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Matthew Crain
CUNY Queens College

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The Rise of Private Equity Media Ownership in the United States: A Public Interest Perspective[°]

MATTHEW CRAIN

University of Illinois, Urbana-Champaign

This article examines the logic, scope, and implications of the influx of private equity takeovers in the United States media sector in the last decade. The strategies and aims of private equity firms are explained in the context of the financial landscape that has allowed them to flourish; their aggressive expansion into media ownership is outlined in detail. Particular attention is paid to the public interest concerns raised by private equity media ownership relating to the frenzied nature of the buyout market, profit maximization strategies, and the heavy debt burdens imposed on acquired firms. The article concludes with discussion of the challenges posed by private equity to effective media regulation and comparison of private equity and corporate media ownership models.

The media sector in the United States is deeply and historically rooted in the capitalist system of private ownership. The structures and demands of private ownership foundationally influence the management and operation of media firms, which must necessarily serve the ultimate end of profitability within such a system. The staggering levels of concentration and corporatization in media ownership in the United States are well documented and the resulting threats to media institutions' conventional public interest obligations have been outlined in detail (Arsenault & Castells, 2008; Bagdikian, 1983, 2004; McChesney, 1999, 2004). Hypercommercialism, decreasing localism, lack of diversity, and disempowered and ineffectual journalism are among the most severe social symptoms of the corporate media system.

Existing scholarship has largely focused on the extent and ramifications of *corporate* media ownership. Much less is known about large-scale media ownership by institutions outside of the corporate oligopoly, yet the last decade has been marked by an influx of investment in the U.S. media sector by non-corporate financial institutions. Specifically, elite private equity investment firms have ramped up

[°] The author wishes to thank John Nerone and the editors and reviewers of *IJoC* for their valuable comments on earlier drafts.

Matthew Crain: mcrain4@illinois.edu

Date submitted: 2008-07-21

acquisitions of publicly traded media companies via complex financial maneuvers known as leveraged buyouts (LBOs). The LBO strategy is to employ debt financing to assume control of undervalued firms, restructure them to maximize efficiency, and then exit the investments by selling the streamlined properties at high profit margins. Often, the firms targeted in these deals assume heavy debt burdens and undergo considerable organizational restructuring as part of the process.

This trend in media ownership correlates with a larger rise of private equity activity in the economy as a whole since the turn of the century, which itself can be contextualized as a component of the increased prominence of organized finance capital within evolving neoliberal capitalism. The term "finance capital" is employed here, as characterized by Dumenil and Levy (2004), to indicate the elite class of investors and financial institutions that are "major owners . . . free from direct management but often still active in the institutions that come to embody ownership" (p. 208). Finance capital employs investment resources to maximize accumulation via instruments and markets that are detached from the actual production of goods and services. In basic terms, finance capital creates wealth by its own devices, making money from money rather than from direct investment in production.

The principle focus of this article is to outline the implications of private equity ownership for a democratic media system already in crisis (McChesney, 2008, p. 117). If financial investment is a "substitute for real investment and is harmful to it" (Dumenil & Levy, 2004, p. 119), then private equity ownership exacerbates the ongoing evisceration of our media institutions. Much of the analysis presented here deals with economic and structural aspects of private equity firms and their ownership of media companies; however, the larger argument relates to normative considerations regarding the function of media within a democratic system of governance. As McChesney (2008) notes, critical examination of structures and institutions is only part of the task of political economic media analysis, which must also consider how "the media system as a whole interacts with broad social and economic relations in society" (p. 151).

Baker (2002, p. 126) points out that any assessment of media's service to a democratic system of governance first requires a theory of democracy itself. His concept of "complex democracy" incorporates both "pluralist" commitments to creating fair compromises among interest groups and "republican" devotion to the discursive formation of the common good. In order to forge public opinion and communicate public will to power, complex democracy requires a multitude of viable public spheres of which the media system is a core institutional component. The historic role of the press as the "fourth estate" encompasses providing checks against the abuse of governmental (and private) power and disseminating to the public informed opinions about the issues of the day, but it can only fulfill this role if it is incorporated into a larger media system that supports these democratic ideals. "For this reason," writes Baker (2007), "a country is democratic only to the extent that the media . . . are structurally egalitarian and politically salient" (p. 7).

This article examines, in four parts, the intersection of finance capital, media, and democracy through the lens of private equity takeovers in the media sector. The first section examines the structure and strategic initiatives of private equity firms, focusing on the leveraged buyout, public-to-private acquisitions, and the short-term investment cycle. The second provides a financial contextualization of the

rise of private equity in the larger United States economy. The third section chronicles private equity's incursion into the media sector, primarily focusing on the pervasive buyout activity in the broadcasting, newspaper and publishing, and cinema industries. Takeovers in music publishing, video game publishing, digital media, telecommunications, and cable are summarized. The final segment addresses public interest concerns raised by private equity media ownership, including problems associated with inflated acquisition prices and over-leveraging, qualitative changes to media firms resulting from profit maximization strategies, and regulatory issues related to the institutional composition of private equity firms and the Federal Communications Commission's resistance to more closely examine private equity takeovers.

Illuminating Private Equity

The world of private equity investment is a specialized and fairly restricted realm of knowledge. While the term itself may bear a certain degree of familiarity, what these companies actually do is, to a considerable extent, obscured from public view. Fundamentally, private equity firms are exclusive high-stakes investment groups that manage and deploy massive amounts of private capital. Investment minimums are typically set in terms of millions of dollars, which has the dual effect of creating immense blocks of mobile capital while also limiting investment opportunities to elite groups of ultra-wealthy individuals and large institutional investors such as insurance groups, pension funds, and university endowments. Private equity funds are not openly traded in any public stock exchange system and therefore face considerably less regulatory oversight from institutions such as the Securities and Exchange Commission than their publicly traded counterparts. Bypassing Wall Street, private equity investors enter into limited partnerships in which their capital is managed by private equity firm executives (often investors themselves) for a fixed period, usually between five and 10 years.

Once a fund has reached maturity, investors are repaid their investment principles, plus or minus any gains or losses. Commonly, investors and fund managers receive dividends throughout the investment phase. Additionally, general partners typically assess investment management fees, as would a brokerage firm managing investments on a public stock exchange. Private equity investment is characterized by high levels of both risk and profitability and, as in the stock market, there are no guaranteed returns on investments. Although rates of return fluctuate, private equity firms typically seek to return at least 20%, a considerably higher profit margin than the average rate of return on publicly traded stocks.

The most significant application of private equity capital to the media sector in recent years has been corporate acquisition financed through the leveraged buyout (LBO) process.¹ The leveraged buyout is notable because it involves the most direct and rapid exchange of power from the hands of the acquired company to the purchasing private equity firm. Leveraged buyouts are primarily financed through debt, meaning that private equity firms borrow a majority of the funds required to purchase a given investment

¹ In addition to LBOs, private equity funds employ other investment strategies, including providing venture capital to entrepreneurial startups, investing directly in private companies, and investing in public firms through a process known as PIPE (private investment in public entities). (See "Going private," 1999.)

property. While it is true that private equity firms must put up their own capital to pursue an acquisition, the debt to equity ratio is commonly in the range of 80% debt to 20% equity. This proportion varies from deal to deal depending on the availability of financing, but there is a strong financial incentive for private equity firms to secure as much debt as possible for leveraged acquisitions. A high debt to equity ratio increases the risk of a given deal, but it also provides optimal conditions for profit maximization by private equity interests. Historically, LBOs have been brokered with as little as 3 % equity contribution from private equity buyers (Baker & Smith, 1998, p. 124).

The debt for leveraged buyouts is financed by securing loans from large investment banks and by issuing high-yield bonds to outside investors. These bonds, also called "junk bonds" or "speculative bonds," offer investors potentially high returns while also carrying large amounts of risk. Since leveraged buyouts are commonly financed with imbalanced debt to equity ratios, the speculative bonds issued for these deals often fail to meet standards of "investment grade." Investment grade is a credit rating scale that essentially measures the risk of default for a given security. Securities that receive the weakest investment grade ratings are labeled "junk bonds."

