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A Lawyer's Plan to Save Philadelphia's Newspapers

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In January 2015, H.F. “Gerry” Lenfest, then owner of the storied Philadelphia Inquirer, Daily News and Philly.com, was looking for a way to unload his newspaper holdings and safeguard Philadelphia’s vibrant local journalism at the same time.

Lenfest had acquired the Philadelphia Media Network, which owns the newspapers, after bidding \$88 million at a private auction in May 2014. But a month later his co-owner Lewis Katz [died in an airplane crash](#), and Lenfest became the sole owner.

Enter attorney Richard Fox, who leads the philanthropic practice at the 100-lawyer Philadelphia firm Dilworth Paxson. Fox, who had long represented the Annenberg Foundation, understood what Lenfest wanted.

“He’s in his late 80s, he’s not interested in making money from the paper,” recalled Fox, pictured right. “He knew if he sold it, somebody would buy it, but they might be from out of town. He wanted to keep it local, and he wanted it to be in good hands. He wanted to preserve the journalism.”

Under an unusual structure devised by Fox and unveiled on Tuesday, the Philadelphia Media Network [will remain an independent](#), for-profit company. But the media company and its newspaper holdings will now be owned by a brand-new nonprofit, the Institute for Journalism in New Media, funded with a \$20 million donation from Lenfest.



The newly announced structure promises some stability for the after

years of ownership turbulence for the Inquirer—not to mention the recent tragedy involving Katz. It's also innovative in its tax and corporate structure, according to Fox.

The closest parallel, said Fox, is the Poynter Institute, a tax-exempt educational foundation, which owns controlling stock in the for-profit St. Petersburg Times (now known as the Tampa Bay Times). But unlike the Poynter Institute, the newly created Institute for Journalism in New Media is affiliated with a longstanding public charity, The Philadelphia Foundation. Also, rather than being educational in nature, the institute's first mission will be to devise digital strategies for the paper that could help it survive in the long term.

Though the Philadelphia Media Network has always been a for-profit company, Fox and a corporate partner at Dilworth Paxson, Roger Wood, also assisted in the conversion of the Inquirer entities into a public benefit corporation, or "B" corporation. A public benefit corporation is a [relatively new corporate structure](#); it authorizes directors to balance the interests of shareholders with certain values they want to encourage.

There are about 2,000 B corporations in the 30 states that now allow the structure, Fox said. One of the better-known [is Ben & Jerry's](#).

Like a charity, PMN will have a self-perpetuating board, Fox said. "It's a true hybrid," he said.

To speed up the creation of the nonprofit institute, Fox encouraged Lenfest to consider partnering with an existing local community foundation—in this case The Philadelphia Foundation. "It can take months or a year to set up a separate nonprofit," Fox noted. "This takes a few days."

Neither the institute nor the foundation will be responsible for decision-making related to the newspapers and Philly.com, according to Fox. Nor will the institute provide any funds to PMN for operating expenses, but it will instead finance certain types of public interest news coverage that might not otherwise be covered due to lack of funding. The institute will also have a separate board from the Philadelphia Media Network.

The institute's mission is to help develop journalism in new media in the digital age. Initially, it will make grants to the network for local public interest journalism, though it may expand its grants to other papers outside the city.

Lenfest is a onetime Davis Polk & Wardwell lawyer who went on become a top executive at a media company owned by Walter Annenberg before forming his own cable company, Lenfest Communications. He made his fortune when that company sold to Comcast in 2000.

Dilworth has a history of helping the Inquirer. The firm worked alongside Proskauer as debtor's counsel to the paper's publisher in 2010 as it emerged from Chapter 11 proceedings into the hands of its lenders. Two years later, Dilworth lawyers assisted the local investor

group, Interstate General Media, when it took control of the Inquirer, Daily News and Philly.com [after an April 2012 deal](#) with those lenders.

In May 2015, Lenfest [formed a nine-member board of directors](#) for the media company that included Reed Smith financial industry group partner Lisa Kabnick, Dilworth Paxson partner and vice chair Stephen Harmelin and Columbia Law School professor David Schizer. (Schizer was named this week to the institute's board of managers.)

The Philadelphia Media Network has seen its share of litigation in recent years. Pepper Hamilton has been defending the Inquirer in an ongoing defamation case involving a former Philadelphia union boss, John Dougherty, in a case [covered by sibling publication The Legal Intelligencer](#). Its former owners also remain embroiled in an [\\$800,000 fee spat](#) with Morgan, Lewis & Bockius stemming from a dispute over how to dissolve the parent company and form new ownership.

Fox said it's been a thrill working with Lenfest and others to preserve Philadelphia's traditional media. "This is an historic event. It's never happened before," he said. "And it happened in Philadelphia, not New York."

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