadings filed in this case.

99. All discovery pleadings and responses in this case.

100. All deposition transcripts in this case.

101. All documents produced in discovery.

102. All exhibits listed in Wife's pretrial statement.

103. All exhibits necessary for rebuttal and cross-examination.

C. <u>INCOME ANALYSIS</u>

An analysis of Defendant's net monthly income is contained in the report of David Kaplan which is appended to this pretrial statement.

D. <u>EXPENSE STATEMENT/COUNSEL FEES</u>

Husband does not intend to offer testimony as to his budget, so no budget for Husband is attached. Husband does intend to offer testimony as to Wife's budget and spending habits. An analysis of Wife's budget is contained in the report of David Kaplan appended to this pretrial statement. Husband does not intend to offer evidence of counsel fees.

E. REQUESTED AWARD

Husband requests that this Court enter a spousal support order in the amount of $141,200.00 per month, which is a quantitative reflection of Wife's standard of living as detailed in the Historical Spending Analysis report of David Kaplan attached hereto. This award is consistent with the Pennsylvania Support Guidelines, Pa. R. Civ. P., Rules 1910.16-1 and 1910.16-5, and Pennsylvania law generally. Husband's net monthly income, as calculated by David Kaplan in his Disposable Income Calculation attached hereto, is $1,163,579.00. Applying a factor of 40% to this income calculation yields $465,432.00. In the event the Court deems $141,200.00 to not be an appropriate amount of spousal support, Husband proposes that the award be within the range of $141,200.00 and $465,432.00.

Respectfully submitted:

STRASSBURGER McKENNA GUTNICK
& POTTER

By: H. Yale Gutnick
H. Yale Gutnick

By: Reid B. Roberts
Reid B. Roberts

MR. RICHARD M. SCAIFE

Disposable Income Calculations
for the Years-Ended
December 31, 2004 and 2005

Prepared by:
Alpern Rosenthal
Certified Public Accountants
October 20, 2006

ALPERN ROSENTHAL
INSPIRING OPPORTUNITIES

October 20, 2006

H. Yale Gutnick, Esquire
Reid B. Roberts, Esquire
Strassburger McKenna Gutnick & Potter
Four Gateway Center, Suite 2200
444 Liberty Avenue
Pittsburgh, PA 15222

RE: SCAIFE V. SCAIFE

Dear Counsel:

At your request, we have determined the monthly disposable income of Mr. Richard M. Scaife ("Mr. Scaife") on an individual basis for the years-ended December 31, 2004 and 2005. This report and the attendant calculations are to be used to assist the Court in determining spousal support obligations in the above captioned matter. We were not able to secure sufficient information to allow us to project Mr. Scaife's 2006 taxable and disposable income with a reasonable degree of certainty. We reserve the right to prepare an analysis of Mr. Scaife's 2006 disposable income at a future date, upon receipt of the requisite financial information, if requested by Counsel.

In preparing our analysis, we examined a variety of financial information. This review included, but was not limited to, the following:

Certified Public Accountants and Business Advisors
A Professional Corporation
Heinz 57 Center 339 Sixth Avenue Pittsburgh, PA 15222
[p] 412.281.2501 [f] 412.471.1996
www.alpern.com email@alpern.com

- Individual Income Tax Returns of Mr. Scaife for the years 2004 and 2005;
- Available Forms W-2 and 1099 and Schedules K-1 for Mr. Scaife for the year 2004 and 2005;
- "Account Information" statements for the years-ended December 31, 2004 and 2005 for the following trusts:
  - ✓ Richard M. Scaife Revocable Living Trust
  - ✓ R M Scaife Family Trust #1 (1958)
  - ✓ R M Scaife Family Trust #2 (1961)
  - ✓ R M Scaife Family Trust #3 (1965)
  - ✓ Sarah Mellon Scaife Trust for Richard Mellon Scaife (1935)
  - ✓ Richard Mellon Scaife Charitable Remainder Unitrust (CRUT) (1996)
- Reports detailing Mr. Scaife's charitable contributions and real estate taxes paid for the year 2005;
- Financial statements for Tribune-Review Publishing Company for the period January 1, 2001 through December 25, 2005;
- Forms 1120S, U.S. Income Tax Return for an S Corporation of the Tribune-Review Publishing Company for the years 2004 and 2005;
- Financial statements for Westminster Holdings, Inc. for the period January 1, 2004 through December 25, 2005;
- Forms 1120S, U.S. Income Tax Return for an S Corporation of Westminster Holdings, Inc. for the years 2004 and 2005;

- Restated Trust Agreement dated ___________, 1999 Restating The R.M. Scaife Revocable Trust Originally Created September 22, 1994 and Amended and Restated as of July 10, 1996;
- The Richard M. Scaife Revocable Trust Agreement dated December 9, 2005;
- Richard Mellon Scaife Charitable Remainder Unitrust Agreement;
- Deed of Trust for the Richard Mellon Scaife Trust dated December 30, 1935;
- Trust Agreement dated December 16, 1958 by Sarah Mellon Scaife;
- Trust Agreement dated April 7, 1961 by Sarah Mellon Scaife;
- Trust Agreement dated January 15, 1965 creating the Richard Mellon Scaife Family Trust No. 3;
- Trust account statements containing trust accountings prepared by the Trustees of various trusts in which Mr. Scaife has a beneficial interest;
- Principal and Income Act (20 Pa. C.S.A. 8101 et seq.);
- Internal Revenue Code of 1954, as amended;
- Attendance at the deposition of Jeffrey Lehman of PNC Bank on August 31, 2006;
- Attendance at, and review of the available transcripts from, the depositions of Mr. Scaife on August 22, 2006 and September 28, 2006;
- Discussions with Mr. Scaife and management personnel from the Tribune Review Publishing Company;
- Other documents produced by Mr. Scaife through discovery; and

- Various Pennsylvania court cases regarding the calculation of disposable income for purposes of alimony and support.

