Testimony Submitted for the Record

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Chairwoman Waters, Ranking Member McHenry: Thank you for the opportunity to offer written testimony.

My name is Bernie Lunzer. I am President of The NewsGuild-CWA. The NewsGuild represents over 20,000 employees in the news industry. CWA represents working men and women in telecommunications, customer service, media, airlines, health care, public service and education, and manufacturing.

I want to testify here on the role of private equity in the news industry. In particular, I want to discuss one newspaper chain, MediaNews Group (MNG) which is also known as Digital First Media. This is a newspaper company with such venerable titles as the *Boston Herald, the Denver Post, the Detroit News, the Orange County Register, the San Jose Mercury News*, and the *St. Paul Pioneer Press*. MNG is controlled by the Alden Global Capital which is both a private equity firm and a hedge fund. The NewsGuild-CWA represents 500 workers at 13 MNG papers.

Alden has played a particularly destructive role in local journalism. Since it has controlled MNG, it has slashed staff and sold real estate to extract cash from the news organizations without regard to the role news organizations play in communities. Alden has depleted newsrooms, eliminated beats, and made it virtually impossible for local papers to tell fully the stories of their communities.[1] Alden has also extracted hundreds of millions of dollars in profits from its newspaper holdings to invest in unrelated businesses, some of which have gone belly-up.

The hollowing out of local news is no mere inconvenience. Because of the draconian cuts, many local newspapers can no longer cover city meetings, community events, school board votes or high school sports. Recent research from the University of Illinois–Chicago and the University of

Notre Dame found that communities that have become "news deserts" pay higher taxes and bond rates and are at greater risk of political corruption.[2] Other studies show lower voter turnout and increased partisanship.[3] In other words, when the watchdogs are gone, democracy dies. Private equity has helped kill the watchdogs.

Alden's Destructive Impact on Media Businesses

The headline in the *Washington Post* from February 2019 summarized succinctly Alden's activity in the news industry: "A hedge fund's 'mercenary' strategy: Buy newspapers, slash jobs, sell the buildings."[4] *The New York Times* referred to Alden as "the destroyer of newspapers."[5] Joe Nocera compared Heath Freeman, Alden President, to Gordon Gekko from the movie "Wall Street": "His papers are intended not so much to inform the public or hold officialdom to account, but to supply cash for Freeman to use elsewhere. His layoffs aren't just painful. They are savage."[6] In another article, Nocera describes Alden's approach to the news industry:

> [I]t cuts and cuts, and then cuts some more, until there's little left but a carcass. Speaking truth to power, the importance of the Fourth Estate to a functioning democracy, the idea of bearing witness — none of that matters to Freeman and his fellow hedgies at Alden Global. Their only goal is to suck out cash and redirect it elsewhere.[7]

According to media analyst Ken Doctor, Alden's strategy appears to be to "milk its newspapers until they run dry."[8] In an interview with Colorado Public Radio in March 2018, Doctor concluded that Alden's strategy is to run papers into the ground and then leave: "If it's not profitable you turn out the lights."[9] Dean Singleton, founder of the Media News Group, who sold his controlling interest to Alden in 2013, quit as Chairman and member of the editorial board of the Denver Post in May 2018, saying of Alden: "They've killed a great newspaper."[10]

We recognize the effect of the Internet on the news industry. Revenues from print advertising have fallen and digital advertising has not compensated. Moreover, the digital ad space is now dominated by Facebook and Google. According to the Pew Research Center, newsroom employment has declined by 23% in the decade after the financial crisis.[11] The employment in TNG-CWA units at Digital First Media, however, has dropped 71% between 2012 and 2019.

Converting MediaNews Group into a Private Equity Firm

Under Alden's ownership, MNG has been converted into a private equity firm, investing balance sheet capital in unrelated companies and assets through a wholly-owned subsidiary Strategic Investment Opportunities LLC. Funds were extracted from the news business to invest elsewhere.

Between 2016 and 2018, MediaNews Group invested around $168 million in shares of Fred's Inc.[12], a discount pharmacy chain that recently filed for bankruptcy.[13] So rather than investing in local journalism, under Alden's stewardship MediaNews Group made a money-losing investment in an unrelated retail chain.

In the last few years, MNG has also invested in online job site owner Monster Worldwide[14], coal miner Peabody Energy[15], Payless Holdings debt[16], Gannett[17], New Media Investment Inc.,[18] and Alden's own Alden Global CRE Opportunities Master Fund LP.[19]

Investment of MediaNews Group Employees' Pension Funds in Alden funds

It is not simply that Alden has dramatically downsized employment at its papers and extracted cash from operations. It has also toyed with the retirement security of its employees for its own benefit. Beginning in 2013, MNG invested nearly $250 million from multiple pension funds of MNG employees and retirees in funds managed by Alden Global Capital.[20] This appears to be financially imprudent and legally suspect.

