NATIONAL

Judge's rulings preserve McClatchy's timeline for exiting Chapter 11 bankruptcy

BY KEVIN G. HALL

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Van Durrer, McClatchy's outside counsel, walks into Bankruptcy Court in New York. KEVIN G. HALL *KHALL@MCCLATCHYDC.COM*

NEW YORK

A federal judge on Monday cleared several potential obstacles to McClatchy Co.'s effort to quickly exit bankruptcy, and a lawyer for the company's least-protected creditors pulled back from a threat to seek a court-ordered search of records from the proposed new owner of the local news company.

Judge Michael E. Wiles, who sits on the U.S. Bankruptcy Court for the Southern District of New York, approved motions by McClatchy's lawyers to pay the company's current employees, service providers and suppliers, and to pay utility companies to keep the lights on at properties nationwide.

With those milestones out of the way, the focus turns to mediation proceedings, which began Friday. Mediation is designed to narrow differences between McClatchy and its creditors.

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A proposed deal between McClatchy and Chatham Asset Management would allow the nation's second-largest local news company to shed about 55 percent of its debt and become a new privately held company.

Chatham, which began investing in McClatchy a decade ago, would emerge as the largest stakeholder and effectively own the company. The two sides have not said what the new company's leadership team would look like.

Wiles must approve any deal. Failure to reach agreement by mid-April could result in the proceedings shifting to a sale of the company, McClatchy said in a filing last week.

"We're on track," Van C. Durrer II, the lead outside lawyer representing McClatchy, said after Monday's hearing, referring to the timeline.

Durrer told the judge that the opening mediation session was "very productive."

"We're very happy with where we are," said Durrer, a lawyer with Skadden, Arps, Slate, Meagher & Flom in Los Angeles.

Lawyers for the Pension Benefit Guaranty Corp., the federal agency that assumes pension plans from distressed companies, were not in the courtroom Monday and later declined comment on Durrer's assessment of the mediation.

The PBGC has raised concerns about a 2018 refinancing of McClatchy's debt by Chatham. Concerns about the deal are a potential obstacle to the company's swift exit from bankruptcy.

Last week, lawyers for a newly formed committee of less-protected creditors, known as "unsecured" creditors, sought special authority from Wiles to conduct a closer look at the transaction. The deal vaulted Chatham ahead of all other creditors for repayment.

The unsecured creditors committee said it is seeking information from billionaire investor Leon G. Cooperman, one of McClatchy's primary investors. Cooperman has not participated in the bankruptcy hearings.

Cooperman is a regular guest on the CNBC business channel, and is the second largest protected McClatchy creditor after Chatham. Kristopher M. Hansen, a lawyer with Stroock & Stroock & Lavan who is representing the unsecured creditors committee, told the judge he'd soon seek an order mandating that Cooperman turn over documents pertaining to the 2018 transactions.

A phone message left for Cooperman was not returned.

Hansen told Wiles he was pulling back the threat of action against Chatham, which he described as cooperative. He said McClatchy's lawyers have also shared data.

"At the moment, everybody is saying nice things ... only time will tell," Hansen told the court.

In a Sunday filing, Chatham's lawyers told the court that the unsecured creditors committee had failed to offer proof as to why McClatchy, a public company, would have chosen to favor Chatham's interests over its own in 2018.

Lawyers for McClatchy and Chatham have told the court they seek a speedy resolution because their proposed deal hinges on a time-limited offer. Chicago-based Encina Business Credit has offered to provide $50 million in special debtor-in-possession financing to cover interim costs and an exit from bankruptcy.

That offer, they've said, is contingent upon McClatchy exiting bankruptcy by April 13.

McClatchy lawyers want Wiles to sign off on the Encina offer at the next hearing, scheduled for March 25.

But a lawyer representing a newly formed association of former salaried pensioners from McClatchy and Knight Ridder, the large newspaper chain that it bought in 2006, warned that he, too, might seek a court order for documents.

Israel Goldowitz of The Wagner Law Group told Wiles on Monday that about 450 former executives and top-level employees collectively might have claims in excess of $100 million. That would make them the second-largest player among the group of less-protected creditors.

"We may have no choice," Goldowitz told Wiles, threatening to seek an order to turn over emails and documents relevant to the "jarring" Jan. 2 announcement by McClatchy that it was suspending payment to former executives whose pensions exceeded what qualifies for being handed over to the PBGC.

"I don't see on what grounds I can force them" to pay the former executives, Wiles said. The hardship they describe, he said, is "generally what bankruptcy imposes on a lot of people."

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