The foregoing listing of items represents only a summary of the primary items considered and is not intended to be an all-inclusive list.

In performing our analysis, we relied on the individual income tax returns and other available information of Mr. Scaife. The parties filed separate income tax returns and maintained separate banking and investment accounts throughout their marriage. The results of our review are the calculations of Mr. Scaife's income as presented on Appendices A-1 and A-2, Section I - Summary of Income for the years-ended December 31, 2004 and 2005; and Section II - Analysis of Disposable Income for the years-ended December 31, 2004 and 2005.

The calculations presented in Appendix A-1 include all items of income, as hereinafter delineated, in accordance with the applicable provisions of the various trust agreements in which Mr. Scaife has a beneficial interest and consistent with the underlying accounting of the trust activities as prepared by the trustees. Separately, as an aid to the court, we prepared a calculation presented on Appendix A-2 which includes dividends from the 1996 Richard Mellon Scaife Charitable Remainder Unitrust ("CRUT") in the event the Court determines that the pass-through dividends reported on Mr. Scaife's individual income tax returns, as a result of the taxation of the CRUT, represent disposable income available to Mr. Scaife (see discussion *infra*).

We have based our analysis on the available information relative to Mr. Scaife's individual income. As a result, we have made several assumptions, where necessary, in determining the individual disposable income of Mr. Scaife. The assumptions we made and our analysis is detailed below:

A. SUMMARY OF HISTORICAL INCOME OF MR. RICHARD M. SCAIFE

Mr. Scaife is a named income beneficiary of four trusts which were established and funded by his family many years prior to the parties' June 1, 1991 marriage. These four trusts consist of the following:

- Sarah Mellon Scaife for Richard Mellon Scaife Trust (1935) ("1935 Trust");
- R M Scaife Family Trust (1958) a/k/a Family Trust #1 ("Family Trust #1");
- R M Scaife Family Trust (1961) a/k/a Family Trust #2 ("Family Trust #2"); and
- R M Scaife Family Trust (1965) a/k/a Family Trust #3 ("Family Trust #3").

In addition to the four trusts identified above, Mr. Scaife established two trusts which remain active. Mr. Scaife established and funded the Richard Mellon Scaife Revocable Trust ("Revocable Trust"). Due to the underlying rights held by Mr. Scaife to exercise prerogatives of control and ultimately revoke the trust, we have essentially disregarded this trust and have treated the assets and income associated with this trust as if they remain in the total control of Mr. Scaife. The second trust established by Mr. Scaife was the CRUT settled on January 23, 1996. The specific factors related to each of these trusts will be discussed in further detail below as each of the elements of potential disposable income is addressed.

The elements of income which we considered in our determination of Mr. Scaife's taxable and disposable income include the following:

1. **Salary**

Mr. Scaife, who is 74 years of age, is employed by RMS Publisher, Inc. Mr. Scaife is paid an annual salary of $24,000. RMS Publisher, Inc. is the publishing arm of the Tribune Review Publishing Company which publishes the Tribune Review in Greensburg, The Pittsburgh Tribune Review and five other daily local newspapers in or around Allegheny County, Pennsylvania. Mr. Scaife testified at his deposition on August 22, 2006, that he is involved on a regular basis with the overall management of the company through his regular interaction with the Chief Executive Officer and other top management executives. The salary received by

Mr. Scaife has been included in the calculation of Mr. Scaife's 2004 and 2005 taxable and disposable income.

2. <u>Interest and Dividend Income</u>

We have considered all of the interest and dividend income reported by Mr. Scaife on his individual income tax returns. Mr. Scaife reports pass-through interest and dividend income as a result of his beneficial interest in the various family trusts, his Revocable Trust, a CRUT, as well as closely held business interests and direct investment holdings.

We have considered each of the elements of taxable interest and dividend income reported by Mr. Scaife. We included pass-through items of interest and dividend income in the taxable income calculation, but have not included such items in the disposable income calculation because they are not actually received. Pass-through items include interest and dividend earnings by Subchapter S corporations, partnerships and trusts in which Mr. Scaife has a beneficial interest. Under the current tax laws, earnings from certain trusts and operations and investment earnings of an entity that has elected Subchapter S status or is taxed as a partnership, pass through the entity and are reported as income by the individual shareholder. The individual, who may not actually receive a distribution of these earnings from the pass-through entity, is required to report their pro-rata share of the taxable earnings and incur the income tax liability on the individual level.

In determining the disposable income provided to Mr. Scaife as a result of his interests in various pass-through entities (see discussion *infra*), we reviewed the underlying financial records to determine what distributions from income were actually made to Mr. Scaife by each of the pass-through entities. To the extent a distribution of income was actually made by the entities, we have reflected this as additional disposable income.

We have included all of the investment interest and dividend income earned by Mr. Scaife from directly-held investment accounts in our determination of his taxable and disposable income. With respect to the non-taxable interest earnings of Mr. Scaife, we have excluded these items from our determination of his taxable income, but included these earnings in determining his disposable income as they represent earnings that are actually received by, or are available to, Mr. Scaife although he is not required to pay income taxes on them.

As reflected on Appendix A-1, Mr. Scaife reports interest and dividend income on his individual income tax return which flows through to him as a result of his beneficial right to income from the 1935 Trust, Family Trust #1, Family Trust

#2, and Family Trust #3. In determining the level of disposable income generated by these trusts, we considered the provisions of each trust agreement and the trust accountings prepared and approved by the trustees of the various trusts and relied upon for income tax and financial reporting purposes.

