

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended: June 30, 2019
or
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____
Commission file number: 1-9824



The McClatchy Company
(Exact name of registrant as specified in its charter)

Delaware 52-2080478
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)
2100 "Q" Street, Sacramento, CA 95816
(Address of principal executive offices) (Zip Code)
(916) 321-1844
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Ticker Symbol</u>	<u>Name of each exchange on which registered</u>
Class A Common Stock, par value \$.01 per share	MNI	NYSE American LLC

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer
Smaller reporting company Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12-b of the Exchange Act). Yes No

As of August 2, 2019, the registrant had shares of common stock as listed below outstanding:

Class A Common Stock	5,498,875
Class B Common Stock	2,428,191

THE MCCLATCHY COMPANY
TABLE OF CONTENTS

<u>PART I – FINANCIAL INFORMATION</u>	1
<u>Item 1. Financial Statements</u>	1
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	23
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	32
<u>Item 4. Controls and Procedures</u>	32
<u>PART II – OTHER INFORMATION</u>	33
<u>Item 1. Legal Proceedings</u>	33
<u>Item 1A. Risk Factors</u>	33
<u>Item 5. Other Information</u>	33
<u>Item 6. Exhibits</u>	34
<u>SIGNATURES</u>	35

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

THE MCCLATCHY COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited; amounts in thousands, except per share amounts)

	Quarters Ended		Six Months Ended	
	June 30, 2019	July 1, 2018	June 30, 2019	July 1, 2018
REVENUES — NET:				
Advertising	\$ 85,455	\$ 106,953	\$ 170,650	\$ 206,840
Audience	80,292	84,825	163,404	171,103
Other	12,915	12,570	24,932	25,263
	<u>178,662</u>	<u>204,348</u>	<u>358,986</u>	<u>403,206</u>
OPERATING EXPENSES:				
Compensation	61,456	77,937	130,891	157,149
Newsprint, supplements and printing expenses	11,229	13,761	22,925	27,420
Depreciation and amortization	17,411	19,222	34,929	38,455
Other operating expenses	83,087	91,817	171,291	181,466
Other asset write-downs	—	—	739	59
	<u>173,183</u>	<u>202,737</u>	<u>360,775</u>	<u>404,549</u>
OPERATING INCOME (LOSS)	5,479	1,611	(1,789)	(1,343)
NON-OPERATING INCOME (EXPENSE):				
Interest expense	(19,920)	(17,939)	(39,964)	(36,835)
Equity income (loss) in unconsolidated companies, net	(900)	2,314	(1,529)	1,046
Loss on extinguishment of debt, net	(1,986)	(19)	(1,986)	(5,368)
Retirement benefit expense	(4,329)	(2,779)	(15,056)	(5,557)
Other — net	218	65	368	241
	<u>(26,917)</u>	<u>(18,358)</u>	<u>(58,167)</u>	<u>(46,473)</u>
Loss before income taxes	(21,438)	(16,747)	(59,956)	(47,816)
Income tax (benefit) expense	(3,907)	3,618	(469)	11,490
NET LOSS	<u>\$ (17,531)</u>	<u>\$ (20,365)</u>	<u>\$ (59,487)</u>	<u>\$ (59,306)</u>
Net loss per common share:				
Basic	\$ (2.21)	\$ (2.62)	\$ (7.54)	\$ (7.66)
Diluted	\$ (2.21)	\$ (2.62)	\$ (7.54)	\$ (7.66)
Weighted average number of common shares:				
Basic	7,925	7,761	7,892	7,741
Diluted	7,925	7,761	7,892	7,741

See notes to the condensed consolidated financial statements.

THE MCCLATCHY COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(Unaudited; amounts in thousands)

	<u>Quarters Ended</u>		<u>Six Months Ended</u>	
	<u>June 30, 2019</u>	<u>July 1, 2018</u>	<u>June 30, 2019</u>	<u>July 1, 2018</u>
NET LOSS	\$ (17,531)	\$ (20,365)	\$ (59,487)	\$ (59,306)
OTHER COMPREHENSIVE INCOME (LOSS):				
Pension and post retirement plans: ⁽¹⁾				
Change in pension and post-retirement benefit plans	5,441	5,549	27,993	11,099
Other comprehensive income	5,441	5,549	27,993	11,099
Comprehensive loss	<u>\$ (12,090)</u>	<u>\$ (14,816)</u>	<u>\$ (31,494)</u>	<u>\$ (48,207)</u>

⁽¹⁾ There is no income tax benefit associated with the quarters and six months ended June 30, 2019, or July 1, 2018, due to the recognition of a valuation allowance.

See notes to the condensed consolidated financial statements.

THE MCCLATCHY COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited; amounts in thousands, except share amounts)

	June 30, 2019	December 30, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 19,600	\$ 21,906
Trade receivables (net of allowances of \$1,706 and \$3,008)	56,645	81,709
Other receivables	8,604	12,198
Newsprint, ink and other inventories	7,653	9,115
Assets held for sale	18,511	9,920
Other current assets	16,596	15,505
	<u>127,609</u>	<u>150,353</u>
Property, plant and equipment, net	214,411	233,692
Intangible assets:		
Identifiable intangibles — net	119,745	143,347
Goodwill	705,174	705,174
	<u>824,919</u>	<u>848,521</u>
Investments and other assets:		
Investments in unconsolidated companies	3,117	3,888
Operating lease right-of-use assets	49,144	—
Other assets	57,211	58,847
	<u>109,472</u>	<u>62,735</u>
	<u>\$ 1,276,411</u>	<u>\$ 1,295,301</u>
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Current portion of long-term debt	\$ —	\$ 4,312
Accounts payable	26,782	37,521
Accrued pension liabilities	33,710	11,510
Accrued compensation	19,908	20,481
Income taxes payable	—	6,535
Unearned revenue	58,041	58,340
Accrued interest	25,524	26,037
Financing obligation	13,268	10,417
Current portion of operating lease liabilities	8,591	—
Other accrued liabilities	3,156	5,385
	<u>188,980</u>	<u>180,538</u>
Non-current liabilities:		
Long-term debt	607,905	633,383
Deferred income taxes	21,036	20,775
Pension and postretirement obligations	615,389	655,310
Financing obligations	133,656	108,252
Operating lease liabilities	50,004	—
Other long-term obligations	31,964	38,708
	<u>1,459,954</u>	<u>1,456,428</u>
Commitments and contingencies		
Shareholders' equity (deficit):		
Common stock \$.01 par value:		
Class A (authorized 200,000,000 shares, issued 5,555,233 shares and 5,384,303 shares)	56	53
Class B (authorized 60,000,000 shares, issued 2,428,191 shares and 2,428,191 shares)	24	24
Additional paid-in-capital	2,217,644	2,216,681
Accumulated deficit	(2,013,596)	(1,954,132)
Treasury stock at cost, 58,037 shares and 252 shares	(355)	(2)
Accumulated other comprehensive loss	(576,296)	(604,289)
	<u>(372,523)</u>	<u>(341,665)</u>
	<u>\$ 1,276,411</u>	<u>\$ 1,295,301</u>

See notes to the condensed consolidated financial statements.