At a basic level, the leveraged buyout can be conceptualized as a two-tiered investment scheme. The first tier consists of the executives that manage the fund (general partners) and the wealthy individuals and collectives that provide primary investments but have no management control (limited partners). This tier directly contributes the capital for the equity portion of a leveraged buyout. The second tier consists of those institutions and investors that supply the remainder of debt financing. These are investment banks, hedge funds, and other institutional investors that provide loans and purchase speculative (junk) bonds.

Even though the actual sums of capital put forth by private equity firms may reach billions of dollars, major leveraged buyouts can rely on multiple billions of dollars of debt financing. The result is that private equity firms are able to make phenomenally large acquisitions without committing proportionate amounts of capital. In addition, groups of individual private equity concerns commonly join forces in so-called "club deals" (Sweeney, 2007, p. 34). This collaboration allows consortiums of buyers to pool their resources and borrowing power so that all but the largest of companies are within range of acquisition.

A final key element of the leveraged buyout is the sharply uneven distribution of risk among the private equity buyers and the target firm. The hallmark of the LBO is that the debt employed in the deal is collateralized against the assets of the company slated for acquisition. Loans are secured against the material resources and cash flow of the target firm. Likewise, high-yield bonds are commonly offered under the name and books of the company to be acquired.

The leveraged buyout strategy is often used to acquire publicly traded companies in a process that ultimately removes them from the stock market exchange system. According to industry executives, these "public-to-private deals fuel the [LBO] market" (Lim, 2007). Public companies identified as "underperforming," that is, businesses with sluggish stock market valuations and undervalued corporate assets, are prime targets for leveraged buyouts. In order for an LBO to be successful, the target firm must have high cash flows and relatively low amounts of corporate debt so that it will be able to sustain the

increased debt burden that invariably results from an LBO. One observer summarized the process as follows:

To take public companies private, buyout firms often load up the firms with debt, which they pay back from the company's cash flow. That's why they hone in on firms with healthy balance sheets that have been duds on Wall Street. (Wong, 2007, January 19)

A private equity firm acquires a public firm by purchasing a controlling interest of shares. Once majority shareholder status has been obtained, the private equity firm delists the target company from the public stock market, often paying a premium price to existing shareholders that can be much greater than the listed market value of the shares prior to the first public news (or speculation) of the deal. Proponents argue that the delisting strategy provides owners with the means to exercise tight managerial and financial control over companies without facing the burdens of regulatory oversight and quarterly earnings scrutiny imposed on publicly traded firms. The total number of public-to-private deals in the U.S. has risen steadily since the turn of the century. In 2006, more than 1,000 companies were taken private compared to just 324 in 2001 (Varchaver, 2007).

Once a private equity firm has acquired a target company, the general *modus operandi* is to immediately trim inefficiencies, replace existing management or augment it with members of the private equity firm's board, and above all, rapidly increase the perceived value of the target firm. Such structural and operational adjustments are necessary because the ultimate goal of the leveraged buyout is to sell off the acquired property for a maximized profit in the short term. In this way, the LBO and subsequent investment turnaround is much like the process of "flipping" houses in the real estate market. Acquisitions are timed investment vehicles rather than extended projects. Short-range growth is emphasized in order to maximize the value of investment capital that will ultimately flee from the target firm to return, along with any significant profits, to the hands of private equity investors.²

The Rise of Private Equity within the Larger Economy

Increased private equity investment in the media sector has occurred within the context of expanding private equity activity in the economy at large. There have been two major discernable private equity surges in the United States over the past 25 years. The 1980s witnessed a swell of what were functionally labeled "leveraged buyout firms" primarily acquiring industrial and retail properties. Generally, leveraged buyout firms operated under a "chop shop" mentality whereby they would acquire large companies to be subsequently broken up and sold piecemeal. Private equity leaders such as Kohlberg, Kravis, Roberts & Co. (KKR), The Carlyle Group, and The Texas Pacific Group made fortunes acquiring underperforming businesses, trimming non-core assets, and selling off the components for excellent returns (Baker & Smith, 1998).

² Ironically, one preferred method for cashing out of leveraged buyout investments is to hold a subsequent initial public stock offering (IPO). The logic is that the gauntlet of delisting and reorganizing ultimately raises the net value of an acquired firm, which can then be sold at a premium rate when re-listed on the public stock exchange.

In the later 1980s, two high-profile leveraged buyouts resulted in the bankruptcy of national retail chains Revco Discount Drug Stores and Federated Department Stores. Unable to cope with the debt incurred from the buyouts, the firms failed (Baker & Smith, 1998; "Revco's LBO," 1988). In the period between 1985 and 1989, more than a quarter of leveraged buyouts ended in default (Baker & Smith, 1998, p. 127). These botched deals contributed to the subsequent drying up of the leveraged buyout market in the early 1990s.

Private equity's large-scale return was presaged in a 1999 editorial in the *Venture Capital Journal* which took note of a small group of private equity firms who "turned their attention to smaller public companies" to complete full or partial buyouts ("Going private," 1999). Although just 22 such transactions occurred in 1998, the editorial emphasized the "prospect of superior investment returns" to be realized in the pursuit of "market orphans" and forecasted an increase in "going private transactions" contingent upon sustainable market conditions.

Indeed, since the turn of the century and particularly from 2004 to 2007, a second wave of leveraged buyout activity developed with fervor. This recent flurry of private equity investment has been facilitated in part by expansionary monetary policy, which functions to increase the availability of investment capital in the economy at large via interest rate pricing mechanisms. Low interest rates effectively decrease the cost of capital to borrowers thus making credit easier to obtain and incentivizing the heavy use of debt financing. Another important outgrowth of expansionary monetary policy has been the relaxation of loan covenants, the conditions imposed by banks on borrowers. Credit lines with relaxed covenants "dispense with traditional requirements that companies keep a comfortable cushion of cash flow to cover interest payments or else pay down debt" (Tully & Hajim, 2007). In addition, firms have been permitted to borrow capital in order to make interest payments on existing debt and even to pay out dividends to investors. Such an unrestrained financial landscape is self-perpetuating. Easy access to capital helps create opportunities for huge profits via private equity investment, while successful private equity deals reinforce the logic of offering relaxed terms on financing. Finally, the relevant tax code is quite favorable to private equity investment. Under existing law, private equity firms enjoy significant tax breaks on the interest payments used to acquire target businesses. Moreover, fund managers are able to classify substantial portions of their earnings as capital gains rather than income, thus greatly reducing the taxes incurred (Doster, 2007).³

Private equity in the 21st century has wholly eclipsed its lineage in terms of aggregate fundraising power, total number and value of acquisitions, and size of individual transactions. The figures are awe-inspiring. The total number of active buyout firms worldwide has more than doubled in less than five years (Wong, 2007, July 3). In 2006, private equity accumulated a record \$459 billion of investment capital worldwide ("The business," 2007). Fifteen years prior, they raised less than \$10 billion. Given the ability to borrow against their current resources, private equity firms in aggregate command an estimated \$1 trillion in spending power (Rosenbush, 2006, June 14). In the United States, the world private equity

³ Private equity tax policy has come under scrutiny from relevant Congressional committees, but no changes have been made. (See Anderson & Sorkin, 2007.)

leader, a record \$215.4 billion entered private equity investment coffers in 2006 (Sweeney, 2007). Of that, nearly \$150 billion was specifically earmarked for buyout purposes, representing a 33% increase over corresponding funds from 2005, the previous record year. One-third of all merger and acquisition deals brokered in the U.S. in 2006 were funded in some capacity by private equity; five years ago this figure was just 3%.