1935 Trust

The 1935 Trust provides, in pertinent part, that during the relevant period of our analysis all income received by the Trust will be issued to Mr. Scaife quarterly or other regular periods per Section 6(a). Section 6(a) of the 1935 Trust provides as follows:

> "All income received by the Trustees after the expiration of said period of income accumulation shall be distributed quarter-yearly, or at such other regular periods as the Trustees from time to time shall find convenient, as follows:
>
> (a) To my said son, if living, during the remainder of his life."

The 1935 Trust also contains provisions for the distribution of trust corpus to Mr. Scaife in the discretion of the trustees.

Family Trust #1

The Family Trust #1 provides for discretionary distributions of the net income to the income beneficiaries, which include Mr. Scaife. Section 4.01 of the Family Trust #1 provides as follows:

> "Disposition of Income. All or any part of the net income of the Family Trust during any calendar year thereof may be distributed during or as of the end of such year to or for the account, or may be used or expended for the benefit, of any one or more of the Income Beneficiaries, and if to or for the benefit of more than one Income Beneficiary, in such proportions as the Independent Trustees shall deem advisable, or may be accumulated in whole or in part, all as the Independent Trustees shall determine. In the event and to the extent income for any calendar year is accumulated and not distributed, used or expended, such income so accumulated shall be capitalized at the end of such year and shall be and become a part of the corpus of the Family Trust and as such subject to all of the provisions hereof relating thereto. Distribution of net income to the Income Beneficiaries may be made in equal or unequal shares to or for the benefit of any one or more of them with or without making any distribution or distributions to or for the benefit of any other or others. The Independent Trustees shall not be liable or subject to surcharge if, in the exercise of their discretion under this Section 4.01, they should make a distribution to Charity out of what they, acting in good faith, determine or believe to be income when in fact the same may be corpus."

The Family Trust #1 also contains provisions for the distribution of trust corpus to Mr. Scaife in the discretion of the trustees.

Family Trust #2

The Family Trust #2 provides for discretionary distributions of the net income to the income beneficiaries, which include Mr. Scaife. Section 4.01 of the Family Trust #2 provides as follows:

> "Disposition of Income. After the end of the Charitable Period all or any part of the net income of the Family Trust during any calendar year thereof may be distributed during or as of the end of such year to or for the account, or may be used or expended for the benefit, of any one or more of the Income Beneficiaries, and if to or for the benefit of more than one Income Beneficiary, in such proportions as the Independent Trustees shall deem advisable, or may be accumulated in whole or in part, all as the Independent Trustees shall determine. In the event and to the extent income for any calendar year is accumulated and not distributed, used or expended, such income so accumulated shall be capitalized at the end of such year and shall be and become a part of the corpus of the Family Trust and as such subject to all of the provisions hereof relating thereto. Distribution of net income to the Income Beneficiaries may be made in equal or unequal shares to or for the benefit of any one or more of them with or without making any distribution or distributions to or for the benefit of any other or others. The Independent Trustees shall not be liable or subject to surcharge if, in the

exercise of their discretion under this Section 4.01, they should make a distribution to Charity out of what they, acting in good faith, determine or believe to be income when in fact the same may be Corpus, nor shall they be liable or subject to surcharge if any distribution to Charity shall not be deductible for federal income tax purposes. "

The Family Trust #2 also contains provisions for the distribution of trust corpus to Mr. Scaife in the discretion of the trustees.

Family Trust #3

The Family Trust #3 provides for mandatory income distributions of the net income to the income beneficiaries, which include Mr. Scaife. Section 3.01 of the Family Trust #3 provides as follows:

"Income.
During the Primary Term the Trustee shall distribute the income of the Family Trust quarter-annually, or at such other times as the Trustee may find convenient, but not less often than annually, to or for the account of or use or expend the same for the benefit of, the Primary beneficiary. "

Mr. Scaife has the right to withdraw up to five (5) percent of the trust corpus on an annual basis from Family Trust #3. In addition, Family Trust #3 also contains provisions for the distribution of trust corpus to Mr. Scaife in the discretion of the trustees.

The Trust documents for the 1935 Trust and Family Trusts #1, #2 and #3 do not define "income" or "net income" anywhere in the terms of the document. The trust accountings which are prepared on an ongoing basis by PNC Bank and/or Fifth Third Bank in their capacity as one of the trustees of the trusts define, by application, income to include interest, dividends, and royalties less estimated income tax payments allocated to the income earned, and less legal and trustee expenses. Further, the corpus of the trust through the accountings maintained by the trustees, has been defined, by application, to include realized capital gains less estimated income taxes allocated to the gains realized through the accounting records maintained by the trustees. These definitions have been consistently applied by the trustees in their process of trust reporting and accounting and in implementing the terms of the trust documents. As a result, we have relied upon the various trust accountings and have included all distributions of income made to Mr. Scaife by the foregoing trusts as disposable income. Distributions of trust principal are not a component of disposable income. It is our understanding that our reliance upon the various trust accountings is consistent with provisions of the Principal and Income Act (20 Pa. C.S.A. 8101 et seq.). The distributions of income are generally made on a quarterly basis to Mr. Scaife per the accounting records. Appendices A-1 and A-2 reflect the total income distributions from the 1935 Trust, Family Trust #1, Family Trust #2 and Family Trust #3.