THE MCCLATCHY COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited; amounts in thousands)

	Six Months Ended	
	June 30, 2019	July 1, 2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (59,487)	\$ (59,306)
Reconciliation to net cash provided by (used in) operating activities:		
Depreciation and amortization	34,929	38,455
Gain on disposal of property and equipment (excluding other asset write-downs)	(2,250)	(2,820)
Retirement benefit expense	15,056	5,557
Stock-based compensation expense	966	1,061
Deferred income taxes	261	—
Equity (income) loss in unconsolidated companies	1,529	(1,046)
Distributions of income from investments in unconsolidated companies	—	2,876
Loss on extinguishment of debt, net	1,986	5,368
Other asset write-downs	739	59
Bond fees and other debt-related items	5,028	1,425
Other	(4,745)	(3,367)
Changes in certain assets and liabilities:		
Trade receivables	25,064	26,474
Inventories	1,462	(1,246)
Other assets	4,058	(1,141)
Accounts payable	(10,613)	3,531
Accrued compensation	(573)	(2,157)
Income taxes	(6,535)	789
Accrued interest	(513)	(330)
Other liabilities	(4,391)	(4,890)
Net cash provided by operating activities	1,971	9,292
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(1,233)	(5,872)
Proceeds from sale of property, plant and equipment and other	3,326	4,025
Contributions to cost and equity investments	(425)	(1,925)
Net cash provided by (used in) investing activities	1,668	(3,772)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repurchase of notes and related expenses	(36,602)	(99,826)
Payment of financing costs	(28)	—
Proceeds from sale-leaseback financing obligations	29,743	15,749
Purchase of treasury shares	(353)	(371)
Other	(705)	(331)
Net cash used in financing activities	(7,945)	(84,779)
Decrease in cash, cash equivalents and restricted cash	(4,306)	(79,259)
Cash, cash equivalents and restricted cash at beginning of period	50,555	131,354
CASH, CASH EQUIVALENTS AND RESTRICTED CASH AT END OF PERIOD	\$ 46,249	\$ 52,095

See notes to the condensed consolidated financial statements

THE MCCLATCHY COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (DEFICIT)
(Unaudited; amounts in thousands)

	Common Stock			Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
	Class A \$.01 par value	Class B \$.01 par value	Additional Paid-In Capital				
Balance at December 30, 2018	\$ 53	\$ 24	\$ 2,216,681	\$ (1,954,132)	\$ (604,289)	\$ (2)	\$ (341,665)
Net loss	—	—	—	(41,956)	—	—	(41,956)
Cumulative effect adjustment of Topic 842	—	—	—	23	—	—	23
Other comprehensive income	—	—	—	—	22,552	—	22,552
Issuance of 168,610 Class A shares under stock plans	2	—	(2)	—	—	—	—
Stock compensation expense	—	—	663	—	—	—	663
Purchase of 56,934 shares of treasury stock	—	—	—	—	—	(268)	(268)
Balance at March 31, 2019	\$ 55	\$ 24	\$ 2,217,342	\$ (1,996,065)	\$ (581,737)	\$ (270)	\$ (360,651)
Net loss	—	—	—	(17,531)	—	—	(17,531)
Other comprehensive income	—	—	—	—	5,441	—	5,441
Issuance of 2,320 Class A shares under stock plans	1	—	(1)	—	—	—	—
Stock compensation expense	—	—	303	—	—	—	303
Purchase of 851 shares of treasury stock	—	—	—	—	—	(85)	(85)
Balance at June 30, 2019	\$ 56	\$ 24	\$ 2,217,644	\$ (2,013,596)	\$ (576,296)	\$ (355)	\$ (372,523)

	Common Stock			Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
	Class A \$.01 par value	Class B \$.01 par value	Additional Paid-In Capital				
Balance at December 31, 2017	\$ 52	\$ 24	\$ 2,215,109	\$ (1,970,097)	\$ (449,369)	\$ (51)	\$ (204,332)
Net loss	—	—	—	(38,941)	—	—	(38,941)
Cumulative effect adjustment of Topic 606	—	—	—	(2,668)	—	—	(2,668)
Other comprehensive income	—	—	—	—	5,550	—	5,550
Issuance of 94,184 Class A shares under stock plans	1	—	(1)	—	—	—	—
Stock compensation expense	—	—	741	—	—	—	741
Purchase of 33,805 shares of treasury stock	—	—	—	—	—	(307)	(307)
Balance at April 1, 2018	\$ 53	\$ 24	\$ 2,215,849	\$ (2,011,706)	\$ (443,819)	\$ (358)	\$ (239,957)
Net loss	—	—	—	(20,365)	—	—	(20,365)
Other comprehensive income	—	—	—	—	5,549	—	5,549
Conversion of 15,000 Class B shares to Class A shares	—	—	—	—	—	—	—
Issuance of 19,830 Class A shares under stock plans	1	—	(1)	—	—	—	—
Stock compensation expense	—	—	320	—	—	—	320
Purchase of 6,193 shares of treasury stock	—	—	—	—	—	(64)	(64)
Balance at July 1, 2018	\$ 54	\$ 24	\$ 2,216,168	\$ (2,032,071)	\$ (438,270)	\$ (422)	\$ (254,517)

See notes to the condensed consolidated financial statements

THE MCCLATCHY COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. BUSINESS AND BASIS OF ACCOUNTING

The McClatchy Company (“Company,” “we,” “us” or “our”) provides strong, independent local journalism to 30 communities with operations in 14 states, as well as selected national news coverage through our Washington D.C. based bureau. We also provide a full suite of digital marketing services, both through our local sales teams based in the communities we serve, as well as through *excelerate*[®], our national digital marketing agency. We are a publisher of brands such as the *Miami Herald*, *The Kansas City Star*, *The Sacramento Bee*, *The Charlotte Observer*, *The (Raleigh) News & Observer*, and the *Fort Worth Star-Telegram*.

Preparation of the financial statements in conformity with accounting principles generally accepted in the United States and pursuant to the rules and regulation of the Securities and Exchange Commission requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from those estimates. The condensed consolidated financial statements include the Company and our subsidiaries. Intercompany items and transactions are eliminated.

In our opinion, the accompanying unaudited condensed consolidated financial statements reflect all adjustments, which are of a normal recurring nature, that are necessary to present fairly our financial position, results of operations, and cash flows for the interim periods presented. The financial statements contained in this report are not necessarily indicative of the results to be expected for the full year. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 30, 2018 (“Form 10-K”). Each of the fiscal periods included herein comprise 13 weeks for the second-quarter periods and 26 weeks for the six-month periods.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fair Value of Financial Instruments

We account for certain assets and liabilities at fair value. The hierarchy below lists three levels of fair value based on the extent to which inputs used in measuring fair value are observable in the market. We categorize each of our fair value measurements in one of these three levels based on the lowest level input that is significant to the fair value measurement in its entirety. These levels are:

- Level 1 — Unadjusted quoted prices available in active markets for identical investments as of the reporting date.
- Level 2 — Observable inputs to the valuation methodology are other than Level 1 inputs and are either directly or indirectly observable as of the reporting date and fair value can be determined through the use of models or other valuation methodologies.
- Level 3 — Inputs to the valuation methodology are unobservable inputs in situations where there is little or no market activity for the asset or liability, and the reporting entity makes estimates and assumptions related to the pricing of the asset or liability including assumptions regarding risk.

Our policy is to recognize significant transfers between levels at the actual date of the event or circumstance that caused the transfer.

[Table of Contents](#)

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Cash and cash equivalents, accounts receivable and accounts payable. As of June 30, 2019, and December 30, 2018, the carrying amount of these items approximates fair value because of the short maturity of these financial instruments.

Long-term debt. At June 30, 2019, the carrying value and the estimated fair value of our 2026 Notes (as defined in Note 6) was \$253.8 million and \$261.4 million, respectively. As of December 30, 2018, the carrying value and the estimated fair value of the 2026 Notes, including the current portion of long-term debt, was \$287.2 million and \$302.4 million, respectively. The fair value of our long-term debt described above was determined using quoted market prices. These are considered to be Level 2 inputs under the fair value measurements and disclosure guidance and may not be representative of actual value.

