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Freedom Communications Files for Bankruptcy

Updated with comments from Freedom's chief executive | 4:42 p.m.

Freedom Communications, the media company that owns The Orange County Register and more than 30 other dailies, filed for bankruptcy on Tuesday as part of a debt reorganization plan that has the blessing of its creditors.

Freedom's Chapter 11 case, filed in federal bankruptcy court in Delaware, is the latest among media companies, which are struggling with depressed advertising revenue and sometimes heavy debt loads.

The filing follows months of negotiations between Freedom and its secured lenders, led by **JPMorgan Chase**, which will take over the company. Under the terms of the pre-arranged reorganization plan, Freedom's existing owners — descendants of founder R. C. Hoiles and the private equity firms the **Blackstone Group** and **Providence Equity Partners** — will see their equity stakes reduced to about 2 percent when the company emerges from bankruptcy protection, Burl Osborne, Freedom's chief executive, told DealBook in an interview.

The family, Blackstone and Providence will also receive warrants that will allow them to gain up to an additional 10 percent stake over the next five years, if the company hits certain financial targets.

Freedom had been negotiating with its secured lenders, which currently number about 26 firms, for months, ever since the company first ran afoul of its credit agreements last fall. While Freedom had won several extensions from its lenders, it finally decided that it could not solve its problems through an out-of-court restructuring, **according to a court filing** by Mark A. McEachen, its chief financial officer.

Freedom will reduce its approximately \$770 million of debt, incurred as part of a 2003 recapitalization that gave Blackstone and Providence what is now a 48 percent stake in the company, to about \$325 million.

Mr. Osborne told DealBook that the company is not planning to sell its assets, which include 33 dailies and several weekly newspapers and television stations.

“Coming out, I think we’re going to be in a much stronger position,” he said. “What we are hoping to see is at some point a bottom, so we can begin to grow again.”

The company said it has enough cash on hand to finance its daily operations, and its newspapers and television stations will continue business as usual.

Freedom expects to emerge from bankruptcy in about four to six months, Mr. Osborne added, though he cautioned that may be extended pending regulatory approval of the ownership transfer of the company’s television statements.

As of July 31, the company had \$757 million in assets and nearly \$1.1 billion in liabilities, according to a court filing.

Mr. McEachen noted in his court affidavit that Freedom owed \$28.9 million as part of the settlement of a class-action lawsuit filed by about 5,000 current and former newspaper carriers. By filing for bankruptcy before a Sept. 14 deadline that would have finalized the lawsuit’s settlement, Freedom retains the right to reclaim those funds in the interest of all its creditors.

Freedom has already taken steps to reduce its expenses. The latest was in late June, when it had announced a 5 percent across-the-board pay cut for employees.

In late 2007, Freedom scuttled another proposed recapitalization plan, one that would have bought out the minority stake owned by Blackstone and Providence, in part because of the then-weaker credit markets.

Freedom is being advised by the investment bank **Houlihan Lokey Howard & Zukin**, the turnaround firm **AlixPartners** and the law firms **Latham & Watkins** and **Young, Conway, Stargatt & Taylor**.

– *Michael J. de la Merced*

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