Losing the old terminology and its negative connotations, "leveraged buyout firms" have returned under the untarnished moniker of "private equity." Indeed, many of today's largest and most active private equity firms are the same companies that led the LBO charge in the 1980s, now rebranded to shed their public associations with "junk bonds, hostile takeovers, and vulture capital[ism]" (Colman, 2007). Some firms have gone so far as to alter their names to coincide with their public relations makeovers; the giant Texas Pacific Group is now known only as TPG, SKM Growth Investors is now Parallel Investment Partners, and Hicks, Muse, Tate & Furst, the Dallas-based buyout specialist that once controlled nearly 500 radio stations, has quietly become HM Capital Partners. Private equity has also attracted high-profile investors such as pop group U2's Bono (with Elevation Partners), NFL Hall of Fame quarterback Joe Montana (with HRJ Capital), and former General Electric CEO Jack Welch (with Clayton, Dubilier & Rice).

Private Equity Media Ownership

In the mid-1990s, private equity firms started to test the investment waters of the media sector, which did not play a primary role in the LBO craze of the 1980s. During this period, private equity firms primarily pursued minority shareholder investments in publicly traded companies, but Dallas-based Hicks, Muse, Tate, and Furst (Hicks Muse) helped to mainstream the use of leveraged buyouts in the media sector. Enabled by the dramatic reductions in broadcast ownership caps put forth in the Telecommunications Act of 1996, Hicks Muse used debt financing to accumulate a massive radio and outdoor advertising portfolio that would later be subsumed by Clear Channel to create the largest radio group in history (Hill & Parkes, 1999; Parkes, 1999). In 1998, Hicks Muse and KKR joined forces to privatize one of the nation's largest movie theater chains, Regal Cinemas, in a \$3 billion leveraged buyout (Lipin & Orwall, 1998). Borrowing heavily to make subsequent acquisitions, Hicks Muse and KKR inflated Regal to twice the size of its closest competitor. As the first major collaboration by each firm with a rival, the Regal deal would turn out to be a model business operation. Moreover, the \$600 million invested by Hicks Muse and KKR signified one of the largest financial commitments by either firm to any single industry.

Despite these early inroads by Hicks Muse and others, it was not until 2004 that private equity began to aggressively enter U.S. media markets. That year a record 11% of the total equity transactions involving media firms were private equity deals, doubling the previous record achieved in 2002 (Mermigas, 2005). Collectively, private equity funds invested \$6 billion in media and telecommunications in 2004. By 2005, that number grew to \$15 billion and then soared to \$30 billion in the first half of 2007 alone (Malone, 2007, June 25).

What follows is a representative mapping of private equity takeovers in the United States media sector since roughly 2004. Explicit focus is placed on leveraged buyouts of major media firms, although

pertinent smaller deals have not been excluded. In an effort to coherently present the complex multidirectional web of negotiations and partial transfers of ownership, the transactions have been grouped into sections by industry, each of which roughly flows chronologically. The broadcasting, newspaper and publishing, and cinema industries are discussed in detail. Music publishing, video game publishing, digital media, telecommunications, and cable are summarized with major transactions highlighted. One inherent problem with this format is that the lines between individual industries are highly blurred in the age of conglomeration and media convergence, so some degree of overlap is unavoidable. Although no claims are made regarding the absolute completeness of this information, every effort has been made to include key transactions relevant to the themes of this article. Additionally, it must be noted that private equity, just like media production, is a global enterprise. Although the present research has been largely limited to the United States, certain transnational deals are included as American firms have purchased foreign media companies and vice versa.

Broadcasting

In 2006, a number of rival private equity consortiums engaged in a bidding war to acquire radio and outdoor advertising giant Clear Channel Communications. Shareholders of the publicly traded Clear Channel took advantage of the increasing willingness of private equity firms to pay top dollar for acquisitions, rejecting an \$18.5 billion offer from Bain Capital and Thomas H. Lee Partners that represented nearly a 33% premium above the value of actual shares (Tully & Hajim, 2007). Facing competition from rival bidders, Bain and Thomas H. Lee sweetened the deal to \$19.5 billion plus the assumption of more than \$8 billion in Clear Channel debt (White, 2007). Clear Channel's takeover transfers control of over 1,000 radio stations and the nation's largest outdoor advertising portfolio to the new private equity owners.⁴ In mid-2007, Providence Equity Partners sunk \$1.2 billion into the acquisition of Clear Channel's 56 television stations, representing the complete liquidation of the radio giant's television assets (Littleton, 2007).

Ion Media Networks (formerly Paxson Communications) reaches approximately 83% of U.S. television households through its broadcasting, cable, and satellite distribution interests (Malone, 2007, May 7). Ion's broadcasting division alone controls 60 stations and its programming reaches nearly a third of the country, making it the third largest broadcaster in the nation ("Top 25 station groups," 2007). In May of 2007, the firm's shareholders agreed to a privatization of the company by a group of its largest institutional investors led by the Citadel Investment Group (Malone, 2007, May 7). The \$2.4 billion buyout gave Citadel 100% of the voting stock and full control of Ion's operations. The remaining stakeholders, including insurance company AIG, hedge fund Gradient, investment firm Avenue Capital, and NBC Universal, retained debt that is optionally convertible into non-voting shares (Albiniak, 2007).

⁴ The credit crisis beginning late 2007 prompted the investment banks financing the deal to attempt to withdraw from the transaction. (See "Clear Channel," 2008.) The takeover was finalized in July 2008 only after the private equity firms renegotiated the purchase price and sued the banks, forcing them to uphold financing agreements. (See "Bain," 2008.)

Almost immediately following the close of the Ion deal, Univision, the nation's largest Spanish language broadcaster was taken private as well. Again, a bidding war materialized between two cadres of private equity-led groups competing for Univision's vast programming assets and 114 full-power television and radio broadcasting stations (Federal Communications Commission, 2007). The winning group, which included Madison Dearborn Partners, Providence Equity Partners, Texas Pacific Group, and Thomas H. Lee Partners, closed the deal at \$12.2 billion in the summer of 2007 (Tully & Hajim, 2007).

Although takeovers of recognizable national broadcasters are core components of the recent buyout frenzy, there has also been a marked increase of private equity interest in small and middle-market television and radio properties. These deals do not receive the press coverage sometimes garnered by larger buyouts nor do they typically involve comparable levels of cash, but they remain significant components of the private equity media ownership trend. Mid-market buyouts commonly involve shaving off "non core assets" from large firms and pursuing strategies for profit maximization while looking ahead to a short-term exit of the investment. In smaller or isolated markets, concerns regarding localism are accentuated when long-distance management displaces local or regional ownership. Private equity owners, largely based in major metropolitan areas, may not adequately invest in their newly acquired mid-market stations from afar, let alone be able to improve upon on local broadcasting's already excellent profit margins without imposing severe efficiencies.

In late 2002, the Washington-based private equity firm Arlington Capital Partners formed the holding company New Vision Group with the explicit intention to assemble a "strong portfolio of leading middle market stations" (Arlington Capital, 2002). After just 15 months, New Vision had acquired five mid-market television stations. In a press release, Arlington Capital's vice president confirmed New Vision's commitment to "provide top quality local programming and services to its communities" (Arlington Capital, 2003). The exact depth of the firm's commitment to localism was revealed a few months later when it abruptly sold two of its recently acquired stations to separate bidders. One station, KDLH of Duluth, MN was sold less than five months after its acquisition by New Vision ("TV stations to collaborate," 2004). The other, WISE-TV of Fort Wayne, IN was sold for a 220% return after an ownership period of just 14 months (MacFadyen, 2003; "TV stations to collaborate," 2004).