At June 30, 2019, the carrying value and the estimated fair value of our Debentures, Junior Term Loan and 2031 Notes (as defined in Note 6), was \$354.1 million and \$335.2 million, respectively. At December 30, 2018, the carrying value and the estimated fair value of our Debentures, Junior Term Loan and 2031 Notes, was \$350.4 million and \$296.5 million, respectively. Market evidence was not available or reliable to value our Debentures, Junior Term Loan and 2031 Notes. The fair value was based on the net present value of the future cash flows using interest rates derived from market inputs and a Treasury yield curve in effect at June 30, 2019. These are considered to be Level 3 inputs under the fair value measurements and disclosure guidance and may not be representative of actual value.

Certain assets are measured at fair value on a nonrecurring basis; that is, they are subject to fair value adjustments only in certain circumstances (for example, when there is evidence of impairment). Our non-financial assets that may be measured at fair value on a nonrecurring basis are assets held for sale, goodwill, intangible assets not subject to amortization and cost or equity method investments. All of these are measured using Level 3 inputs. We utilize valuation techniques that seek to maximize the use of observable inputs and minimize the use of unobservable inputs. The significant unobservable inputs include, but are not limited to, the expected cash flows and the discount rates that we estimate market participants would seek for bearing the risk associated with such assets. See Goodwill and Intangible Asset discussion below regarding valuation inputs.

Newsprint, ink and other inventories

Newsprint, ink and other inventories are stated at the lower of cost (based principally on the first-in, first-out method) and net realizable value.

Assets Held for Sale

As of June 30, 2019, we have land and/or buildings classified as assets held for sale at five of our media companies. During the six months ended June 30, 2019, we began to actively market for sale the land and buildings at three of our media companies. In connection with classifying these assets as assets held for sale, the carrying value of the land and building at one of the properties was reduced to its estimated fair value less selling costs, as determined based on the current market conditions and the estimated selling price. As a result, an impairment charge of \$0.7 million was recorded during the six months ended June 30, 2019, and is included in other asset write-downs on our condensed consolidated statement of operations. The land and building at one of our small properties in Miami, Florida were sold during the quarter ended June 30, 2018, and we recorded a gain of \$2.3 million, which is included in other operating expenses on our condensed consolidated statement of operations.

Property, Plant and Equipment

Depreciation expense with respect to property, plant and equipment is summarized below:

(in thousands)	Quarters Ended		Six Months Ended	
	June 30, 2019	July 1, 2018	June 30, 2019	July 1, 2018
Depreciation expense	\$ 5,610	\$ 7,295	\$ 11,327	\$ 14,492

Goodwill and Intangible Assets

We test for impairment of goodwill annually at year-end, or whenever events occur, or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. We perform this testing on our operating segments, which are also considered our reporting units. An impairment loss is recognized when the carrying amount of the reporting unit's net assets exceeds the estimated fair value of the reporting unit. The fair value of our reporting units is determined using an equal weighting of a market approach and an income approach. We use market multiples derived from a set of competitors or companies with comparable market characteristics to establish fair values for a reporting unit (market approach). We also estimate fair value using discounted projected cash flow analysis (income approach). This analysis requires significant judgments, including estimation of future cash flows, which is dependent on internal forecasts, the long-term rate of growth for our business, and the determination of our weighted average cost of capital. Changes in these estimates and assumptions could materially affect the determination of fair value and goodwill impairment for each reporting unit.

Newspaper mastheads (newspaper titles and website domain names) are not subject to amortization and are tested for impairment annually at year-end, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test consists of a comparison of the fair value of each newspaper masthead with its carrying amount. We use a relief-from-royalty approach, which utilizes the discounted cash flow model to determine the fair value of each newspaper masthead.

Long-lived assets such as intangible assets subject to amortization (primarily advertiser and subscriber lists) are tested for recoverability whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. The carrying amount of each asset group is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use of such asset group.

We considered the estimates and assumptions used to test goodwill as of December 30, 2018, and determined that there were no material changes that would require an interim test of goodwill, masthead or long-lived assets. We had no impairment of goodwill, newspaper mastheads or long-lived assets during the quarters and six months ended June 30, 2019 or July 1, 2018. In 2018, we recorded intangible newspaper masthead impairment charges of \$14.1 million in the third quarter of 2018 and \$37.2 million for the full year ending December 30, 2018.

Investments in Unconsolidated Companies

We acquire equity investments that have the potential to promote business and strategic objectives. We account for non-marketable equity and other equity investments for which we do not have control over the investees as:

- Equity method investments when we have the ability to exercise significant influence, but not control, over the equity investment.
- Non-marketable cost method investments when the equity method does not apply.

Under the cost method, our share of earnings or losses of such investee companies is not included in the condensed consolidated balance sheet and statements of operations. However, impairment charges are recognized in the condensed consolidated statement of operations. If circumstances suggest that the value of the investee company has subsequently recovered, such recovery is not recorded. There was no impairment of our investments in unconsolidated companies at June 30, 2019, or July 1, 2018.

Financing Obligations

Financing obligations consist of contributions of real properties to the Pension Plan (defined in Note 7 below) in 2016 and 2011, real property previously owned by *The Sacramento Bee* in Sacramento, California that was sold and leased back during the third quarter of 2017, real property previously owned by *The State* in Columbia, South Carolina that we sold and leased back during the second quarter of 2018, and real property previously owned by *The Kansas City Star* in Kansas City, Missouri that was sold and leased back during the second quarter of 2019.

Segment Reporting

We have two operating segments that we aggregate into a single reportable segment because each has similar economic characteristics, products, customers and distribution methods. Our operating segments are based on how our chief executive officer, who is also our Chief Operating Decision Maker (“CODM”), makes decisions about allocating resources and assessing performance. The CODM is provided discrete financial information for the two operating segments. Each operating segment consists of a group of media companies and both operating segments report to the same segment manager. One of our operating segments (“Western Segment”) consists of our media companies’ operations in the West and Midwest, while the other operating segment (“Eastern Segment”) consists primarily of media operations in the Carolinas and East.

Income Taxes

We account for income taxes using the liability method. Under this method, deferred tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that are expected to be in effect when the differences are expected to reverse.

A tax valuation allowance is required when it is more-likely-than-not that all or a portion of deferred tax assets may not be realized. The timing of recording or releasing a valuation allowance requires significant judgment. Establishment and removal of a valuation allowance requires us to consider all positive and negative evidence and to make a judgmental decision regarding the amount of valuation allowance required as of a reporting date. The assessment considers expectations of future taxable income or loss, available tax planning strategies and the reversal of temporary differences. The development of these expectations involves the use of estimates such as operating profitability. The weight given to the evidence is commensurate with the extent to which it can be objectively verified.

We perform our assessment of the deferred tax assets quarterly, weighing the positive and negative evidence as outlined in ASC 740-10, *Income Taxes*. As we have incurred three years of cumulative pre-tax losses, such objective negative evidence limits our ability to give significant weight to other positive subjective evidence, such as projections for future growth and profitability. As of December 30, 2018, our valuation allowance against a majority of our deferred tax assets was \$143.8 million. For the quarter and six months ended June 30, 2019, we recorded valuation allowance charges of \$33.0 thousand and \$9.2 million, respectively, which are recorded in income tax expense on our condensed consolidated statements of operations. Our valuation allowance as of June 30, 2019, was \$153.0 million.

We will continue to maintain a valuation allowance against our deferred tax assets until we believe it is more likely than not that these assets will be realized in the future. If sufficient positive evidence arises in the future that provides an indication that all of or a portion of the deferred tax assets meet the more likely than not standard, the valuation allowance may be reversed, in whole or in part, in the period that such determination is made.