Charitable Remainder UniTrust

With respect to the 1996 CRUT, we also looked to the underlying trust accounting records and trust document to determine whether the CRUT provides disposable income to Mr. Scaife. Upon formation of the CRUT in 1996, Mr. Scaife contributed 909,472 shares of General Re Company stock valued at $121,747,477 to the CRUT. The terms of the CRUT include a Unitrust provision at Section 2.1 that provides for an annual distribution to Mr. Scaife of eight percent (8%) of the fair market value of the CRUT's assets. Based upon the trust accountings, these distributions to Mr. Scaife have been determined by the trustees to represent principal distributions from trust corpus.

Based upon our review of the trust accounting records, tax filings and the trust documents, we determined that the CRUT does not provide any interest or dividend income that represents available disposable income to Mr. Scaife. Specifically the trust accountings which are prepared in a consistent manner by the trustees, clearly indicate that no income distributions were made to Mr. Scaife in 2004 or 2005. Therefore, we have excluded the Unitrust distributions and the pass-through taxable income reported by Mr. Scaife from the determination of his disposable income for purposes of the calculations set forth on Appendix A-1. For federal income tax purposes, certain taxable income elements of the CRUT are required to be reported by Mr. Scaife as pass-through taxable income.

Appendix A-2 presents a calculation that assumes the pass-through dividend income earned by the CRUT represents disposable income to Mr. Scaife. This assumption is inconsistent with the trust accounting which clearly states that no distributions of income were made to Mr. Scaife during the years 2004 and 2005. This calculation has been prepared in the event the Court would determine that, for purposes of determining an individual's disposable income, it is appropriate to include the pass-through dividends earned by the CRUT, to the extent the CRUT makes Unitrust distributions, as an element of disposable income.

3. <u>Schedule C – Self-Employment Earnings</u>

Mr. Scaife serves as a Director on the Board of Directors for each the following entities:

- Sarah Scaife Foundation
- Carthage Foundation
- Allegheny Foundation;

- Cavalry, Inc.;
- RMS Publisher, Inc.;
- Westminster Holdings, Inc.; and
- Tribune-Review Publishing Company.

As a result of his Board positions, Mr. Scaife receives nominal annual director's fees from some of these entities. Director fees earned by Mr. Scaife totaled $6,500 and $6,000 for the years 2004 and 2005, respectively. We have included these amounts in the calculation of Mr. Scaife's taxable and disposable income for each of the years 2004 and 2005.

4. Schedule D - Capital Gains/Losses

Mr. Scaife realized taxable capital gains and losses in both of the years subject to our review. We analyzed the capital gain activity for the assets held by Mr. Scaife through his Revocable Trust, the various trusts in which Mr. Scaife has a beneficial interest in the income, and the CRUT.

Consideration was given to the inclusion of capital gains as an element of disposable income. Rule 1910.16-2(a)(2) references "income" to include net income from "dealings in property". To the extent that an individual realizes capital gains, such items represent a potential source of disposable income available for support purposes. Capital gains are delineated by realized gains and unrealized gains. Realized gains represent the gain ultimately determined on an asset based upon a sale or exchange of the asset which is then converted to cash or a cash equivalent. Unrealized gains represent the accretion in an asset measured by the market value of the asset at a particular point in time where the asset has not been sold or exchanged. Capital gains are further delineated between short-term gains and long-term gains. Short-term gains consist of capital gains realized on assets held for one year or less. Long-term capital gains are associated with realized gains for assets held in excess of one year. The measurement of capital gains is further complicated by the fact that realized gains are measured by the difference between the sales proceeds for an asset and its underlying income tax basis. Items received by gift have "carryover basis" under Internal Revenue Code §1015. As a result, realized gains on such items include taxable gains of the donor.

It should be noted that, for purposes of determining disposable income, realized capital gains are often excluded from the calculation of disposable income when the underlying assets are subject to Equitable Distribution claims. In addition, as a practical matter, in many other instances, the realized capital gains do not represent a material component in the disposable income calculation and are, therefore, not scrutinized.

We analyzed the realized capital gains of Mr. Scaife after consideration of the following factors:

- An initial determination was made as to whether Mr. Scaife realized capital gains and/or capital losses in the subject years of our analysis.

- An analysis of the supporting detail for all capital gains was performed. This analysis was appropriate because of the long holding period of the majority of the securities that were sold during the years of our review. The purpose of this analysis was to determine the amount, if any, of the realized capital gains which were attributable to the years 2004 and 2005. For example, as indicated on Appendix D, 83,600 shares of Sara Lee Corp. acquired on January 12, 1983 were sold by the Family Trust #2 during 2005. In such instance, the total amount of the realized gain is not attributable to the year in which the individual's disposable income is measured because the value of the underlying security increased over the eighteen-year period from 1983 to 2005, which culminated in the sale of the security during the subject year. In addition, the capital gain on the security was not earned ratably over the eighteen-year period because of market volatility and fluctuations in the value of the underlying asset during the holding period. In fact, as indicated on

Appendix D, the value of the 83,600 shares declined by $447,526 in 2005 even though a long-term capital gain of $1,443,424 was realized.

As part of our analysis, we calculated the actual portion of realized capital gains attributable to the years 2004 and 2005. This calculation is appropriate because the determination of Mr. Scaife's disposable income will be used to establish a current and prospective Support Order. Therefore, the capital gains actually attributable to the subject years under review should be quantified as accurately as possible in order to provide a measure of Mr. Scaife's disposable income during the years 2004 and 2005.

- To the extent that the underlying capital assets were held in various trusts, we analyzed the manner in which the trustees accounted for realized capital gains in the trust accountings. As described in this report, the trust accountings for the various trusts in which Mr. Scaife has a beneficial interest, accounted for capital gains as part of the corpus of the trust and did not include any such items in the determination of "income" or "net income" of the respective trusts.

