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Tribune Bankruptcy 'Stops Clocks' for Zell, Eases Debt Burden

By Sarah Rabil

Dec. 9 (Bloomberg) -- Tribune Co.'s bankruptcy filing gives billionaire investor Sam Zell a potentially lighter debt load and time to sell assets including the Chicago Cubs baseball team.

Zell defended the decision to seek protection from creditors, saying in an interview yesterday it would "save the business." The newspaper publisher and broadcaster has enough cash to operate in bankruptcy, according to documents filed yesterday in U.S. Bankruptcy Court in Wilmington, Delaware.

"It stopped the clocks," said Porter Bibb, managing partner at Mediatech Capital Partners LLC in New York. "He said, 'Let's take it right now, get everybody off my back and think about what we want to do next.'"

Tribune, which was on the brink of a possible debt covenant violation, is another example of turmoil in the newspaper industry as the economic crisis coincides with readers and advertisers defecting to the Web.

Creative Loafing Inc., owner of six weekly newspapers, filed for bankruptcy in September, and publishers Philadelphia Media Holdings LLC and Journal Register Co. stopped making interest payments this year.

Zell, who styled himself "The Grave Dancer" for resurrecting distressed companies, was criticized by analysts last December for burdening Tribune with too much debt as industry ad revenue was projected to drop further. He took the 161-year-old publisher of the Chicago Tribune and Los Angeles Times private as an employee-owned company less than a year ago for \$8.3 billion.

'Debt Load'

Tribune lists assets of \$7.6 billion and debt of \$12.9 billion in its Chapter 11 petition. JPMorgan Chase & Co., Merrill Lynch & Co., Citigroup Inc. and Bank of America Corp. were the lead loan arrangers.

"We were concerned at the time by the significant debt load they were placing on the company," said Fitch Ratings analyst Mike Simonton, who's based in Chicago. "As cash flow was diminished we had become more and more concerned."

Filing bankruptcy enables Tribune to "potentially alleviate some of its debt burden," Simonton said.

“We have ideas about how to monetize,” said Zell, 67. “We just can’t work on them as well as we’d like under the pressure we’ve had.”

Senior lenders will recover 31 percent to 50 percent of what they are owed, Simonton said. The company owed \$8.57 billion on a senior facility led by JPMorgan Chase, according to the petition.

ESOP Worthless

More junior loans to Tribune and the stock that gave employees technical ownership of the company are probably worthless, Simonton said.

Tribune spokesman Gary Weitman didn’t return phone calls seeking comment.

The employee stock ownership plan created in the buyout paid \$250 million in money borrowed from Tribune for its shares. Zell loaned the company \$225 million and paid \$90 million for warrants to buy the 40 percent of the company at a later date.

With the bankruptcy, Tribune cut off severance pay and deferred compensation to former employees, according to information provided to staff. “We will continue to operate our business as usual,” Zell said in a memo to employees.

Former Times Mirror Co. Chief Executive Officer Mark Willes, who left before the company’s sale to Tribune Co. in 2000, is owed \$11.2 million in retirement and deferred compensation.

Former Times Mirror Chairman Robert Erburu, ex-Newsday publisher Raymond Jansen and Horst Bergmann, another former Times Mirror executive, are owed more than \$9 million combined, according to the filing.

Team Sale

Zell has cut jobs this year, including about 14 percent of the editorial workforce at the Chicago Tribune. The Los Angeles Times fired 235 workers in July and August, and cut 75 newsroom positions in October.

The Chicago Cubs and their Wrigley Field ballpark aren’t included in the bankruptcy. The team’s sale process and its timetable for completion are unchanged, the Cubs said in a statement.

Bids for the Major League Baseball team ranged from \$850 million to \$950 million, a person with knowledge of the process said.

Tribune probably concluded the Cubs were worth more outside Chapter 11, bankruptcy attorney Sharon L. Levine said in an interview.

“We do not expect any negative impact from the Tribune Co. filing regarding the sale,” MLB President Bob DuPuy said in an e-mail. A buyer will “at some point be selected and submitted to the commissioner for MLB approval.”

Loan Covenants

Tribune was probably on the brink of breaching year-end loan covenants that require debt to remain below 9 times adjusted cash flow, CreditSights Inc. analyst Jake Newman said.

Besides the Cubs, the company has considered selling its stake in the Food Network and has been exploring options for some of its office buildings.

Tribune, also the publisher of newspapers including the Baltimore Sun and the Hartford Courant, posted a third-quarter net loss of \$121.6 million as newspaper ad revenue slumped 19 percent. The company's broadcasting group operates 23 television stations, the WGN America cable channel, and WGN-AM radio in Chicago.

Barclays Plc will continue an existing securitization facility and provide a \$50 million letter of credit, according to court documents. That will provide a cushion for Zell.

"He's going to have to operate this company in a fish bowl," said Jerry Reisman, a senior partner with Garden City, New York-based Reisman, Peirez & Reisman. Under Chapter 11, "you have to operate with complete transparency."

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