Current generally accepted accounting principles prescribe a recognition threshold and measurement of a tax position taken or expected to be taken in an enterprise’s tax returns. We also evaluate any uncertain tax positions and recognize a liability for the tax benefit associated with an uncertain tax position if it is more likely than not that the tax position will not be sustained on examination by the taxing authorities upon consideration of the technical merits of the position. The tax benefits recognized in the financial statements from such positions are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. We record a liability for uncertain tax positions taken or expected to be taken in a tax return. Any change in judgment related to the expected ultimate resolution of uncertain tax positions is recognized in earnings in the period in which such change occurs. We recognize accrued interest

related to unrecognized tax benefits in interest expense. Accrued penalties are recognized as a component of income tax expense.

Recently Adopted Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-02, “Leases” (“Topic 842”) which replaces the existing guidance in ASC 840, “Leases.” Topic 842 requires the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous guidance. We adopted Topic 842 as of December 31, 2018, without restating periods prior to the adoption date using a modified retrospective transition method, as allowed under ASU 2018-11, “Targeted Improvements to ASC 842.”

As a result of the adoption of Topic 842, on December 31, 2018, we recorded operating lease right-of-use (“ROU”) assets of \$51.6 million and lease liabilities of \$61.2 million. Finance leases were not impacted by the adoption of Topic 842, as capital lease liabilities and the corresponding assets were already recorded in the balance sheet under the ASC 840 guidance. The adoption of Topic 842 had an inconsequential impact on our condensed consolidated statement of operations and condensed consolidated statement of cash flows for the three-month period ended March 31, 2019.

The new standard provides a number of optional practical expedients that we adopted. We elected the “package of practical expedients” which permitted us not to reassess under the new standard our prior conclusions about lease identification, lease classification and initial direct costs. The new standard also provides expedients for our ongoing accounting. We elected the short-term lease recognition exemption for all leases that qualify. For those leases that qualified, we did not recognize ROU assets or liabilities. We also elected the practical expedient allowing us to combine lease and non-lease components for our real estate leases.

Additional information and disclosures required by this new standard are contained in Note 4.

In August 2018, the FASB issued ASU 2018-15, “Intangibles-Goodwill and Other-Internal -Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract.” ASU 2018-15 aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). It is effective for us for interim and annual reporting periods beginning after December 15, 2019, with early adoption permitted. We early adopted this standard as of April 1, 2019, and it did not have an impact on our condensed consolidated financial statements.

Recently Issued Accounting Pronouncements Not Yet Adopted

In June 2016, the FASB issued ASU 2016-13, “Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.” ASU 2016-13 requires that financial assets measured at amortized cost be presented at the net amount expected to be collected. The measurement of expected credit losses is to be based upon a broad set of information to include historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. ASU 2016-13 has been amended by ASU’s 2018-19, 2019-04 and 2019-05, which provide further guidance and clarification on specific items within the previously issued update. ASU 2016-13 and the subsequent update are effective for us for interim and annual reporting periods beginning after December 15, 2019, and early adoption is permitted for interim or annual reporting periods beginning after December 15, 2018. We are currently in the process of evaluating the impact of the adoption on our condensed consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, “Fair Value Measurement (Topic 820): Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement.” ASU 2018-02 adds, removes and modifies various disclosure requirements within Topic 820. It is effective for us for interim and annual reporting periods beginning after December 15, 2019. An entity is permitted to early adopt any removed or modified disclosures upon issuance of this guidance and delay adoption of the additional disclosures until their effective date. We are currently in the process of evaluating the impact of the adoption on our condensed consolidated financial statements.

In August 2018, the FASB issued ASU 2018-14, “*Compensation-Retirement Benefits-Defined Benefit Plan-General (Subtopic 715-20): Disclosure Framework-Changes to the Disclosure Requirements for Defined Benefit Plans.*” ASU 2018-14 adds, removes or clarifies various disclosure requirements within guidance. It is effective for us for annual reporting periods beginning after December 15, 2020, and early adoption is permitted. We are currently in the process of evaluating the impact of the adoption on our condensed consolidated financial statements.

3. REVENUES

Revenue Recognition

Revenues are recognized when control of the promised goods or services is transferred to our customers, in an amount that reflects the consideration we expect to be entitled to in exchange for those goods or services.

All revenues recognized on the condensed consolidated statements of operations are the result of contracts with customers, except for revenues associated with lease income where we are the lessor through a sublease arrangement.

Advertising Revenues

We generate revenues primarily by delivering advertising on our digital media sites, on our partners’ websites and in our newspapers. These advertising revenues are generated through digital and print performance obligations that are included in contracts with customers, which are typically one year or less in duration or commitment. There are no differences in the treatment of digital and print advertising performance obligations or the recognition of revenues for retail, national, classified, and direct marketing revenue categories.

We generate advertising revenues through digital products that are sold on cost-per-thousand impressions (“CPM”) which means that an advertiser pays based upon number of times their ad is displayed on our owned and operated websites and apps, our partners’ websites, ad exchanges, in a video pre-roll or a programmatic bidding exchange. Such revenues are recognized according to the timing outlined in the contract.

In addition to the advertising sold on a CPM basis, we also sell monthly marketing campaigns to some of our clients. Monthly marketing campaigns include multiple products some of which are sold on a CPM basis and others – like reputation management and search engine optimization – which are not. The contracted goods and services offered as part of monthly marketing campaigns are performed over the specific contract terms and the transfer of the performance obligation occurs as the benefits are consumed by the customer. As such, revenue is recognized daily regardless of the performance obligations classification of timing of being point in time or overtime.

Print advertising is advertising that is printed in a publication, inserted into a publication, or physically mailed to a customer. Our performance obligations for print products are directly associated with the inclusion of the advertisement in the final publication and delivery of the product on the contracted distribution day. Revenues are recognized at the point in time that the newspaper publication is delivered, and distribution of the advertisement is satisfied.

Certain customers may receive cash-based incentives or credits, which are accounted for as variable consideration. We estimate these amounts based on the expected value approach.

For ads placed on our partners’ websites or selling a product hosted or managed by partners, we evaluate whether we are the principal or agent. Generally, we report advertising revenues for ads placed on our partners’ websites or for the resale of their products on a gross basis; that is, the amounts billed to our customers are recorded as revenues, and amounts paid to our partners for their products or advertising space are recorded as operating expenses. If we are determined to be the principal, we are primarily responsible to our customers for fulfillment of the contract goals though, from time to time, we may use third-party goods or services. Our control is further supported by our level of discretion in establishing price and in some cases, controlling inventory before it is transferred to the customer.

Most products, including the printed newspaper advertising product, banner ads on our websites and video ads on our owned and operated player are reported on a gross basis. However, there are some third-party products and services that

[Table of Contents](#)

we offer to customers and various revenue share arrangements, such as exchange platforms, that are reported on a net basis. Revenues are earned through being a reseller of a product or participating in an exchange where control over the service provided is limited and costs of the arrangement are net of revenue received.

Audience Revenues

Audience revenues include digital and print subscriptions or a combination of both at various frequencies of delivery. Our subscribers typically pay us in advance of when their subscriptions start or shortly thereafter. Our performance obligation to subscribers of our digital products is the real-time access to news and information delivered through multiple digital platforms. Our performance obligation to our traditional print subscribers is delivery of the physical newspaper according to their subscription plan. Revenues related to digital and print subscriptions are recognized ratably each day that a product is delivered to the subscriber.

Digital subscriptions may be purchased for a day, month, quarter, or year, and revenue is reported daily over the term of the contract.