By August of 2005, three years after its formation, New Vision had sold off all of its stations, some of which were acquired by other private equity firms (Welch, 2007). One notable exception was WISE-TV, which was purchased by Granite Broadcasting who immediately fired 57 employees, including the long-standing local news team and merged the news operation with another station amidst public outcry (Leduc, 2005; Lipp, 2005). Granite went bankrupt in 2006 and emerged six months later under the control of private equity firm Silver Point Capital ("Granite Broadcasting," 2007). As a result of this financial jockeying, WISE-TV has changed ownership nearly every year since being "flipped" by New Vision, hardly creating the optimal environment to "provide top quality local programming and community services" as promised by the executives at Arlington Capital.

"Small market stations are one of the best kept secrets in TV," boasted Jim Yager, president and CEO of Chicago-based Barrington Broadcasting, a holding company for private equity firm Pilot Group (Littleton, 2007). Since 2004, Barrington has quietly pursued television stations in small and mid-size

markets, purchasing them one or two at a time from larger broadcasting groups. Currently the firm controls 21 stations in 15 markets ranging from Traverse City, MI to Kirksville, MO (Barrington Broadcasting, n.d.). Barrington's holdings reach 3.4% of the national television audience, more than 10 million people. Holding companies such as Barrington are common among private equity firms. Both Diamond Castle Holdings and Oak Hill Partners own holding companies specifically for small- and mid-market television stations (Wilson, 2006; *The New York Times*, 2007).

Private equity interest in small- and middle-market broadcasting is no less pronounced in the radio industry. In 2005, Arlington Capital Partners created Main Line Broadcasting to "pursue a consolidation of middle market radio station clusters in attractive growth markets, with the goal of assembling a strong portfolio of leading middle-market stations" (Arlington Capital, 2005). Main Line began by acquiring four stations in Richmond, VA and five in Hagerstown, MD and nearby Waynesboro and Chambersburg, PA. In May of 2007, the holding company announced a deal to purchase ten stations in the Louisville, KY and Dayton, OH markets (Arlington Capital, 2007). To date, Main Line has not exited any of its radio investments, but it has aggressively pursued strategies to limit costs and increase profitability. One such strategy involves transforming its stations into the "Jack" format, which features automated programming controlled remotely via computer software. Jack stations require no on-air talent and feature minimal audience interaction. As one station manager put it, Jack stations are designed to function with a "skeleton crew on a low budget" ("Former Z-93," 2007).

Dayton's Z-93 is emblematic of the Jack format approach to cutting costs. Prior to its acquisition by Main Line, Z-93 ran a contemporary format with popular morning shows featuring local on-air talent. Upon assuming control, Main Line installed a new general manager, fired the existing on-air personalities, switched to the automated Jack format, and renamed the station Fly 92.9. After the switch, local listeners started an online petition to bring back Z-93 (Smith, n.d.). One audience member summarized the general reaction to the new format as follows:

What the new station owners don't understand is that we liked our local DJs. They were our companions and friends. They were with us throughout the day, every day, for years. So sad. Good luck to Fly-whatever with their generic random mix of music. We're gone. We'll wait for our old friends to show up on other stations, and that's where you'll find us. (Larson, 2007)

Newspapers and Publishing

In 2004, Freedom Communications, one of the few remaining family-controlled newspaper publishing groups, was pursued heavily by both private equity and industry buyers. Unable to complete a total buyout, The Blackstone Group and Providence Equity Partners took a 40% minority investment in Freedom (Heilman, 2004). While the family of Freedom founder Raymond C. Hoiles was able to retain executive control, the company was forced to borrow \$1 billion in order to purchase enough outstanding shares to secure continued family management (Milbourn, 2004).

The massive Dutch publishing conglomerate VNU went private in 2006 in a \$9.7 billion club deal involving six private equity firms including The Blackstone Group, Carlyle, KKR, and Thomas H. Lee Partners (Andrews, 2006). VNU produces an enormous catalog of well-known trade and popular publications in addition to being the parent company of Nielsen Media Research, the leading audience measurement firm in many U.S. media markets. VNU's shareholders rejected the private equity consortium's initial bid, only accepting a subsequent more valuable offer. In the wake of the over-priced acquisition, VNU's short and long-term corporate credit ratings were downgraded by the Standard & Poor's credit rating bureau. The adjustment was linked to "significant uncertainties surrounding VNU's future financial profile after the private-equity takeover and expected capital restructuring" (Andrews, p. 53).

Soon after the acquisition, VNU's private equity owners hired a new CEO, a former General Electric executive, who was incentivized with a \$100 million compensation package contingent upon certain performance goals (Simba Information, 2006). The new management promptly announced its intention to eliminate 10% of VNU's total workforce, approximately 4,100 jobs. Editors at trade publications such as *Billboard*, *Adweek*, and *Hollywood Reporter* were some of the first employees to lose their positions.

Also in 2006, Reader's Digest Association was taken private by Ripplewood Holdings in a \$2.4 billion deal (*Reader's Digest*, 2007). Ripplewood integrated its existing media properties into the *Reader's Digest* group of 27 publications, which together reach over 100 million readers globally. In that same year, InterMedia Partners acquired publishing group Thomas Nelson, Inc. for \$473 million and agreed to purchase a collection of 17 magazine titles from Primedia for \$170 million (Nelson, 2006; "Additional transactions," 2006).

In late 2004 and 2005, several large publishing groups changed hands among private equity concerns. Highlighting these private-to-private deals reveals one weakness in the attempt to create a solid periodization of private equity activity in the media sector. As in broadcasting, private equity firms quietly made inroads into the newspaper and publishing industries throughout the 1990s. The following transactions illustrate the exit strategies of early adopters who successfully cashed out of their newspaper and publishing investments as the media buyout market caught fire in recent years.

In December 2004, private equity firms Spire Capital Partners and Wachovia Capital Partners jointly purchased American Community Newspapers (ACN), a large publisher of suburban weeklies (Wachovia Capital Partners, 2004). Spire and Wachovia acquired ANC from another consortium of private equity investors including Weiss, Peck & Greer, AIG Horizon Partners, and Waller-Sutton Media Partners, which had invested in publishing throughout the 1990s (Weiss Peck, 1998). Less than three years after purchasing ACN, Spire and Wachovia then sold the firm again, nearly doubling their initial investment (Powell, 2007).

In May 2005, community newspaper chain Liberty Group Publishing exchanged hands among private equity firms in a \$530 million transaction (Berman, 2005). Leonard Green & Partners, which created Liberty in 1997 after buying hundreds of community newspapers from Hollinger International, achieved a return of 170% on its initial investment by selling to Fortress Capital Group (Buyouts.com,

2005). Fortress then aggressively expanded Liberty, acquiring 100 community papers from Herald Media in early 2006 in a \$225 million deal (Buyouts.com, 2006). Later that year, Fortress changed Liberty's name to GateHouse Media and held an IPO, raising \$248 million while retaining a sizable stake in the company, then 400 publications strong (Cowan, 2006).

The most illustrative private equity buyout in the newspaper publishing industry was the 2006 sale of Minnesota's largest daily, the *Minneapolis Star Tribune*. Publicly traded newspaper chain McClatchy jettisoned the *Star Tribune* to New York-based private equity firm Avista Capital for \$530 million, less than half of its original purchase price (McKinney, 2006). Upon announcement of the transaction, executives from Avista professed a strong commitment to the prosperity of the paper and vowed not to reduce staff or undermine the quality of the news operation. A partner at Avista went on record saying "you don't buy a paper that's involved in intellectual property and strip it" (McKinney, 2006). Yet, less than four months after the *Star Tribune's* acquisition, 24 newsroom employees were ushered out with severance packages (Hawkins, 2007). Two months later, the paper initiated a company-wide buyout program with expectations to cut an additional 145 jobs, including 50 newsroom positions, nearly halving the total news staff (Strupp, 2007). Additionally, the reorganization called for as many as 100 reporters to be removed from their current beats, forcing them to apply for reassignment. The *Star Tribune's* own economics reporter decried the layoffs as unjustified in light of the paper's "near monopoly profits" and "song" (Hawkins, 2007) of an acquisition price.