- As part of our analysis, we considered whether or not Mr. Scaife received income distributions of capital gains from the aforementioned trusts. With respect to the Revocable Trust, we attributed all income items to Mr. Scaife irrespective of whether a distribution was made based upon a constructive receipt theory. As described in this report, to the extent that the 1935 Trust , Family Trust #1, Family Trust #2 and Family Trust #3 made income distributions to Mr. Scaife, such amounts have been included in disposable income. Principal distributions do not represent disposable income. The trust accountings define, by application, capital gains as a component of trust corpus (see discussion *supra*).

Attached as Appendices C and D are schedules summarizing our analysis of the supporting detail of the 2004 and 2005 realized capital gains of Mr. Scaife. As noted on Appendix D, Mr. Scaife's Revocable Trust generated $476,377 of realized capital gains from February 13, 2005 to December 31, 2005 (see discussion *infra*). As described in this report, Mr. Scaife's Revocable Trust is within his control. Therefore, we have attributed the realized capital gains generated post-separation in 2005 as an element of Mr. Scaife's disposable income. It is our understanding that the date of separation between the parties is not resolved. Therefore, for purposes of this report, we have conservatively used the date of separation which results in a disposable income calculation most favorable to Mrs. Scaife for support purposes.

Included in Appendices C and D are summaries of the realized capital gains and other pertinent data relative to the 1935 Trust, Family Trusts #1, #2 and #3 and the CRUT. For all of the foregoing trusts, the trust accountings prepared by the trustees designate the capital gains as part of the trust corpus. Therefore, from these trusts, Mr. Scaife did not receive a distribution of trust capital gains income based upon the trust accountings. In addition, all of the foregoing trusts generated realized losses during the years 2004 and 2005. As a result, there were no realized capital gains within these trusts attributable to the years 2004 and 2005.

In making our determination as to the appropriate capital gains which represent taxable income and disposable income, we first considered the activity of the Revocable Trust of Mr. Scaife. Based upon our detailed analysis of the capital gains and losses realized in 2004 and 2005 in the Revocable Trust, the majority of the gains accrued in prior periods. Our analysis of the underlying value of the holdings is attached as Appendices C and D. As illustrated on Appendix C, during calendar year 2004, the assets which were sold generated a realized capital loss of $1,552,460 but in actuality a loss of $6,635,222 was incurred in calendar year 2004. Similarly, during calendar year 2005, capital gains of $592,923 were realized and reported on Mr. Scaife's individual income tax return, although our analysis of the stock indicates that $476,377 of gain was actually earned from February 13, 2005 through December 31, 2005.

It is our understanding that Mr. Scaife asserts that the parties separated on February 12, 2005, we understand that Mrs. Scaife asserts a later date of separation in December 2005. Capital gains/losses from the Revocable Trust have been excluded from disposable income for 2004 and for the period January 1, 2005 through February 12, 2005 under the assumption that they are subject to Equitable Distribution claims. This assumption results in a higher disposable income figure than if Mrs. Scaife's date of separation was assumed. We express no legal conclusions regarding the date of separation or property subject to Equitable Distribution.

For tax purposes, Mr. Scaife is required to report capital gains which are pass-through items on his individual income tax return as a result of his settling the 1996 CRUT. As shown on Appendix C, based on the detail of the CRUT activity, in 2004 there were capital gains realized and reported of $10,361,939. However, a detailed analysis of these holdings indicates that there was actually a loss experienced on these holdings in 2004 of $1,990,776. Large capital gains were realized based upon the sale of assets which had been held for many years. A similar analysis for 2005 (see Appendix D) indicates that the 2005 realized capital gains total $4,094,146, but the actual amount earned in 2005 was a loss of $1,297,143. The difference is based upon the sale of stock that had been acquired by the CRUT in 1996. As part of our analysis, we analyzed the income tax returns for the CRUT and the applicable provisions of the Internal Revenue Code. We determined that the capital gains reported on the tax return that flows through to Mr. Scaife's individual income tax return, reflects not only the total capital gain realized in the respective years, but also an element of gain that existed when the property was contributed to the trust. For example, the reported taxable realized gain on Mr. Scaife's 2005 income tax return was $7,802,401. However, the detail of the transactions evidences that realized gains within the CRUT totaled $4,094,146 (and the amount actually attributable to calendar year 2005 was a loss of $1,297,143). Based on the analysis, losses were realized during calendar years 2004 and 2005 in the CRUT. In addition, the trust accounting reflects the fact that no distributions of income were made to Mr. Scaife in 2004 or 2005. Accordingly, we have not included any capital gains from the CRUT in our determination of Mr. Scaife's disposable income.

Capital gains distributions from certain investment accounts have been included as disposable income on a constructive receipt theory.

The capital gains/losses associated with Capitol Mall and the Kennel House have been excluded under the assumption that the increase in value is subject to Equitable Distribution claims.

5. **Schedule E – Income from Rental Properties, Royalties and Subchapter S Corporations**

RENTAL PROPERTIES

Mr. Scaife owns several commercial rental properties. The income derived from these rental activities is reported on Schedule E of Mr. Scaife's individual income tax returns. In determining the taxable income attributable to Mr. Scaife for each of the years subject to our analysis, we relied upon the reported earnings for 2004 and 2005. In determining the disposable income generated by these assets, we have considered the non-cash depreciation deduction, which is added back to the taxable income or loss in order to determine the appropriate disposable income.

For tax reporting purposes, the rental losses reported by Mr. Scaife are limited under the Passive Activity Loss rules under Section 469 of the Internal Revenue Code ("IRC"). As a result, the taxable loss items included in our determination of Mr. Scaife's taxable income are less than the disposable income losses set forth on Appendices A - 1 and A-2 in determining Mr. Scaife's disposable income.