Traditional print subscriptions may have various frequencies of delivery based upon the subscriber's delivery preference. Revenues are recognized based upon each delivery, therefore at a point in time.

Certain subscribers may enter into a grace period ("grace") after their previous contract term has expired but before payment has been received on the renewal. Grace is granted as a continuation of the subscription contract, so that service is not disrupted, and the extension is accounted for as variable consideration. We estimate these revenue amounts based on the expected amount to be received, taking into account the expected discontinuation of service or nonpayment based on historical experience.

Other Revenues

The largest revenue streams within other revenues are for commercial printing and distribution. The commercial print agreements are between us and third-party publishers to print and make available for distribution their finished products. Commercial print contracts are for a daily finished product and each day's product is unique, or a separate performance obligation. Revenue is recorded at a point in time upon completion of each day's print project.

The performance obligation for distribution revenues is the transportation of third-party published products to their subscribers or stores for resale. Distribution is performed substantially the same over the life of the contract and revenue is recognized at the point in time each performance obligation is completed.

We report distribution revenues from the third-party publishers on a gross basis. That is, the amounts that we bill to third-party publishers to deliver their finished product to their customers are recorded as revenues, and the amounts paid to our independent carriers to deliver the third-party product are recorded as operating expenses.

Arrangements with Multiple Performance Obligations

Our contracts with customers may include multiple performance obligations. For such arrangements, we allocate revenue to each performance obligation based on its standalone selling price. We generally determine standalone selling prices for audience revenue contracts based upon observable market values and the adjusted market assessment. For advertising revenue contracts with multiple performance obligations, stand-alone selling price is based on the prices charged to customers or on an adjusted market assessment.

Unearned Revenues

We record unearned revenues when cash payments are received or due in advance of our performance, including amounts which are refundable. The decrease in the unearned revenue balance for the six months ended June 30, 2019, reflects cash

payments received or due in advance of satisfying our performance obligations, offset by \$48.3 million of revenues recognized that were included in the unearned revenue balance as of December 30, 2018.

Our payment terms vary for advertising and subscriber customers. Subscribers generally pay in advance of up to one year. Advertiser payments are due within 30 days of invoice issuance and therefore amounts paid in advance are not significant. For advertisers that are considered to be at a higher risk of collectability due to payment history or credit processing, we require payment before the products or services are delivered to the customer.

4. LEASES

We determine if a contract is a lease at the inception of the arrangement. If an operating lease is identified, it is classified as one of three asset classes: building and land, vehicles or equipment. We lease space under non-cancelable operating leases for general office facilities, distribution centers, a training center and a call center. We also have operating leases for vehicles that consist mainly of tractor trailers and box trucks to transport newspapers from printing facilities to distribution centers, as well as office equipment consisting mostly of copiers.

Certain leases have rent holidays or leasehold improvement incentives which account for the difference between the ROU assets and the lease liabilities. Many of our leases include lease components (e.g., fixed rent payments) and non-lease components (e.g., common-area or other maintenance costs, utilities, or other lease costs imposed) which are accounted for as a single lease component, because we have elected the practical expedient to group lease and non-lease components for all leases.

None of our leases contain contingent rent provisions or concessions, residual value guarantees or restrictive covenants. Our leases have remaining terms of less than one year to 9 years, except for one parking lot lease with 43 years remaining.

Some of our distribution center, vehicle, and equipment leases have a combination of cancelable month-to-month lease terms and non-cancelable lease terms of less than one year. We have elected the practical expedient to exclude these short-term leases from our ROU assets and lease liabilities.

Most leases include escalating lease payments and one or more options to renew or terminate the lease. The exercise of lease renewal options is typically at our sole discretion; therefore, the renewals to extend the lease terms are not included in our ROU assets and lease liabilities as they are not reasonably certain of exercise. We regularly evaluate the renewal options and when they are reasonably certain of exercise, we include the renewal period in our lease term.

We have one financing lease for office furniture and fixtures located at one of our office facilities. The total financing lease payments are calculated to be approximately \$1.0 million and \$1.1 million as of June 30, 2019, and December 30, 2018, respectively. As of June 30, 2019, the payments run over the course of the remaining 6.0 years and are not material to the future lease payments schedules presented below. The finance lease asset is recorded within the other assets line item of the condensed consolidated balance sheet. The finance lease short-term and long-term obligations are recorded within other accrued liabilities and other long-term liabilities line items of the condensed consolidated balance sheet, respectively.

As our lease contracts do not provide an implicit interest rate, we used the December 31, 2018, effective yield of our secured debt that we refinanced in July 2018 as our secured incremental borrowing rate for leases with an 8-year tenure. The secured incremental borrowing rate was adjusted using the treasury yield curve at the transition date to determine the present value of each of the future payments.

[Table of Contents](#)

The cost components of our operating and financing leases were as follows:

(in thousands)	Quarter Ended June 30, 2019	Six Months Ended June 30, 2019
Financing lease costs:		
Amortization of ROU asset	\$ 24	\$ 48
Interest on lease liabilities	20	40
Operating lease costs	3,465	6,929
Short-term lease cost	451	1,164
Variable lease cost	609	1,076
Sublease income	(1,460)	(2,921)
Total lease costs	<u>\$ 3,109</u>	<u>\$ 6,336</u>

Variable lease costs for our leased facilities consist primarily of taxes and insurance, as well as common area maintenance true-up assessments which are paid based on actual costs incurred by the lessor. We also incur variable mileage costs related to our leased vehicles and variable usage costs related to leased equipment. Variable lease costs also include annual changes in monthly rent costs, mainly based on the consumer price index.

We sublease office space to other companies under non-cancelable agreements. There are no residual value guarantees or restrictions or covenants imposed as part of these sublease arrangements, except that the subtenant may not transfer the assignment of the sublease without prior permission or permit liens against the office space. Some sublease agreements included options to renew or terminate the lease, but only within the term of the master lease arrangement held by us.

As of June 30, 2019, the aggregate future lease payments for operating leases are as follows:

(in thousands)	Operating Leases
2019 (remainder)	\$ 7,012
2020	12,540
2021	10,373
2022	10,656
2023	10,344
2024	8,967
Thereafter	21,858
Total undiscounted cash flows	81,750
Less imputed interest	(23,155)
Total lease liability	<u>\$ 58,595</u>

Our future minimum lease commitments, net of sub-lease rental income, as of December 30, 2018, under ASC 840, the predecessor to Topic 842, was as follows:

(in thousands)	Operating Leases	Sublease Income	Net Lease Obligation
2019	\$ 16,408	\$ (4,044)	\$ 12,364
2020	11,921	(1,306)	10,615
2021	9,797	(379)	9,418
2022	10,178	(334)	9,844
2023	10,160	(232)	9,928
Thereafter	31,139	—	31,139
Total	<u>\$ 89,603</u>	<u>\$ (6,295)</u>	<u>\$ 83,308</u>

[Table of Contents](#)

The weighted average remaining lease terms and discount rates for all of our operating and financing leases were as follows:

	<u>June 30, 2019</u>	
	<u>Operating Leases</u>	<u>Financing Lease</u>
Weighted average remaining lease term (years)	7.35	6.50
Weighted average discount rate	9.19 %	10.50 %

Supplemental cash flow information related to our operating and financing leases was as follows:

	<u>Six Months Ended</u>	
	<u>June 30, 2019</u>	
(in thousands)		
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash outflow from operating leases	\$	7,129
Operating cash outflow from financing lease		40
Financing cash outflow from financing lease		34
ROU assets obtained in exchange for new operating lease liabilities		1,999

As of June 30, 2019, we do not have any new financing leases or significant additional operating leases that have not yet commenced.