Trouble deepened at the *Star Tribune* when Avista brought in a controversial new publisher. Par Ridder, son of the former Knight Ridder CEO, came to the *Star Tribune* from the cross-town rival *St. Paul Pioneer Press*, bringing with him confidential financial, marketing, and sales data. The staff at the *Star Tribune* resisted, calling for Ridder's removal, but Avista backed their new publisher unconditionally. A scathing editorial in a nearby paper reacted with the following:

This would not have occurred if the *Star Tribune* was owned by newspaper people. But . . . it's the property of an investment firm that knows little and cares even less about journalism, newspaper ethics and readers. If Avista Capital Partners had any business ethics, they would have released Ridder the minute he arrived with a passel of sensitive documents. (*The Daily Telegram*, 2007)

Amidst controversy, Ridder was ultimately forced to leave the *Star Tribune* by court order in September 2007 (Welbes, 2007).

Cinema

In 2005, the classic Hollywood film studio Metro-Goldwyn-Mayer (MGM) was taken private in a \$5 billion club deal by a consortium of both private equity and industry investors. Providence Equity Partners, Texas Pacific Group, DLJ Merchant Banking Partners, and Quadrangle Capital Partners collaborated with Sony and Comcast to assume joint ownership of MGM to varying degrees based on the amount of equity committed by each party (Sherman, 2005). As is typical in leveraged buyouts, massive debt was secured in order to finance the deal with investment banks funding over 80% of the transaction costs. In the

process of privatization, MGM was delisted from the public stock exchange and company shareholders were paid a 33% premium for their stakes in the studio (Sherman, 2005). As part of its inevitable restructuring process, MGM dismissed 200 of its approximately 1,400 employees in what represented only the first stage of an eventual plan to eliminate roughly 1,200 positions (Chaffin, 2005).

While the acquisition of MGM demonstrates private equity's interest in cinema production, private equity firms have pursued a far greater presence in the exhibition component of the cinema industry. In 2004, Chicago-based Madison Dearborn Partners purchased Cinemark, the nation's third largest theater chain, for \$1 billion plus the assumption of \$560 million in existing debt (Kirkpatrick, 2004). Previously Cinemark was jointly held by its CEO and The Cypress Group private equity firm, which cleared a return of nearly three times its initial investment on the sale to Madison Dearborn (Carey, 2004). In 2006, Cinemark acquired the Century Theaters chain, adding to its already massive portfolio to create a combined enterprise with a customer base of more than 200 million ("Cinemark acquires," 2006). Additional owners were brought to the table in the deal, including private equity firm Quadrangle Capital Partners, but Madison Dearborn retained controlling interest in the company.

In mid-2004, JP Morgan Partners and Apollo Management took the AMC Entertainment theater group private in a deal valued at \$1.67 billion, plus the assumption of an additional \$349 million of corporate debt (Berman & Marr, 2004). Six months after delisting, AMC purchased the rival Loews Cineplex Entertainment Group in a deal valued at \$527 million, adding 2,117 screens to its existing portfolio of more than 3,500 screens (Mann, 2006). At the time of the sale, Loews itself had been recently acquired by a holding company formed by Bain Capital, The Carlyle Group, and Spectrum Equity Investors (Loews Cineplex, 2004).

By the end of 2006, private equity buyouts had facilitated the hyper-consolidation of an already concentrated cinema exhibition industry. Two of the nation's largest theater chains had been subsumed by their rivals. JP Morgan and Apollo's AMC controlled 5,340 screens in the U.S., Mexico, and Spain (Mann, 2007, February 16), while Madison Dearborn's Cinemark owned 4,395 screens in 37 states and 13 countries ("Cinemark acquires," 2006). In April of 2007, Cinemark held an underwhelming IPO that "failed to live up to expectations ("Cinemark's shares," 2007)." AMC had planned to mimic Cinemark's strategy with a May IPO but canceled the day before shares were set to debut on the exchange (Ball, 2007). One month later, the firm borrowed \$400 million on top of its existing \$2.5 billion in debt to pay a special dividend to its private-equity shareholders (Mann, 2007, June 7). An investment analyst went on record commenting that the firm was "quite levered before, so certainly it's going to be a negative from a credit perspective to take on more debt. Taking on debt to pay equity holders does not add any value to the company" (Mann, 2007, June 7). AMC's actions again highlight the pivotal role of debt in the private equity profit model. JP Morgan and Apollo utilized leverage to make their initial acquisition in 2004 and after abandoning a plan to cash out of the investment through an IPO, borrowed heavily again in 2007 to extract capital from the firm via a special dividend.

Music Publishing, Video Game Publishing, and Digital Media

Private equity made significant inroads into the music publishing industry in 2004 when former Vivendi Universal executive Edward Bronfman, Jr. led a group of private equity investors including Bain Capital, Thomas H. Lee Partners, and Providence Equity Partners in the acquisition of Warner Music Group from publicly traded Time Warner for \$2.6 billion ("WMG," 2005). One day after assuming control, Bronfman announced a reorganization plan that brought in new management and cut 20% of Warner's workforce, forcing out approximately 1,000 employees ("Jobs go at Warner," 2005). In August of 2007, shareholders of the British music publisher EMI agreed to a proposed \$4.9 billion takeover from private equity firm Terra Firma Capital Partners (Leeds, 2007). EMI's board of directors rejected a contemporaneous bid from Warner Music Group. In January of 2008, Terra Firma announced a restructuring plan that included the elimination of two thousand jobs, roughly one third of EMI's total staff ("Hands admits," 2008). With the announcement of the EMI buyout, two of the "big four" music publishing groups, which together account for nearly 90% of recorded music sales in the U.S. (Mnookin, 2007), are now controlled by private equity firms. The remaining two, Sony/BMG and Universal, are subsidiaries of larger publicly traded media conglomerates.

The video game publishing and digital media sectors have also gained the attention of private equity firms in recent years. In 2005, the popular video game studio Eidos reached an agreement to be acquired by Elevation Partners, but the private equity firm was eventually outbid by a strategic buyer ("Eidos agrees," 2005). Later that year, Elevation successfully breached the video game publishing industry with the acquisition and subsequent merger of Bioware and Pandemic Studios into a single entity (Takahashi, 2005). In 2006, Oak Hill Capital Partners acquired Alibris, a leading online marketplace for used books, movies, and music (Milliot, 2006). IAC/Interactive, proprietor of top branded Web sites such as Expedia, Ask Jeeves, and Match.com, has repeatedly fended off advances from private equity firms; however, Barry Diller, the firm's CEO, has publicly acknowledged that the possibility of a future private equity buyout is not inconceivable (Flaherty, 2006).

Telecommunications, Cable, and Satellite

While outside of the primary scope of this article, it is important to note that private equity firms have shown parallel interests in the telecommunications, cable, and satellite industries. High profile private equity buyouts in these sectors include Alltel, the nation's fifth largest wireless carrier and Hawaiian Telecom, that state's primary local telephone provider (Sorkin, 2007; Kharif, 2006). In addition, Canada's largest telecommunications firm, Bell Canada Enterprises, has been slated for acquisition by a consortium of private equity investors for an unprecedented \$52 billion (Lattman, 2008). Denver-based cable provider Wide Open West was created by private equity firms ABRY Partners and Oak Hill Capital in 1999 and is now owned by Avista Capital (Barthold, 2001; Nathanson, 2006). In 2005, Insight Communications was jointly taken private by The Carlyle Group and two Insight executives (Farrell, 2005). In 2007, control of Intelsat, one of the world's largest satellite firms and operator of 51 satellites used by cable companies, broadcast networks, and governments for video distribution, changed hands among private equity concerns in a deal valued at \$16.4 billion ("BC Partners," 2007).

Why Media Firms?

