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Creditors' deal: The beginning of the end of bankruptcy?

The deal among creditors announced last Thursday, and the expected filing of a plan of reorganization this week, sets the stage for wrapping up the bankruptcy process.

Under the terms of the deal, the banks that lent the money for the transaction under which Sam Zell took control of Tribune, and investment funds that bought that bank debt, would own 91 percent of the post-bankruptcy Tribune Company. That would mean that Sam Zell would no longer control the company and that the Employee Stock Ownership Plan (ESOP) would no longer own the now-worthless shares.

The plan of reorganization, Tribune's official proposal to resolve bankruptcy issues, will incorporate the terms of the deal. Although the official creditors' committee (on which I sit as Guild representative) has approved the deal, it hasn't yet reviewed the full plan of reorganization. The plan is also still subject to a vote of creditors (companies and individuals that are owed money by Tribune) and must be approved by the bankruptcy court before it could go into effect. Having several major creditors sign on to the deal makes the approval vote more likely, but doesn't guarantee it. The deal also reduces, but doesn't entirely eliminate, the possibility of drawn-out court battles over relative payouts to lenders and to bondholders.

The process of voting and court review will take several months at a minimum. Completion of the bankruptcy process would also require FCC approval of Tribune's broadcast licenses, and that review could add several more months to the timetable.

If the plan is approved, the controlling banks and funds would name a new board of directors, and the board would decide whether to retain or replace current top management. Tribune shares would again be traded on the stock exchange. The banks and funds would be writing off (giving up) much of the debt they are owed in return for controlling chunks of stock, so the post-bankruptcy company would have much less debt. In effect, it's similar to refinancing a mortgage to get to a level of monthly payment you can afford.

There's no clear indication what direction the new owners would set for the company. Questions we often get – such as whether Tribune might adopt a different business strategy or whether The Sun might be sold – can't yet be answered. The new board and the management it chooses would be making those decisions.

In the interim, things will go on pretty much as they have. The Guild contract remains in effect, protecting our wage scale and raises, our benefits and our rights. Our pension fund remains intact and remains a legal obligation of Tribune Company.

If you have any questions, you can email me at billsalganik@gmail.com.

- Bill Salganik