5. INTANGIBLE ASSETS AND GOODWILL

Intangible assets subject to amortization (primarily advertiser lists, subscriber lists and developed technology), mastheads and goodwill consisted of the following:

	<u>December 30, 2018</u>	<u>Amortization Expense</u>	<u>June 30, 2019</u>
	(in thousands)		
Intangible assets subject to amortization	\$ 838,336	\$ —	\$ 838,336
Accumulated amortization	(807,725)	(23,602)	(831,327)
	30,611	(23,602)	7,009
Mastheads	112,736	—	112,736
Goodwill	705,174	—	705,174
Total	<u>\$ 848,521</u>	<u>\$ (23,602)</u>	<u>\$ 824,919</u>

Amortization expense with respect to intangible assets is summarized below:

	<u>Quarters Ended</u>		<u>Six Months Ended</u>	
	<u>June 30, 2019</u>	<u>July 1, 2018</u>	<u>June 30, 2019</u>	<u>July 1, 2018</u>
(in thousands)				
Amortization expense	\$ 11,801	\$ 11,927	\$ 23,602	\$ 23,963

The estimated amortization expense for the remainder of fiscal year 2019 and the five succeeding fiscal years is as follows:

<u>Year</u>	<u>Amortization Expense (in thousands)</u>
2019 (Remainder)	\$ 552
2020	803
2021	680
2022	655
2023	667
2024	640

6. LONG-TERM DEBT

Our long-term debt consisted of the following:

(in thousands)	Face Value at	Carrying Value	
	June 30, 2019	June 30, 2019	December 30, 2018
ABL Credit Agreement	\$ —	\$ —	\$ —
Notes:			
9.000% senior secured notes due in 2026	268,098	253,762	287,249
7.795% junior term loan due in 2030	157,083	124,680	123,213
6.875% senior secured junior lien notes due in 2031	268,423	215,165	141,447
7.150% debentures due in 2027	7,105	6,840	6,824
6.875% debentures due in 2029	7,807	7,458	78,962
Long-term debt	\$ 708,516	\$ 607,905	\$ 637,695
Less current portion	—	—	4,312
Total long-term debt, net of current	\$ 708,516	\$ 607,905	\$ 633,383

Our outstanding notes are stated net of unamortized debt issuance costs, fair market adjustments and unamortized discounts, if applicable, totaling \$100.6 million and \$107.4 million as of June 30, 2019, and December 30, 2018, respectively. Our ABL Credit Agreement has unamortized debt issuance costs of \$1.6 million and \$1.8 million as of June 30, 2019, and December 30, 2018, respectively, that are included in other assets on our condensed consolidated balance sheets.

Debt Redemptions, Repurchases and Extinguishment of Debt

In March 2019, we issued \$75.0 million aggregate principal amount of additional 6.875% senior secured junior lien notes due in 2031 (“2031 Notes”). The additional 2031 Notes were issued in exchange for an equal principal amount of the unsecured 6.875% debentures due in 2029 (“2029 Debentures”). See *Junior Lien Term Loan Agreement* section below for additional discussion. This exchange was accounted for as a modification of debt with no gain or loss recorded in earnings.

During the quarter and six months ended June 30, 2019, we redeemed \$36.6 million aggregate principal amount of our 9.000% senior secured notes due in 2026 (“2026 Notes”) from the net cash proceeds of certain asset dispositions and from a portion of our excess cash flow (as defined in the 2026 Notes Indenture). As a result of these transactions, we recorded a loss on extinguishment of debt of \$2.0 million during the quarter and six months ended June 30, 2019.

During the quarter and six months ended July 1, 2018, we redeemed \$0.5 million of our 9.000% senior secured notes that were due in 2022 (“2022 Notes”) at par and we wrote off the associated debt issuance costs. Also, during the six months ended July 1, 2018, we redeemed \$75.0 million and repurchased \$20.0 million of the 2022 Notes. We recorded any applicable premiums that were paid and wrote off the associated debt issuance costs on the above transactions. As a result of all of these transactions, we recorded a loss on extinguishment of debt of \$19.0 thousand and \$5.4 million during the quarter and six months ended July 1, 2018, respectively.

ABL Credit Agreement

The ABL Credit Agreement entered into in July 2018, among the Company, the subsidiaries of the Company party thereto, as borrowers, the lenders party thereto, and Wells Fargo Bank, N.A. (“Wells Fargo”), as administrative agent (ABL Credit Agreement”) provides for up to \$65.0 million secured asset-backed revolving credit facility with a letter of credit subfacility and a swing line subfacility. In addition, the ABL Credit Agreement provides for a \$35.0 million cash secured letter of credit facility (“LOC Facility”). The commitments under the ABL Credit Agreement expire July 16, 2023. Our obligations under the ABL Credit Agreement are guaranteed by us and by certain of our subsidiaries meeting materiality thresholds set forth in the ABL Credit Agreement as described below.

The proceeds of the loans under the ABL Credit Agreement may be used for working capital and general corporate purposes. We have the right to prepay loans under the ABL Credit Agreement in whole or in part at any time without penalty. Subject to availability under the Borrowing Base, amounts repaid may be reborrowed.

[Table of Contents](#)

As of June 30, 2019, under the ABL Credit Agreement we had \$39.4 million of available credit. The Borrowing Base is recalculated monthly and is subject to seasonality of advertising sales around year-end holiday periods (and resulting growth in advertising accounts receivable balances). As of June 30, 2019, we had \$26.7 million standby letters of credit secured under the LOC Facility. We are required to provide cash collateral equal to 100% of the aggregate undrawn stated amount of each outstanding letter of credit. Cash collateral associated with the LOC Facility is classified in our consolidated balance sheets in other assets.

Loans under the ABL Credit Agreement bear interest, at our option, at either a rate based on the London Interbank Offered Rate ("LIBOR") for the applicable interest period or a base rate, in each case plus a margin. The base rate is the highest of Wells Fargo's publicly announced prime rate, the federal funds rate plus 0.50% and one-month LIBOR plus 1.0%. The margin ranges from 1.75% to 2.25% for LIBOR loans and 0.75% to 1.25% for base rate loans and is determined based on average excess availability. Interest on the loans is payable quarterly in arrears with respect to base rate loans and at the end of an interest period (and at three-month intervals if the interest period exceeds three months) in the case of LIBOR loans.

The ABL Credit Agreement requires us, at any time the availability under our revolving credit facility falls below the greater of 12.5% of the total facility size or approximately \$8.1 million, to maintain a minimum fixed charge coverage ratio of 1.10 to 1.00 until such time as the availability under our revolving credit facility exceeds such threshold for 30 consecutive days.

The ABL Credit Agreement contains customary affirmative covenants, including covenants regarding the payment of taxes and other obligations, maintenance of insurance, reporting requirements and compliance with applicable laws and regulations. Further, the ABL Credit Agreement contains customary negative covenants limiting our ability and the ability of our subsidiaries, among other things, to incur debt, grant liens, make investments, make certain restricted payments and sell assets, subject to certain exceptions. Upon the occurrence and during the continuance of an event of default, the lenders may declare all outstanding principal and accrued and unpaid interest under the ABL Credit Agreement immediately due and payable and may exercise the other rights and remedies provided for under the ABL Credit Agreement and related loan documents. The events of default under the ABL Credit Agreement include, subject to grace periods in certain instances, payment defaults, cross defaults with certain other indebtedness, breaches of covenants or representations and warranties, change in control of us and certain bankruptcy and insolvency events with respect to us and our subsidiaries meeting a materiality threshold set forth in the ABL Credit Agreement.