Between 2013 and 2018, the San Jose Mercury News Retirement Plan, three pension funds for Denver Post employees, and the MediaNews Group Defined Benefit Plan for Certain Employees all invested in multiple Alden Global Capital managed funds, including Alden Global CRE Opportunities Fund and the AGBPI Fund.[21] In 2015, for example, the San Jose Mercury News Retirement Plan had 89.5% of its assets invested in Alden-managed funds with 77.3% of the pension fund's assets invested in the AGBPI Fund alone.[22]

The pension investments have triggered federal scrutiny despite the fact that these pension funds seem to have divested their Alden assets. In April 2019, a spokesman for Alden confirmed that it was being investigated by the Department of Labor for management of the pensions.[23]

Sale of MediaNews Group Real Estate

Alden has a set of real estate companies that focus on the purchase, sale, leasing and redevelopment of newspapers' offices and printing plants.[24] While this real estate operation has been used by different newspapers, it mostly serves to strip assets from MNG.

In 2013, Alden affiliate Twenty Lake Holdings began taking ownership of some of the real estate owned by MediaNews Group newspapers. In some cases, MNG has sold the newspapers' real estate to Twenty Lake and then leased back all or part of the space. After MediaNews Group acquired The Denver Post, for example, it sold the paper's printing plant and its offices to Twenty Lake Holdings, meaning the MediaNews Group-owned newspaper is now a tenant of Alden-controlled Twenty Lake Holdings. Twenty Lake claimed to have acquired more than 180 properties and 2.3 million square feet of real estate in 29 states.[25]

The sale of the real estate appears to be more of a liquidation strategy than a strategic move by the company since the cash it has generated has not been returned to newsrooms. Instead, the real estate sales deplete that balance sheet and remove an asset that could benefit the newspapers.

Alden's Destructive Behavior Extends beyond News

We mentioned the investment in Fred's by Alden through MNG subsidiary Strategic Investment Opportunities. Under Alden Global, the pharmacy chain filed for bankruptcy protection in September 2019 with plans to shutter all of its stores.[26]

Alden bought 24% of Fred's in December 2016 and entered into an agreement in April 2017 under which Fred's agreed to appoint two Alden executives to its board. It added a third director – Alden President Heath Freeman – in August 2017. In May 2018, it added a fourth director to the board at Fred's, by which time Fred's had reduced its board to five members.

Unfortunately for Fred's other shareholders, in the three years after Alden's investment in the company, the company's performance and share price have plummeted. The share price on April 21, 2017, the day Alden directors joined the board, stood at $13.28. On the day of its September 2019 bankruptcy filing, it traded at $0.12 a share, a fall of 99%. In the period after entry to the board, the company lost a total of $150 million. A total of 6,572 Fred's employees lost their jobs.[27]

This is the second job-killing action by Alden in 2019 alone. In February 2019, Payless Holdings, the owner of a chain of discount shoe stores, announced its bankruptcy and the liquidation of all 2,100 U.S. stores, resulting in the elimination of 16,000 jobs. Alden owned 66% of Payless at the time. Alden was also a creditor. It loaned $45 million to a Payless company not in bankruptcy, giving it senior status in the bankruptcy proceedings. While the U.S. stores have been liquidated, Alden continues to own part of the non-U.S. parts of Payless.

Both Payless and Fred's moved their headquarters from Topeka, Kansas, and Memphis, Tennessee, respectively, into a Dallas office building owned by Randall Smith, the founder of Alden.[28]

Between Payless and Fred's, Alden Global Capital will have killed over 22,000 retail jobs in 2019. That does not include the cuts in newspaper jobs at MNG which TNG-CWA estimates in 2019 alone to have been 25%. In recent years, Alden Global Capital has killed at least 2,000 jobs in California, at least 1,500 jobs in Kansas, at least 1,400 jobs each in Texas, Mississippi, and Georgia, more than 1,300 jobs in Tennessee, more than 1,200 jobs in Florida, and more than 1,100 jobs in New York. See Table One in the Appendix for a list of job cuts by company and by state engineered by Alden Global Capital.

Conclusion

The actions by Alden and MNG are unacceptable. They rate with the worst of private equity and hedge fund excess that we have seen at Toys R Us and Sears. TNG-CWA supports legislation that will end the abusive practices employed by some private equity firms and hedge funds to profit at the expense of workers, institutional investors, creditors, and the communities in which these companies are located.