ROYALTIES

Mr. Scaife owns several investments which generate oil and gas royalty payments. During the years 2004 and 2005, Mr. Scaife reported net taxable income of $67,234 and $122,585, respectively, from the royalties received. In determining Mr. Scaife's disposable income from royalties, we have added back the depletion expense to the taxable income as it represents a non-cash deduction.

PASS-THROUGH ENTITIES

Mr. Scaife holds interests in two (2) Subchapter S Corporations. Under the current tax laws, earnings from operations and investment earnings of an entity that has elected Subchapter S status pass-through the entity and are reported as income at the individual level. The individual, who may not actually receive a distribution of these earnings from the company, is required to report their pro-rata share of the taxable earnings and incur the income tax liability on the individual level. In determining the disposable income provided to Mr. Scaife as a result of his ownership of the pass-through entities, we reviewed the underlying financial records to determine what distributions were actually made to Mr. Scaife by the pass-through entities. To the extent a distribution of income was actually made by the pass-through entities, we have reflected this as additional disposable income. Similarly, we reviewed the underlying financial records to determine the extent that Mr. Scaife funded operating losses sustained by the pass-through entities. To the extent that Mr. Scaife funded losses sustained by the pass-through entities in the ordinary course of business, we have reflected the amounts funded as a reduction to Mr. Scaife's disposable income.

S CORPORATIONS

- **Tribune-Review Publishing Company ("TRPC")** - Mr. Scaife, on his own and through his 2004 Grantor Trust, owns 100% of this Subchapter S Corporation. The 2004 Grantor Trust is an estate planning vehicle which is under the control of Mr. Scaife and is treated as Mr. Scaife's for income tax purposes. As such, Mr. Scaife is required to report the taxable income or loss of this entity on his individual income tax return.

We have included the pass-through tax loss of TRPC in our calculation of Mr. Scaife's taxable income for each of the years subject to our analysis. In determining the disposable income associated with this entity, we reviewed the available financial records to determine to what extent there were contributions made by Mr. Scaife to the company. Mr. Scaife has funded corporate losses for both 2004 and 2005 by making significant contributions and/or loans to the corporation. In the years 2004 and 2005, Mr. Scaife provided aggregate funds in the amount of $19,500,000 and $18,000,000, respectively, to TRPC in order to sustain its operations and supply its working capital needs. Therefore, we have made appropriate reductions to Mr. Scaife's disposable income to the extent he funded the losses of the company.

As part of our analysis of TRPC, we considered the available financial data and we interviewed Mr. Raymond Hartung, the Chief Financial Officer of TRPC. We reviewed forecasts and budgets of the company going to back to 1998 wherein the TRPC management has worked on various marketing and strategic programs aimed at increasing circulation, increasing advertising revenue and pursued cost cutting alternatives in order to achieve a level of profitability. We reviewed a memorandum from Mr. Ed Harrell, the former President of TRPC, dated

October 24, 2000 which detailed the need for $244,500,000 underwriting in order to sustain the operations over the following ten years. The funding provided by Mr. Scaife to the company in each of the years 2004 and 2005 of $18,000,000 and $19,500,000, respectively, was consistent with the forecast of future funding requirements detailed in the October 24, 2000 memorandum.

Attached as Appendices E-1 through E-4 are the historical balance sheets and income statements of TRPC for the years ended December 30, 2001 through December 25, 2005, expressed in nominal dollars and on a percentage basis. TRPC publishes seven daily newspapers in the Western Pennsylvania area. The primary publications are the Pittsburgh Tribune-Review, Trib PM, Tribune-Review, Tarentum Valley News Dispatch, Kittanning Leader-Times, the Connellsville Daily Courier, and the Monessen Valley Independent. In addition, TRPC provides additional publishing services, including commercial printing and internet service. With the exception of the Pittsburgh Tribune-Review, the other publications maintained by TRPC have historically been profitable.

The financial results of the TRPC are not unlike other operators in the newspaper industry, including the competitor of the Pittsburgh Tribune-Review, the Pittsburgh Post Gazette, which also publishes a daily newspaper in Pittsburgh. In an article dated September 15, 2006, in the Pittsburgh Post Gazette, the marketing director for the Post Gazette stated that the operating losses for the first eight months of 2006 totaled \$12,000,000. Many daily newspapers are facing challenging times as a result of the combination of circulation and advertising declines, the economy, internet competition and increasing costs. In January 2005, in an effort to increase profitability through decreased costs, TRPC announced layoffs, restructuring and other cost cutting measures. Based on discussions with management, TRPC continues to try and increase the level of profitability. Management of TRPC has identified circulation levels as the single most significant variable in its efforts to improve the financial prospects of TRPC. The following summarizes the trend in the circulation level of the Tribune-Review newspapers just prior to and since the creation of the Pittsburgh Tribune Review on December 17, 1992.