2026 Senior Secured Notes and Indenture

We entered into an Indenture ("2026 Notes Indenture") in July 2018, among the Company, guarantor subsidiaries of the Company and The Bank of New York Mellon Trust Company, N.A., as trustee and collateral agent ("2026 Notes Trustee"), pursuant to which we issued \$310.0 million aggregate principal amount of 9.000% Senior Secured Notes due 2026 ("2026 Notes"). We are required to redeem the 2026 Notes from the net cash proceeds of certain asset dispositions and from a portion of our excess cash flow (as defined in the 2026 Notes Indenture). As of December 30, 2018, we determined the excess cash flow due was \$4.6 million aggregate principal amount and as such the carrying value of \$4.3 million was classified as current portion of long-term debt on the condensed consolidated balance sheet. The redemption was made on April 5, 2019.

If we experience specified changes of control triggering events, we must offer to repurchase the 2026 Notes at a repurchase price equal to 101% of the principal amount of the 2026 Notes repurchased, plus accrued and unpaid interest, if any, to, but excluding the applicable repurchase date.

The 2026 Notes Indenture contains covenants that, among other things, restrict our ability and our restricted subsidiaries to:

- incur certain additional indebtedness and issue preferred stock;
- make certain distributions, investments and other restricted payments;
- sell assets;
- agree to any restrictions on the ability of restricted subsidiaries to make payments to us;
- create liens;

[Table of Contents](#)

- merge, consolidate or sell substantially all of our assets, taken as a whole; and
- enter into certain transactions with affiliates.

These covenants are subject to a number of other limitations and exceptions set forth in the 2026 Notes Indenture.

The 2026 Notes Indenture provides for customary events of default, including, but not limited to, failure to pay principal and interest, failure to comply with covenants, agreements, or conditions, and certain events of bankruptcy or insolvency involving us and our significant subsidiaries. In the case of an event of default arising from specified events of bankruptcy or insolvency, all outstanding 2026 Notes under the 2026 Notes Indenture will become due and payable immediately without further action or notice. If any other event of default under the 2026 Notes Indenture occurs or is continuing, the 2026 Notes Trustee or holders of at least 25% in aggregate principal amount of the then outstanding 2026 Notes under the 2026 Notes Indenture may declare all of such 2026 Notes to be due and payable immediately.

2031 Senior Secured Junior Lien Notes and Indenture

Under the terms of the Junior Term Loan Agreement (discussed below), affiliates of Chatham Asset Management, LLC (“Chatham”) could elect to convert up to \$75.0 million in aggregate principal amount of 2029 Debentures owned by them into an equal principal amount of Tranche B Junior Term Loans or notes with terms substantially similar to the Tranche B Junior Term Loans upon written notice to us. As discussed previously, in March 2019, Chatham notified us of their election to convert approximately \$75.0 million aggregate principal amount of 2029 Debentures to additional 2031 Notes. The additional 2031 Notes have identical terms, other than with respect to the date of issuance, to the 2031 Notes and will be treated as a single class for all purposes under the applicable indenture, together referred to hereafter as the 2031 Notes. These 2031 Notes have substantially the same terms as the Tranche A Junior Term Loan.

We have the right to prepay notes under the 2031 Notes, in whole or in part, at any time, at a price equal to 100% of the principal amount thereof, plus a “make-whole” premium and accrued and unpaid interest, if any. Amounts prepaid may not be reborrowed.

The 2031 Notes bear interest at a rate per annum of 6.875%. Interest on the loan is payable semi-annually in arrears on January 15 and July 15 of each year and commenced on January 15, 2019.

Junior Lien Term Loan Agreement

The Junior Term Loan Agreement provides for a \$157.1 million secured term loan (“Junior Term Loan”) that matures on July 15, 2030. Our obligations under the Junior Term Loan Agreement are guaranteed by our subsidiaries that guarantee the 2026 Notes.

We have the right to prepay loans under the Junior Term Loan Agreement, in whole or in part, at any time, at specified prices that decline over time, plus accrued and unpaid interest, if any, of the Junior Term Loan. Amounts prepaid may not be reborrowed.

The Junior Term Loan bears interest at a rate per annum equal to 7.795%. Interest on the loan is payable semi-annually in arrears on January 15 and July 15 of each year, and commenced on January 15, 2019.

The Junior Term Loan Agreement and the 2031 Notes contain customary affirmative covenants, including covenants regarding the payment of taxes and other obligations, maintenance of insurance, reporting requirements and compliance with applicable laws and regulations. Further, the Junior Term Loan Agreement and the 2031 Notes contain customary negative covenants limiting the ability of us and our subsidiaries, among other things, to incur debt, grant liens, make investments, make certain restricted payments and sell assets, subject to certain exceptions. Upon the occurrence and during the continuance of an event of default, the lenders may declare all outstanding principal and accrued and unpaid interest under the Junior Term Loan Agreement immediately due and payable and may exercise the other rights and remedies provided for under the Junior Term Loan Agreement and related loan documents. In general, the affirmative and negative covenants of the Junior Term Loan Agreement are substantially the same as the covenants in the 2026 Notes Indenture.

Other Debt

After giving effect to the 2031 Notes, we have \$7.1 million aggregate principal amount of 2027 Debentures and \$7.8 million aggregate principal amount of 2029 Debentures outstanding as of June 30, 2019.

7. EMPLOYEE BENEFITSPension Plan

We maintain a qualified defined benefit pension plan (“Pension Plan”), which covers eligible current and former employees and has been frozen since March 31, 2009. No new participants may enter the Pension Plan and no further benefits will accrue. However, years of service continue to count toward early retirement calculations and vesting of benefits previously earned.

We also have a limited number of supplemental retirement plans to provide certain key current and former employees with additional retirement benefits. These plans are funded on a pay-as-you-go basis and the accrued pension obligation is largely included in other long-term obligations.

The elements of retirement benefit expense are as follows:

(in thousands)	Quarters Ended		Six Months Ended	
	June 30, 2019	July 1, 2018	June 30, 2019	July 1, 2018
Pension plans:				
Interest Cost	\$ 19,596	\$ 19,789	\$ 40,117	\$ 39,577
Expected return on plan assets	(20,773)	(22,624)	(42,275)	(45,248)
Special termination benefits	—	—	6,834	—
Actuarial loss	6,156	6,296	11,681	12,591
Net pension expense	4,979	3,461	16,357	6,920
Net post-retirement benefit credit	(650)	(682)	(1,301)	(1,363)
Net retirement benefit expenses	\$ 4,329	\$ 2,779	\$ 15,056	\$ 5,557

Early Retirement Incentive Program

In February 2019, we announced a one-time voluntary Early Retirement Incentive Program (“ERIP”) that was offered to approximately 450 employees. The ERIP allowed them to accept a special termination benefit based on years of continuous service and the option to take their vested benefits under our frozen Pension Plan in a lump sum payment. Nearly 50% of the eligible employees opted into the program.

Lump sum pension and termination payments made under the ERIP totaled approximately \$35.1 million, decreasing both the benefit obligation and the fair value of plan assets. Due to the significance of this program, we remeasured the retirement plan assets and benefit obligations as of March 22, 2019, using a discount rate of 4.10% and an expected return on plan assets of 7.75%. The remeasurement and the special termination benefits resulted in a net reduction to the pension liability of approximately \$13.1 million and the recognition of a one-time non-cash charge of \$6.8 million for the special termination benefits, presented in retirement benefit expense on the statement of operations during the three months ended March 31, 2019. Our unfunded liability for the Pension Plan was \$535.1 million as of March 31, 2019, compared to \$548.2 million as of December 30, 2018. These are included in pension and postretirement obligations on the statements of operations.