TNG-CWA endorses the Stop Wall Street Looting Act (H.R.3848). When enacted, private equity executives will be legally liable for the damage they cause. In particular, Section 101 would ensure that the principals at Alden would be responsible for debt they incurred on behalf of MNG newspapers. Section 102 would ensure that investors in private equity firms like Alden Global Capital would incur partial liability for the actions taken by the private equity firm. Sections 201 and 203 would limit the amount of cash the private equity firms can extract from the companies they control. Section 301 would give greater protection for workers, like those at Payless and Fred's, whose private-equity-owned companies filed for bankruptcy and liquidation. Section 403 would ensure that private equity investors, such as Alden's president Heath Freeman, will pay taxes on the fees they receive at the higher income tax rate and not at the capital gains tax rate.

For the sake of our future and our children's future, we need to slow and eventually reverse the financialization of the U.S. economy.

Thank you very much.

Appendix

Table 1: Job Losses Triggered by Alden Global Capital

	Payless Stores Closed 2019	Payless Employees (est.)	Fred's Stores Closed 2019	Fred's Employees (est.)	Payless + Fred's Employees	MediaNews Group cuts since 2012 (TNG-CWA units only)	Total
California	260	1,820			1,820	248	2,068
Kansas	20	1,524			1,524		1,524
Texas	187	1,309	14	154	1,463		1,463
Mississippi	13	91	120	1,320	1,411		1,411
Georgia	59	413	90	990	1,403		1,403
Tennessee	23	161	75	1,149	1,310		1,310
Florida	170	1,190	6	66	1,256		1,256
New York	159	1,113			1,113	22	1,135
Pennsylvania	107	749			749	194	943
Alabama	13	91	71	781	872		872
Arkansas	15	105	62	682	787		787
Louisiana	26	182	55	605	787		787
Michigan	85	595			595	70	665
New Jersey	85	595			595	42	637
Colorado	36	252			252	368	620
Illinois	79	553	4	44	597		597
Ohio	80	560			560		560
South Carolina	17	119	35	385	504		504
North Carolina	32	224	15	165	389		389
Washington	53	371			371		371
Maryland	52	364			364		364
Arizona	50	350			350		350
Virginia	50	350			350		350
Missouri	40	280	6	66	346		346
Minnesota	21	147			147	168	315
Indiana	41	287	1	11	298		298
Massachusetts	42	294			294		294
Kentucky	15	105	12	132	237		237
Connecticut	32	224			224		224
Utah	27	189			189		189
Nevada	23	161			161		161
Oregon	23	161			161		161
Oklahoma	19	133	2	22	155		155

(Table 1 Continued)

	Payless Stores Closed 2019	Payless Employees (est.)	Fred's Stores Closed 2019	Fred's Employees (est.)	Payless + Fred's Employees	MediaNews Group cuts since 2012 (TNG-CWA units only)	Total
Wisconsin	20	140			140		140
New Mexico	18	126			126		126
Iowa	16	112			112		112
Nebraska	13	91			91		91
Idaho	12	84			84		84
New Hampshire	11	77			77		77
Rhode Island	11	77			77		77
Delaware	7	49			49		49
West Virginia	6	42			42		42
Maine	5	35			35		35
Montana	4	28			28		28
North Dakota	4	28			28		28
Vermont	4	28			28		28
South Dakota	3	21			21		21
Wyoming	0	0			0		0
	2,088	**16,000**	**568**	**6,572**	**22,472**	**1,112**	**23,584**

Methodology: Because neither Payless nor Fred's broke out their employment data by state, we needed to make some assumptions. We knew overall employment and the number of stores in each state. We then assumed that 5% of total employment was located at headquarters - Topeka, KS, for Payless, and Memphis, TN, for Fred's. We subtracted that 5% from the total for each company to get a store total, then divided that number by the number of stores. The multiplier was 7 employees per Payless store and 11 per Fred's store. Finally, we added the 5% to the total for headquarter states - Kansas and Tennessee.

Source: SEC Form 10-K, Fred's, Inc., May 3, 2019: https://www.sec.gov/Archives/edgar/data/724571/000156459019015740/fred-10k_20190202.htm; John W. Schoen, Lauren Thomas, and Lauren Hirsch, "Here's a map of where Payless ShoeSource is closing 2,500 stores," CNBC, February 19, 2019: https://www.cnbc.com/2019/02/19/heres-a-map-of-where-payless-shoesource-is-closing-2500-stores.html; TNG-CWA membership files

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