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Tribune files for bankruptcy protection

NEW YORK (Reuters) - The publisher of the Chicago Tribune and the Los Angeles Times declared bankruptcy on Monday as the U.S. newspaper industry's unrelenting loss of readers and advertisers claimed its biggest victim yet.

Tribune Co, which owns eight major daily newspapers and several television stations, filed for Chapter 11 bankruptcy protection after collapsing under a heavy debt load just a year after real estate mogul Sam Zell took it private.

Like other big U.S. newspapers, Tribune is under pressure from declining advertising revenue and circulation as more people get news online and as companies cut their marketing budgets because of the economy.

"The Tribune Co's financial condition is symptomatic of the ills that plague the newspaper industry," said Jerome Reisman, a bankruptcy attorney with Reisman, Pierez & Reisman.

Tribune's bankruptcy filing is the latest chapter in the unraveling of the leveraged buyout boom which saw many companies bought by private equity firms and other investors ending up with massive debt loads.

Zell loaded up the privately held publisher with about \$8 billion in additional debt when he took the company private in a transaction largely financed by company contributions to an employee stock option plan.

Like other big companies which took on heavy debt burdens during the private equity boom, Tribune is now being forced to find a way to cut its borrowings to an amount it can handle.

"This process of deleveraging America, whether financial institutions or Tribune, will be a long, slow and painful process," said Duke University Law School Professor James Cox. "That's what's going to prolong this recession."

Even newspaper publishers which haven't borrowed heavily have been struggling to cope: The New York Times Co is reevaluating its assets while slashing its dividend; media reports say McClatchy Co has approached potential buyers about a sale of the Miami Herald; and The Minneapolis Star-Tribune is restructuring while its owner, private equity firm Avista Capital Partners, has skipped debt payments.

Tribune, which also owns the Baltimore Sun and the Orlando Sentinel, had \$7.6 billion in assets and \$12.97 billion in debt as of December 8, according to its bankruptcy filing.

Tribune also owns 23 television stations, which are expected to be hit by the typical advertising declines that follow major elections when political spending virtually disappears.

"It has been, to say the least, the perfect storm," Zell said in a memo to employees. "A precipitous decline in revenue and a tough economy have coupled with a credit crisis, making it extremely difficult to support our debt. All of our major advertising categories have been dramatically impacted."

"There's been so much bad news constantly lately, everyone's just shrugging their shoulders," a Tribune newsroom staffer in Chicago said. "It's just one more day of more disappointing news."

Most of the \$8.2 billion Zell buyout price was paid for by the pensions of Tribune's 20,000 workers, held in an employee stock ownership plan, or ESOP.

The ESOP structure was designed to reduce Tribune's taxes and it lowered Zell's own price tag to \$315 million.

ASSET SALES

The filing does not include Tribune's Chicago Cubs Major League Baseball team or its storied ballpark, Wrigley Field -- both of which Zell has struggled to sell.

At least three groups submitted offers to Tribune last week in the latest round of bidding after receiving more detailed financial data on the Cubs, Wrigley Field and a 25 percent stake in a regional sports TV network.

Analysts have said the assets, which Tribune put on the block in April 2007, could attract bids topping \$1 billion.

But the process has been repeatedly delayed and the slumping U.S. economy has led to speculation that final bids could be lower than initially expected.

"The reality is that we -- along with the rest of the country -- have very little visibility on where the economy is headed and how our businesses will perform given the recession," Zell said in the memo.

Tribune has already sold the Newsday newspaper on New York's Long Island to Cablevision Systems Corp.

During the third quarter, Tribune also sold a 10 percent interest in online job site CareerBuilder to Gannett Co Inc for \$135 million.

The L.A. Times, the largest paper in the Tribune chain, has drawn steady interest from suitors that include entertainment mogul David Geffen. But Tribune has been reluctant to sell the paper, which still generates a profit.

Tribune said its unsecured creditors include J.P. Morgan Chase & Co's JPMorgan Chase Bank with an \$8.57 billion claim under a senior facility, and Merrill Lynch & Co Inc's Merrill Lynch Capital Corp with a \$1.6 billion claim under a bridge loan facility.

Its equity holders include a Tribune employee stock ownership plan with 56.52 million shares.

The filing said Tribune had retained Lazard and Alvarez & Marsal as financial advisers, and Sidley Austin and Cole Schotz Meisel, Forman & Leonard as legal counsel.

(Additional reporting by Megan Davies, Karen Pierog; editing by Matthew Lewis, Gerald E. McCormick, Richard Chang)