What factors contribute to this influx of private equity capital into the media sector? One hypothesis begins with the observation that media companies have largely been inconsistent performers on Wall Street since the Internet stock market crash in 2000. Unrealistic profit expectations by shareholders and increasing competition from digital technologies in almost every industry within the media sector has contributed to undervalued stock appraisals, which prove attractive to private equity firms looking to acquire companies relatively cheaply.

Another consideration is that although media firms in aggregate have been sluggish in the stock market, many have maintained stable levels of cash flow and relatively low amounts of debt, two characteristics necessary to support the large debt increase that results from a leveraged buyout. Although media firms have experienced a slow-down of growth, which has led to stagnation in the stock markets, they have for the most part remained solidly profitable and thus appealing targets for leveraged buyouts. Reader's Digest Association is a prime example; the firm's stock valuations and net income have both declined in the last five years, but nonetheless the company's overall sales, and thus incoming cash flows, have remained steady (Sorkin & Edmonston, 2006). Moreover, a 2005 industry research report reveals that a guiding assumption among private equity fund managers is that, quite simply, "many media companies are undermanaged" and most exhibit "upside potential from operational improvement" (Bertolotti & Shelton, 2005).

Public Interest Concerns

The details of the media ownership map are constantly in flux. Private equity buying and selling fits into a larger context of ongoing mergers, acquisitions, and divestments. While there can never be a concrete diagram of ownership, the evidence presented here provides a snapshot of history outlining a trend that can be evaluated against normative ideals regarding the function of media in democracy. As such, private equity media ownership raises public interest concerns across three categories: (a) problems directly associated with the recent frenzy of leveraged buyouts such as inflated acquisition prices and over-leveraging; (b) issues resulting from profit maximization strategies such as short-term investing, restructuring, and cash extraction; and (c) challenges to effective regulation of private equity ownership stemming from the structure of private equity firms and FCC resistance to increased scrutiny over private equity takeovers.

Buyout Frenzy and Excessive Debt

In the short period between 2004 and 2007, private equity media ownership increased dramatically across various levels of analysis. Both individual transaction values and aggregate number of buyouts have grown sizably while private equity firms have expanded to invest in virtually every nook of the media sector. Investors grew bold, attempting, albeit unsuccessfully, to take over some of the world's largest media conglomerates including Time Warner, Vivendi, and Virgin Media (Kadlec, 2006; Rosenbush, 2006, May 17; "Virgin Media," 2007). Yet, the increased availability of investment capital, low interest

rates, and relaxed loan terms that propelled the buyout frenzy also served to mask precarious levels of risk associated with inflated acquisition prices and over-leveraging.

The leveraged buyout strategy is financially optimized when target firms are acquired cheaply; however, the nature of the buyout market created an environment in which private equity firms were prone to overpay when making acquisitions. In 2004, shares of AMC were bought out at a 14% premium (Berman & Mar, 2004). In mid-2007, the apex of the buyout trend, Clear Channel shareholders successfully demanded premiums above 33% (Tully & Hajim, 2007). Aside from the obvious fact that competitive bidding among potential buyers drives up purchase prices, another reason for inflated acquisition costs is that stock prices have the tendency to escalate at the earliest hint of a possible takeover. When Citadel proposed a tender offer to purchase Ion Media Networks, the value of the broadcasting company's shares jumped 65% at the announcement ("In brief," 2007). Shareholders, wise to the buyout frenzy, were not hesitant to vote down otherwise acceptable offers or stall to hold out for more cash, as was the case in both the Clear Channel and VNU buyouts.

The implication of overpayment is that it compounds the already heavy debt burden forced upon companies purchased by private equity firms. Refusing to back away from inflated profit margins, private equity owners transfer extra costs to the balance sheets of the firms they acquire. In Baker's (2007) terms, such debt counts among the undue "structural pressures" (p. 35) imposed upon a firm in the wake of a takeover. Univision's private equity buyers paid a large premium to shareholders creating a situation that left the company with a debt burden of \$10 billion, 12 times the company's annual cash flow and twice the norm for buyouts completed in the previous two years (Tully & Hajim, 2007; Ng & Sender, 2007). Consequently, a major portion of Univision's yearly revenue must necessarily be applied to pay down debt.

Clearly, such heavy leverage creates intense pressure on a company to achieve stellar economic performance. Moreover, regardless of prospects for growth, the success of highly leveraged companies can be overly contingent upon external factors such as favorable interest rates and a strong overall economy. Firms loaded with debt are more vulnerable to setbacks stemming from both mismanagement and unfavorable macroeconomic market conditions. The potential for major fallout among highly leveraged companies lies uncomfortably close to any fluctuation in the economic conditions that allowed such deals to happen in the first place. An economic recession or a significant slowdown of growth can threaten corporate cash flow and create difficulties for highly leveraged companies to service debt. After KKR and Hicks Muse acquired Regal Cinemas in 1998, the firms launched an aggressive expansion campaign, amassing nearly \$2 billion in debt (Orwall & Zuckerman, 2000). In 2000, Regal threatened to default on a repayment of junk bonds and a year later declared bankruptcy, unable to weather the macroeconomic instability of the period (Lauria, 2001). Simply put, excessive debt decreases durability and sustainability. It remains to be seen how the developing instability of financial and credit markets beginning in late 2007 will affect highly leveraged media firms.⁵

⁵ Although not technically involving private equity, the bankruptcy filing of the Tribune Company is a recent example of instability stemming from excessive debt. (See Ovide, 2008, December 9.)

Profit Maximization Strategies

Private equity owners introduce structural and operational reorganization in order to boost the efficiency of an acquired company; however, in many cases these “necessary” adjustments are alarmingly precise in their scope and function. The tried and true buyout strategy is to maximize the market value of a property under the operating assumption that it will be sold in the relative near future for a profit. Long-term investment plans, the types that build not only immediate economic value but also sustainability, community, and depth, rarely come prepackaged with exit strategies. As one journalist put it: “If a business is going to be sold within, say, five years, what incentive is there to approve the financing of projects that may take a decade or more to pay off” (“The business,” 2007)? While it is perhaps misleading to suggest that private equity concerns are openly hostile to long-term value creation, it is clear that long-term growth is severely undermined when media companies are bought and sold like repossessed houses.

Private equity’s short-term investment strategy is typified by Arlington Capital Partners’ holding company, New Vision Group. In less than three years, New Vision materialized in a Washington D.C. boardroom, purchased and sold five mid-size television stations in markets from Santa Barbara, CA to Fort Wayne IN., realized some \$60 million in profits, and then seemingly vanished into the ether. As one journalist described:

Broadcasting's robust cash flow margins . . . make it easy for private equity funds to treat broadcast buys like mortgages, borrowing as much as 80% of their total investment. But like real-estate investors, they're not in it for the long run. (Colman, 2007)

Private equity takeovers almost invariably bring about “the imposition of great efficiencies, that is, fewer jobs” (Colman, 2007). While the reduction of staff can be a likely outcome of any merger or acquisition, large-scale job loss has occurred as a direct result of nearly every private equity media takeover in recent history. Despite the worker-friendly rhetoric found in the press releases issued by private equity buyers, the takeovers of Warner Music, Clear Channel, Freedom Communications, VNU, MGM, EMI, and many small and mid-market media firms have each involved employee layoffs as a primary component of the restructuring process. Even at the *Minneapolis Star Tribune*, which was by all accounts purchased at a highly discounted price, Avista Capital immediately imposed significant staffing reductions.⁶

Intangible factors such as company mission and culture, style of leadership, and workplace environment also stand to be altered by any large-scale change in management or ownership. When a private equity buyout causes the displacement of longstanding in-house management, these tensions can

⁶ Obviously, employee layoffs cannot be solely attributed to private equity ownership. Private equity induced staffing reductions have occurred within a larger context of job loss in the media industries, especially in print journalism. (See “Who will tell us,” 2008.)

be exacerbated. Reacting to a recent string of buyouts in the television-broadcasting sector, one industry observer commented:

For the most part, the people who run the funds and ultimately control the stations are unknown in traditional broadcasting circles and to the men and women who actually run the stations. They aren't active in the trade associations, they don't give speeches or sit on panels at TV conventions, and they may never have stepped inside of a TV station. (Colman, 2007)

Furthermore, private equity ownership raises issues of adherence to standards of journalistic ethics and values. Clearly, the integrity of the *Minneapolis Star Tribune* has been compromised by Avista Capital's installation of a crooked publisher against the wishes of the paper's own employees. In areas of content production, insiders have expressed fears that the "value-squeezing ways often associated with private equity could take a toll on the industry's creative process" (Mermigas, 2005).