The circulation of the Tribune-Review (Greensburg) prior to the 1992 strike at the Pittsburgh Press was as follows:

Area	**Daily Circulation**	**Sunday Circulation**
Greensburg and original Tribune-Review areas	54,346	86,355
Pittsburgh and future Pittsburgh Tribune-Review areas	1,589	3,247
Total	55,935	89,602

The circulation immediately after the 1992 strike at the Pittsburgh Press and after the Tribune-Review began circulation in Pittsburgh was as follows:

Area	**Daily Circulation**	**Sunday Circulation**
Greensburg and original Tribune-Review areas	58,521	105,766
Pittsburgh and future Tribune-Review areas	12,630	20,495
Total	71,151	126,261

The total circulation today at the Greensburg and Pittsburgh newspapers (excluding Trib PM) is as follows:

Area	Daily Circulation	Sunday Circulation
Greensburg and original Tribune-Review areas	55,373	93,708
Pittsburgh Tribune-Review areas	52,453	70,155
Total	107,826	163,863

In addition, the current circulation of the other daily newspapers owned by TRPC is as follows:

Tarentum Valley News Dispatch	Daily Circulation	Sunday Circulation
Currently	29,581	29,866

Monessen Valley Independent	Daily Circulation	Sunday Circulation
Currently	15,298	No Sunday Paper

Connellsville Daily Courier	Daily Circulation	Sunday Circulation
Currently	8,404	No Sunday Paper

Kittanning Leader Times	Daily Circulation	Sunday Circulation
Currently	9,107	No Sunday Paper

The current circulation of the primary non-daily publications owned by Westminster Holdings, Inc. is as follows:

Gateway Newspapers	Weekly Circulation
At acquisition (December 2003)	35,424
Currently	40,719
Circulation Gain	5,295

Pennysaver	Weekly Circulation
At acquisition (December 2003)	752,065
Currently	783,636
Circulation Gain	31,571

Mr. Scaife makes periodic determinations regarding additional funding to TRPC to sustain its operations and provide working capital. Upon approval by Mr. Scaife, funds are transferred from Mr. Scaife's "R. M. Scaife Capital Contribution Revocable Trust" PNC Bank account to TRPC after Mr. Scaife receives and reviews a request for funding and financial and operational reports. This process has been in effect for almost the entire period of Mr. Scaife's marriage.

As noted above, Mr. Scaife has funded the operating losses of TRPC from his "R.M. Scaife Capital Contribution Revocable Trust" account maintained at PNC Bank. We further understand that, for estate planning purposes, it has been the practice of Mr. Scaife in recent years to request principal distributions from the 1935 Trust which have been deposited into his personal account at PNC. Specifically on December 11, 2003, Mr. Scaife received a distribution of $19,500,000 from the 1935 Trust, and on October 13, 2004, received a distribution of $18,000,000. Mr. Scaife has been required by the trustees to sign Waiver, Release, Discharge and Indemnification documents relative to his requests for these principal distributions. These waivers do not contain any provisions or restrictions as to how the funds will be utilized by Mr. Scaife. In fact, given the magnitude of Mr. Scaife's net worth, it is apparent that he could choose to fund the TRPC losses from a variety of different sources.

Consideration was also given as to whether or not the activities associated with TRPC and the resultant operating losses which have required funding by Mr. Scaife, represent an activity not engaged with a profit motive or which is designed to shield Mr. Scaife's support obligation. In order to address this issue, we considered the facts specific to Mr. Scaife's investment in TRPC, its funding and Mr. Scaife's history in the publishing business. In addition, we made reference to Section 183 of the Internal Revenue Code.

IRC §183 is referred to as the "hobby loss" provision of the Internal Revenue Code. In general, taxpayers may deduct all ordinary and necessary expenses attributable to a trade or business or an activity engaged in for the production of income. Generally, when the expenses incurred by the taxpayer exceed the income from an activity, a loss is created that may offset the taxpayer's income from other sources. IRC §183 sets forth provisions that limit the losses available to a taxpayer for activities not engaged in for profit, as that term is defined in the Internal Revenue Code, Regulations and Court decisions. Absent the provisions of IRC §183, there is no other statutory requirement that a taxpayer generate a profit from an activity. Rather, IRC §162 of the Internal Revenue Code allows taxpayers to deduct all ordinary and necessary business expenses attributable to a trade or business. Similarly, §212 of the Internal Revenue Code allows taxpayers to deduct expenses attributable to the production of income.

From an income tax standpoint, the Courts have identified nine factors that are often used to determine whether an activity has been undertaken with a profit motive. These factors consist of the following:

1. Manner in which the taxpayer carries on the activity.
2. Expertise of the taxpayer.
3. Time and effort expended by the taxpayer.
4. Expectation of future profitability or that assets used in the activity may appreciate in value.
5. Past success of the taxpayer.
6. Taxpayer's history with respect to the activity.
7. Amount of occasional profits.
8. Financial status of the taxpayer.
9. Elements of personal pleasure or recreation.

When each of the above factors are considered on balance, Mr. Scaife would clearly be able to substantiate that the activities associated with TRPC have been undertaken with a profit motive as that term is defined by IRC §183, the Regulations and Court cases. Although TRPC has not generated profits, the underlying component publications of TRPC have been profitable with the exception of the Pittsburgh Tribune-Review. It is our understanding that Mr. Scaife assessed the risks and made the investment to create and develop the Pittsburgh Tribune-Review based upon the expectation that he could realize a profit on the investment from a total-return standpoint (current income and capital appreciation).

Irrespective of the actual operating history of the Pittsburgh Tribune-Review and its corresponding impact on the operating results of TRPC, there is no evidence of which we are aware that Mr. Scaife's funding of the TRPC operating losses and working capital needs has been accomplished in an effort to shield his support obligation. The TRPC was a pre-marital activity. Mr. Scaife acquired TRPC on February 12, 1970. On or about December 17, 1992, about one and one-half years after his marriage to Mrs. Ritchie Scaife, Mr. Scaife created the Pittsburgh Tribune-Review, after the Pittsburgh Press was acquired by the company which owns the Pittsburgh Post-Gazette and closed down the Pittsburgh Press. It is our understanding that it was Mr. Scaife's hope and expectation to bring back a second voice to Pittsburgh through the Pittsburgh Tribune Review.

