Tribune Company files for bankruptcy

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On Monday, December 8, the Tribune Company, which employs about 16,000 workers, became the first major news company to file for Chapter 11 bankruptcy protection in the current economic downturn. The filing, which threatens the jobs, wages and pensions of thousands of workers, allows the company to stop paying interest on its $12.9 billion in debt and enter into debt restructuring negotiations with its creditors. The bankruptcy filing lists the company's assets at $7.6 billion.

The Tribune Company is a media empire comprising the *Chicago Tribune*, the *Los Angeles Times*, the *Baltimore Sun*, the *Fort Lauderdale Sun-Sentinel*, the *Orlando Sentinel*, at least 6 other daily newspapers, a cable network, a radio station, 24 television stations, several weekly papers, Chicago Magazine, and numerous websites. It also owns the Chicago Cubs and their stadium, Wrigley Field, which are not listed as part of the bankruptcy filing.

At court hearings last Wednesday, the media conglomerate asked a bankruptcy judge for permission to cut employee severance payments and health care benefits. In 1986, the *Chicago Tribune* smashed a bitter strike by pressmen and other craft unions, replacing 1,000 workers with strikebreakers. Today, the entire conglomerate is mostly non-union.

Many media companies are suffering from dwindling advertising revenue, as well as the loss of readers to the Internet. In another recent sign of the downsizing and consolidation of the industry, the *Detroit Free Press*, owned by Gannett Co, and its partner, the *Detroit News*, are planning to end home delivery on all but the most lucrative days, which are Thursday, Friday and Sunday.

The most direct cause of the Tribune Company's bankruptcy, however, is the company's staggering level of debt. Several large media companies, including Media General and Gannett, face enormous debt payments and may soon find themselves in a similar situation.

Last year's privatization of the Tribune Company bears the marks of leveraged debt financing characteristic of the recent climate of rampant speculation.

In December 2007, billionaire real estate mogul Samuel Zell, nicknamed the "Grave Dancer" for his history of buying distressed or undervalued businesses, completed the transaction to take the Tribune Company private. He was estimated by Forbes in 2008 to be the 68th richest American. Zell, the Tribune Company's chairman and CEO, pursued a heavily leveraged buyout of the company which was widely characterized as extremely risky and indicative of the irresponsible investments leading up to the recent crisis. The *Wall Street Journal* reports that "no one thought the buyout of Tribune Co. would work—and it didn't."

Ruthlessness typifies Zell's approach. Speaking on the mortgage crisis at the Milken Institute Global Conference in April, Zell was quoted as saying, "This country needs a cleansing. We need to clean out all those people who never should have bought in the first place, and not give them sympathy."

Zell maintained he could make the Tribune Company deal profitable through a combination of asset sales and reorganization to take place under the new management team, which had little or no experience in the newspaper industry. Senior executives knew that bankruptcy would likely be filed soon, in an effort to protect investments.

While Zell invested $315m of personal equity, with substantial risk mitigated by tax breaks, debt was piled on to the company in the acquisition process. By the time of its completion, Zell’s deal had saddled the Tribune Company with $11.2 billion in debt.

Most of the risk for the Tribune Company’s enormous debt was pushed onto the newly-created Employee Stock Ownership Program, which purchased $250 million worth of newly issued stocks upon being established in 2007. These schemes, promoted by the union bureaucracy to “save” failing companies, while securing the interests of big investors, have produced nothing but disaster for workers. This was the case at United Air Lines, McLouth Steel and other companies where workers lost their pensions, wages and life savings when the so-called worker-owned companies collapsed.

The Tribune ESOP, as the majority shareholder, assumed most of the risk for the debts. Those employee shareholders are also at the end of the line of creditors in the bankruptcy proceedings. Speaking to the *Chicago Tribune*, Zell admitted it was likely that the employee stock owners could have their holdings wiped out. The *Chicago Tribune* reported that Tribune Company “will halt all severance payments, deferred compensation and other payments to former employees, who will be required to file a claim with the bankruptcy court.”

The executive director of the National Center for Employee Ownership published an analysis of the Tribune Company’s ESOP in 2007 which included the following: “In the Tribune case, the ESOP will borrow money from the company. Regardless of how the plan acquires stock, company contributions to the trust are tax-deductible, within certain limits. So in this case, the company is able to use the ESOP to borrow money and repay it in pretax dollars, deducting both principal and interest. This is one of the key tax benefits that the many articles on this transaction are referencing.”

In this case, as in other cases, an ESOP was established as part of the privatization to provide tax advantages and risk protection to Zell and company, rather than provide security for employees through ownership stakes, which clearly confirms the predatory nature of the Zell acquisition.

In the first eight months after the Zell acquisition of the Tribune Company, more than 900 *Chicago Tribune* jobs were eliminated. Compounding the instability posed by the risky acquisition, the Tribune Company continued to see its advertising revenue fall sharply. In an effort to cut costs, the *Chicago Tribune* introduced a smaller, reformatted paper in September of this year, composed of fifty percent advertisements and fifty percent graphics-intensive reporting. The cost cuts were achieved by reducing news content and the staff required to produce it, which could be printed on fewer pages. By August 2008, increased layoffs, employee buyouts, and other cost-cutting measures failed to reverse the company’s decline.