Another component of the private equity investment strategy is the blatant extraction of cash from portfolio companies. Shortly after Warner Music was acquired by private equity firms, its new owners paid themselves a dividend of \$350 million straight from Warner's balance sheets ("A hit on their hands," 2005). Then they took on \$700 million of new company debt in the form of junk bonds and paid out another special return of \$681 million to investors. Within one year, Warner's new owners had recouped almost 100% of their initial investments. After a successful IPO and another round of dividends, the buyout firms had tripled their initial investments while maintaining portions of equity in the newly public Warner Music (Gadiesh & MacArthur, 2007). In a similar instance, AMC borrowed heavily to return capital to investors after its aborted IPO in 2007. Like most of the financial maneuverings of private equity firms, special dividends are exempted from public disclosure requirements and are thus difficult to track; however, there is no indication that such cash extraction is uncommon.

Together, excessive debt combined with short-term profit maximization strategies can structurally undermine the social value of media firms as democratic institutions. Excessive debt not only reduces durability and sustainability, but it also adds a high and persistent cost to the normal operating budgets of media firms that desperately need to reinvest in their own core operations. After daily operating costs and profits delivered to ownership are considered, revenue allocated for debt repayment is money unspent on staff, facilities, or technology upgrades. Special dividends paid to private equity investors serve a similar function. Both debt repayments and dividends are capital expenditures that add no value to a firm.

Likewise, the profit maximization tactics stemming from short-sighted investment timelines not only reduce incentives to invest in the long term, but also divert resources from business operations that fail to yield the highest returns. In practice, this means dramatically cutting costs in efforts to prop up appearances of profitability. Often, the newsroom suffers most, especially investigative or international reporting, as these on balance are more likely to be expenditures than sources of revenue. Yet, reducing costs and firing reporters impedes a newsroom's ability to produce quality journalism. Fewer resources encourage a relaxation of professional news standards and increased reliance on official sources, which

are quick and inexpensive to consult. Fewer reporters and editors make it easier for public relations firms to place unaltered messages into the news, as increasingly smaller staffs are required to generate expanding amounts of content. Moreover, growing pressure to turn a profit on journalistic production contributes to ongoing problems of commercialization of news, especially regarding the blurring distinction between editorial and advertising content. To paraphrase McChesney (2008, p. 42), the cost-cutting trends that result from the relentless pursuit of profit undermine journalism's necessary public interest functions and thus play directly into the hands of both governmental and private power.

The case of the *Minneapolis Star Tribune* offers a prime example of the negative outcomes particular to acquisition-induced debt and severe restructuring. Avista Capital borrowed nearly 85% of the \$530 million needed to purchase the *Star Tribune* and the paper now struggles to shoulder its debt burden in the face of declining revenues endemic to the newspaper industry (Fitzgerald & Saba, 2008). Already a skeleton of its former self, the *Star Tribune* needs dedicated investment in its most valuable resource – the newsroom. Instead, its private equity owners have sought further cost-cutting measures to manage debt in the short term by eliminating hundreds of jobs, thus adding no substantive value and eviscerating the paper in the process. Despite restructuring, the paper's financial difficulties have compelled management to terminate its subscription to the Associated Press (AP) wire service to save costs (Strupp, 2008). Discontinuing the relationship with the AP will dramatically change the scope of news available to *Star Tribune* readers, which currently relies heavily on the service for international and national news stories across all sections of the paper. In its current state, the *Star Tribune's* newsroom is hardly well-positioned to fill the news hole to be vacated by the AP. Clearly, the strategies of private equity ownership do not intersect with the reality that newspapers are now at the point where "chopping away at costs and employees become self-inflicted wounds that only accelerate decline" (Fitzgerald & Saba, 2008).

Proponents claim that the leverage buyout process adds value to target firms by forcing them to become more efficient and that such efficiency gains in turn benefit society as resources are channeled to their most efficient uses. In July 2007, Jack and Suzy Welch (2007), themselves private equity investors, authored a representative article in *Business Week* hailing private equity as a "galvanizing mechanism that directly made several thousand companies more productive and indirectly made the American economy more competitive than ever." Free market rhetoric aside, this reasoning simply ignores that many normative social benefits of media products are market externalities. As Baker (2007) has shown, pure analyses of economic efficiency fail to consider the process role of media as public watchdogs, opinion leaders, discursive spaces, and, ultimately, institutions of democracy. Ideally, media firms create social value in non-commodified forms, which exist beyond the limited purview of efficiency metrics under profit motives.

The cost-cutting, quick-selling ethic of private equity ownership demonstrates its indifference, if not open hostility, to values external to the production of short-term windfalls for investors. Private equity firms are designed to maximize returns on investment capital and they pursue this goal by various methods but with a singular, unwavering focus. Indeed, for the select few at the helm of private equity investment, the material rewards have been extraordinary. In 2006, Carlyle Group distributed a record \$10.2 billion to investors (Heath, 2007). In that same year, the average yearly salary of the top 20 private

equity fund managers was \$657.5 million, approximately 22,255 times the average annual salary in the United States (Doster, 2007).

Challenges to Effective Regulation

Public interest regulation of private equity media ownership is best conceptualized as interaction between the opaque institutional composition of private equity firms and the lethargic, market-oriented approach of the Federal Communications Commission (FCC) to rule enforcement. Private equity firms are fundamentally non-transparent in their basic structure. A core component of the private equity buyout model is the relative secrecy under which acquired firms can be dramatically restructured. Whereas publicly traded companies are legally obligated to periodically file extensive financial information with the Securities and Exchange Commission (SEC), including detailed accounts of all holdings and subsidiaries, private firms are not subject to such financial disclosures.

For publicly traded firms, financial transparency helps potential investors and shareholders make investment decisions and calculate risks. It also provides useful information to stakeholders such as employees and local communities about the economic vitality of a firm as well as its plans for the future. By contrast, the value of the public-to-private buyout strategy is predicated on the freedom to operate outside of Wall Street's quarterly scrutiny and beyond the regulatory constraints of the SEC. Writers at *The Economist* sum up this logic in arguing that reporting to shareholders and regulators amounts to a "distracting burden of compliance and to an enterprise-sapping bureaucracy" (*The Economist*, 2007).

Yet, effective public interest media regulation hinges on transparency of ownership. The FCC is charged with promoting localism, diversity, and competition in the American media system. To achieve this goal, the details of media ownership must be accessible to regulators, especially in the broadcasting sector, where the FCC grants spectrum licenses to applicants under conditions that require them to meet certain expectations of public service.

Private equity's entrance into media ownership compounds the already convoluted networks of attribution that characterize the U.S. media landscape. Clear Channel's takeover by Bain Capital and Thomas H. Lee Partners illustrates this dynamic. Both private equity firms own stakes in Cumulus Media, one of Clear Channel's main radio competitors, and both firms are heavily invested in Warner Music, a major music supplier to the radio industry. Thomas H. Lee Partners holds stakes in Univision, also an active radio broadcaster. While the national radio ownership limits were eliminated in the Telecommunications Act of 1996, caps on ownership in individual markets remain somewhat intact. According to these limits, Clear Channel's radio holdings are maxed out in key markets (Sorkin & Edmonston, 2006). The firm's recent transfer to new owners, many of which are already heavily invested in the radio sector, calls for careful regulatory record keeping. The key is in the counting.