During the entire course of Mr. Scaife's ownership of the TRPC, it has employed professional management which has endeavored to maximize the operating results of all of the TRPC publications, including the Pittsburgh Tribune-Review. As a result of Pittsburgh Tribune-Review operating losses, Mr. Scaife has funded the operating losses and working capital needs in the ordinary course of business.

As a result of the foregoing, we have reduced Mr. Scaife's disposable income for the TRPC losses to the extent that they have been funded during the years 2004 and 2005 as reflected on Appendices A-1 and A-2, respectively.

- **Westminster Holdings, Inc.** – Mr. Scaife, through his 2004 Grantor Trust, owns 99% and the 1935 Trust owns 1% of this Subchapter S Corporation. As such, Mr. Scaife is required to report the taxable income or loss of this entity on his individual income tax return.

Attached as Appendices F-1 through F-4 are the historical balance sheets and income statements of Westminster Holdings, Inc. for the years ended December 26, 2004 through December 25, 2005, expressed in nominal dollars and on a percentage basis. Westminster Holdings reports newspaper publishing and commercial printing operations on a consolidated basis with its wholly-owned subsidiaries, Trinity Holdings, Inc., Gateway Press, Inc., Pennysaver Publications of Pennsylvania, Inc. and Trinity Holdings IHC, Inc.

We have included the pass-through taxable loss of this entity in our calculation of Mr. Scaife's taxable income for each of the years subject to our analysis. In determining the disposable income generated by this entity, we reviewed the available financial records to determine to what extent there were actual distributions made by the company to Mr. Scaife. To the extent that actual cash distributions are made to Mr. Scaife, those amounts represent disposable income available to him. Mr. Scaife received a distribution in 2004 which we have included as an element of disposable income. For the year 2005, we reflected the tax loss as a reduction to Mr. Scaife's taxable income, but we determined that Mr. Scaife received no distributions from this entity during 2005.

Mr. Scaife did not fund these losses in 2005 and therefore we did not reduce his disposable income by the reported loss.

6. **Other Income**

During the year 2004, Mr. Scaife reported taxable losses on Form 4797 of his individual income tax return. We have included this item in calculating Mr. Scaife's taxable income for 2004. This item is not included in disposable income because it is a pass-through tax loss.

7. **Perquisites**

Health Insurance – It is our understanding that Mr. Scaife participates in a R.K. Mellon Company family health insurance plan. It is our understanding that the health and dental insurance policies provide coverage for both Mr. and Ms. Scaife. Accordingly, we have excluded these benefits from Mr. Scaife's disposable income consistent with the Pennsylvania Supreme Court's holding in Mascaro v. Mascaro (803 A.2d 1186).

In his position as the controlling shareholder of TRPC and Westminster Holdings, Inc., Mr. Scaife benefited from additional perquisites which do not represent taxable income and were, therefore, not included in his W-2 compensation. The perquisites that we identified, based upon the records made available to us and the inquiries we made, were as follows:

Computer Services – We understand that the TRPC provided computers and technical support to both Mr. and Mrs. Scaife. Accordingly, we have excluded these benefits from Mr. Scaife's disposable income consistent with the Pennsylvania Supreme Court's holding in Mascaro v. Mascaro (803 A.2d 1186).

8. Undistributed Corporate Income

Mr. Scaife holds controlling interests in TRPC and Westminster Holdings, Inc. (collectively referred to as the "Business Entities"). As part of our assignment, we analyzed the financial statements and/or income tax returns of each company. Attached as Appendices E–1 through E-4 are historical comparative summaries of the TRPC's balance sheets and income statements. Further, attached as Appendices F-1 through F-4 are the historical comparative summaries of Westminster Holdings' balance sheets and income statements.

In determining Mr. Scaife's disposable income, we considered the impact, if any, of the undistributed corporate net income and cash flow of the Business Entities on Mr. Scaife's disposable income. As the controlling shareholder of each of the Business Entities, Mr. Scaife theoretically has the discretionary control over whether or not the net earnings and cash flow of the Business Entities are retained or distributed. Our review of the financial history of both TRPC and Westminster Holdings, Inc. indicates that, in 2004 and 2005, the Business Entities experienced operating losses. Accordingly, we have determined that it is not appropriate to attribute any additional undistributed earnings of either the TRPC or Westminster Holdings to Mr. Scaife as additional disposable income.

9. **Other Deductions**

Investment Fees – Mr. Scaife incurs investment fees associated with the management of his investment portfolios. The earnings from the investment portfolios have been included as disposable income. We have reflected the investment fees incurred to generate the investment earnings as a reduction to Mr. Scaife's taxable and disposable income.

B. SECTION II - ANALYSIS OF DISPOSABLE INCOME

Using the income summaries derived in Section I, we calculated the after-tax disposable income available for the years-ended December 31, 2004 and December 31, 2005. We performed pro-forma income tax calculations to determine Mr. Scaife's tax liability for the income we determined. Our pro-forma income tax calculations are attached as Appendix B. We have prepared income tax calculations for the years-ended December 31, 2004 and December 31, 2005. The tax calculations reflect pro-forma income tax deductions for purposes of calculating Mr. Scaife's disposable income for the years-ended December 31, 2004 and December 31, 2005.

In order to calculate the disposable income available to Mr. Scaife, we subtracted the relevant income tax liabilities from the pre-tax income calculations detailed in Section A of this report. It is our opinion, within a reasonable degree of certainty, that the after-tax disposable income for Mr. Richard Scaife is as follows:

Appendix A-1

	2004	**2005**
Annually	$7,996,175	$13,962,948
Monthly	$666,348	$1,163,579

As described in this report, Appendix A-2 sets forth a calculation of disposable income which includes the pass-through taxable dividends from the CRUT.

Respectfully Submitted,

David Kaplan, CPA/ABV, JD, CVA

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