Media ownership limits only apply to those groups or individuals classified by the FCC as "attributable owners." In the Byzantine world of private equity investment, it behooves fund managers to avoid this categorization if possible, else risk having investment opportunities blocked by ownership caps. In the standard merger and acquisition review process of the Justice Department and the Federal Trade

Commission, private equity firms are known to argue that they do not control the operational aspects of the companies in which they invest (Sorkin & Edmonston, 2006). Since the FCC classifies all limited partners as "attributable owners," private equity firms must pursue other means to avoid ownership attribution. One such strategy is outlined in a brief produced by corporate law firm Wilmer Hale, whereby the legal means to sidestepping the FCC's "draconian" regulations simply involve the insertion of "insulating provisions into the fund's organizational documents" (Wilmer, 2007).

The FCC is divided in the assessment of its ability to effectively regulate private equity media ownership. In public statements regarding private equity buyouts, Commissioner Michael Copps has repeatedly called for dedicated FCC investigation into the nuances of private equity ownership. Following the Univision takeover, Copps explained:

The Commission has never analyzed the consequences of this type of transaction for its ability to ensure that licensees protect, serve and sustain the public interest. I, for one, have some real questions about how the assumption of massive amounts of debt will affect a media company's stewardship of the airwaves. I also have concerns about how the shift from public-to-private ownership will affect the Commission's ability to determine which entities have practical control over licensees' editorial decisions and financial strategy. (Federal Communications Commission, 2007)

Members of Congress too have launched inquiries concerning issues of private equity media ownership regulation. In a July 12, 2007 letter to FCC Chairman Kevin Martin, Congressmen John Dingell of Michigan and Edward Markey of Massachusetts expressed concern that the intentions of private equity media owners may in fact compromise "the historic role of broadcast or other Commission licensees as trustees of the public's airways" (Dingell & Markey, 2007). The letter also suggested that the institutional composition of private equity firms might contradict "many of the core public interest and localism values that Congress has assigned to local media outlets and may implicitly undermine the Commission's ownership rules."

Martin's response indicated that because private equity media ownership is a "fairly recent trend," firm conclusions as to its effects are as of yet out of reach (Martin, 2007). The Chairman reported that the FCC had "not encountered any problems concerning the management and financial transparency of licensees and entities that are owned by private equity firms," although he did concede that the Commission's ownership classification system would need revision "should information come to light indicating that private equity firms hold interests that are not, but should be, captured by our attribution rules."

The FCC should take up the recommendations of Commissioner Copps and Congressmen Dingell and Markey to investigate the potential harms and purported merits of private equity media ownership. Private equity firms have clear market incentives to avoid ownership attribution and clever methods to do so via contractual loopholes. Moreover, the private equity business model rests upon organizational restructuring under conditions of non-transparency. This combination of factors warrants closer inspection by the FCC. Contrary to Chairman Martin's position, it is precisely because this influx of private equity

media investment is a relatively new trend that the FCC should take a proactive stance toward gathering information regarding its potential consequences. Since the 1980s, the FCC has grown increasingly deregulatory and non-interventionist in its approach (Copps, 2005). As Copps has noted, in recent years the Commission has "relied more and more on marketplace forces as a proxy for serving the public interest" (p. 120). The agency's refusal to earnestly scrutinize private equity media ownership is a further example of the abdication of its congressionally mandated responsibility to uphold public interest standards in our media and communications systems.

If the past is any indicator, the future holds no certainty that the FCC will make a concerted effort to examine its ability to effectively evaluate private equity media ownership. Both of Chairman Martin's immediate predecessors are presently employed as private equity firm executives. After serving as FCC Chairman from 1997 to 2001, William Kennard joined The Carlyle Group as managing director of the firm's Global Telecommunications and Media division ("The Carlyle Group," n.d.). Kennard personally directed Carlyle's takeovers of Hawaiian Telecom and Insight Communications. Michael K. Powell, who headed the Commission after Kennard from 2001 to 2005, now serves as a senior advisor at Providence Equity Partners (Sorkin, 2005).⁷

Conclusion

Much of the information presented here has been obtained from major American and European business periodicals, media industry trade publications, academic journals of finance and economics, and industry reports authored by investment research groups. The methodological limitations of this research are such that it is difficult to establish a definitive causal relationship between private equity media ownership and the damaging outcomes detailed above. Structural analysis alone is not fully explanatory because structure is not fully determining (Mosco, 1996). Power operates at multiple horizons, from broad institutional levels to micro levels of human agency. The political economic approach provides an indispensable context for apprehending the circumstances under which media fare is (and is not) produced, but "can only rarely provide a detailed understanding of specific media content" (McChesney, 1999, p. 31). Case studies should more closely examine private equity ownership's demonstrable impact on media operations and output, taking into consideration factors such as news budgets, localism, diversity, commercialism, and journalistic quality and ethics.

Without question, private equity has pursued acquisitions in the media sector with vigor in the last decade and particularly since 2004. The evidence presented in this analysis strongly indicates that private equity, in its perpetual search for profit maximization, is, at a foundational level, antithetical to the public interest obligations of the media sector, even if those very obligations are equally obscured by corporate (non-private equity) concentration. Undoubtedly, these two structures of ownership display strong parallels; for both, the ultimate measure of success is the accumulation of capital. Likewise, both involve a concentration of vast holdings, resources, and influence among a relatively small group of firms.

⁷ Kevin Martin resigned as chairman of the FCC effective January 20, 2009 with plans to serve as a fellow at the Aspen Institute, a public policy organization. At the time of publication, Martin's replacement is unconfirmed.

Yet, despite pursuing similar ends, private equity ownership and corporate concentration do not cultivate identical sets of problems because they do not employ identical modes of operation. Pursuit toward the maximization of profits is their common ground, but in key respects they take separate, if similar, approaches, particularly regarding long- and short-term investment strategies.

The business model of large corporate media firms is characterized by the pursuit of protracted market dominance via horizontal and vertical integration. To be sure, corporate media giants engage in frequent buying and selling of properties, but such activity generally falls under the merger and acquisitions model of corporate strategy, which emphasizes growth and long-term profitability. Horizontal integration is a tactic whereby firms acquire rivals and new market entrants in order to control as much of a given industry's output as possible, thus reducing competition and increasing market power. Through vertical integration, firms seek to limit costs and exclude competitors by owning sites of content production as well as distribution. Each type of economic integration provides corporate owners opportunities to develop persistent brand power among their individual holdings, as well as synergistic and cross-promotional opportunities across categories of media (McChesney, 1999).

By contrast, the private equity business model is one of timed investments, distinguished by the pursuit of short-term growth via dramatic restructuring. Unlike many large corporate owners, media properties do not represent the primary business of private equity firms because the private equity model has no primary business as such. As organizations of finance capital, private equity firms' primary business can only be to generate the highest returns possible on investment funds. Under private equity ownership, traditional corporate benchmarks such as market share and brand power become subordinate to the definitive goal of profit maximization in the relative short term.

Ideally, the present research uncovers specific ways in which the uneasy relationship among private equity media ownership and the public interest is differentiated from the known tensions between corporate media concentration and that same public interest. There is no obvious incongruence between private equity management of media firms and its management of companies in non-media sectors such as production or retail. But therein lies the problem. Our media industries must continually be recognized as qualitatively unique among other corporate enterprises and as distinctively important to democratic ideals. This is, after all, the foundational logic behind creating and sustaining a regulatory body such as the FCC. As Commissioner Copps has articulated, we cannot afford to "treat the media like any other big business, trusting that in the unforgiving environment of the market, the public interest will somehow magically trump the urge to build power and profit for a privileged few" (Federal Communications Commission, 2003). While leveraged buyouts, profit maximization strategies, and quick exits produce windfalls for investors, the underside of private equity ownership raises questions as to the ultimate social costs of this elite financial enterprise as it intersects with our country's already troubled media system.

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