401(k) Plan

We have a deferred compensation plan (“401(k) plan”), which enables eligible employees to defer compensation. In the quarter and six months ended June 30, 2019, our matching contributions were \$0.5 million and \$1.1 million, respectively. In the quarter and six months ended July 1, 2018, our matching contributions were \$0.6 million and \$1.3 million,

respectively. Matching contributions are recorded in the compensation line item of our condensed consolidated statement of operations.

8. CASH FLOW INFORMATION

Reconciliation of cash, cash equivalents and restricted cash as reported in the condensed consolidated balance sheets to the total of the same such amounts shown above:

(in thousands)	June 30, 2019	December 30, 2018
Cash and equivalents	\$ 19,600	\$ 21,906
Restricted cash included in other assets ⁽¹⁾	26,649	28,649
Total cash, cash equivalents and restricted cash	\$ 46,249	\$ 50,555

⁽¹⁾ Restricted cash balances are time deposit accounts secured against letters of credit primarily related to contractual agreements with our workers' compensation insurance carrier and one of our property leases.

Cash paid for interest and income taxes and other non-cash activities consisted of the following:

(in thousands)	Six Months Ended	
	June 30, 2019	July 1, 2018
Interest paid (net of amount capitalized)	\$ 29,806	\$ 29,244
Income taxes paid (net of refunds)	7,098	12,019
Other non-cash investing and financing activities related to pension plan transactions:		
Reduction of financing obligation due to sale of real properties by pension plan	—	(2,667)
Reduction of PP&E due to sale of real properties by pension plan	—	(2,854)

Other non-cash financing activities includes the issuance of \$75.0 million of additional 2031 Notes in exchange for \$75.0 million of our 2029 Debentures during March 2019.

9. COMMITMENTS AND CONTINGENCIES

In December 2008, carriers of *The Fresno Bee* filed a class action lawsuit against us and *The Fresno Bee* in the Superior Court of the State of California in Fresno County captioned *Becerra v. The McClatchy Company* ("Fresno case") alleging that the carriers were misclassified as independent contractors and seeking mileage reimbursement. In February 2009, a substantially similar lawsuit, *Sawin v. The McClatchy Company*, involving similar allegations was filed by carriers of *The Sacramento Bee* ("Sacramento case") in the Superior Court of the State of California in Sacramento County. The class consists of roughly 5,000 carriers in the Sacramento case and 3,500 carriers in the Fresno case. The plaintiffs in both cases are seeking unspecified restitution for mileage reimbursement. With respect to the Sacramento case, in September 2013, all wage and hour claims were dismissed, and the only remaining claim is an equitable claim for mileage reimbursement under the California Civil Code. In the Fresno case, in March 2014, all wage and hour claims were dismissed, and the only remaining claim is an equitable claim for mileage reimbursement under the California Civil Code.

The court in the Sacramento case trifurcated the trial into three separate phases, independent contractor status, liability and restitution. On September 22, 2014, the court in the Sacramento case issued a tentative decision following the first phase, finding that the carriers that contracted directly with *The Sacramento Bee* during the period from February 2005 to July 2009 were misclassified as independent contractors. We objected to the tentative decision, but the court ultimately adopted it as final. In June 2016, *The McClatchy Company* was dismissed from the lawsuit, leaving *The Sacramento Bee* as the sole defendant. On August 30, 2017, the court issued a statement of decision ruling that the court would not hold a phase two trial but would, instead, assume liability from the evidence previously submitted and from the independent contractor agreements. We objected to this decision, but the court adopted it as final. The third phase began on June 20, 2019, and is ongoing.

The court in the Fresno case bifurcated the trial into two separate phases: the first phase addressed independent contractor status and liability for mileage reimbursement and the second phase was designated to address restitution, if any. The first

[Table of Contents](#)

phase of the Fresno case began in the fourth quarter of 2014 and concluded in late March 2015. On April 14, 2016, the court in the Fresno case issued a statement of final decision in favor of us and *The Fresno Bee*. Accordingly, there will be no second phase. The plaintiffs filed a Notice of Appeal on November 10, 2016.

We continue to defend these actions vigorously and expect that we will ultimately prevail. As a result, we have not established a reserve in connection with the cases. While we believe that a material impact on our condensed consolidated financial position, results of operations or cash flows from these claims is unlikely, given the inherent uncertainty of litigation, a possibility exists that future adverse rulings or unfavorable developments could result in future charges that could have a material impact. We have and will continue to periodically reexamine our estimates of probable liabilities and any associated expenses and make appropriate adjustments to such estimates based on experience and developments in litigation.

Other than the cases described above, we are subject to a variety of legal proceedings (including libel, employment, wage and hour, independent contractor and other legal actions) and governmental proceedings (including environmental matters) that arise from time to time in the ordinary course of our business. We are unable to estimate the amount or range of reasonably possible losses for these matters. However, we currently believe, after reviewing such actions with counsel, that the expected outcome of pending actions will not have a material effect on our condensed consolidated financial statements. No material amounts for any losses from litigation that may ultimately occur have been recorded in the condensed consolidated financial statements as we believe that any such losses are not probable.

We have certain indemnification obligations related to the sale of assets including but not limited to insurance claims and multi-employer pension plans of disposed newspaper operations. We believe the remaining obligations related to disposed assets will not be material to our financial position, results of operations or cash flows.

As of June 30, 2019, we had \$26.7 million of standby letters of credit secured under the LOC Facility.

10. SUPPLEMENTAL EQUITY INFORMATION

Accumulated Other Comprehensive Loss

Our accumulated other comprehensive loss (“AOCL”) and reclassifications from AOCL, net of tax, consisted of the following:

(in thousands)	Minimum Pension and Post-Retirement Liability	Other Comprehensive Loss Related to Equity Investments	Total
Balance at December 30, 2018	\$ (595,820)	\$ (8,469)	\$ (604,289)
Other comprehensive income (loss) before reclassifications	17,745	—	17,745
Amounts reclassified from AOCL	10,248	—	10,248
Other comprehensive income	27,993	—	27,993
Balance at June 30, 2019	<u>\$ (567,827)</u>	<u>\$ (8,469)</u>	<u>\$ (576,296)</u>

(in thousands) AOCL Component	Amount Reclassified from AOCL Quarters Ended		Amount Reclassified from AOCL Six Months Ended		Affected Line in the Condensed Consolidated Statements of Operations
	June 30, 2019	July 1, 2018	June 30, 2019	July 1, 2018	
	Minimum pension and post-retirement liability	\$ 5,441	\$ 5,549	\$ 10,248	

⁽¹⁾ There is no income tax benefit associated with the quarters and six months ended June 30, 2019, or July 1, 2018, due to the recognition of a valuation allowance.

Stock Plans Activity

The following table summarizes the restricted stock units (“RSUs”) activity during the six months ended June 30, 2019:

	RSUs	Weighted Average Grant Date Fair Value
Nonvested — December 30, 2018	331,600	\$ 9.56
Granted	285,771	\$ 5.58
Vested	(168,207)	\$ 9.67
Forfeited	(5,030)	\$ 8.50
Nonvested — June 30, 2019	<u>444,134</u>	\$ 6.97

The total fair value of the RSUs that vested during the six months ended June 30, 2019, was \$1.0 million.

The following table summarizes the stock appreciation rights (“SARs”) activity during the six months ended June 30, 2019:

	SARs	Weighted Average Exercise Price	Aggregate Intrinsic Value (in thousands)
Outstanding December 30, 2018	113,300	\$ 32.13	\$ —
Expired	(6,400)	\$ 33.79	
Outstanding June 30, 2019	<u>106,900</u>	\$ 32.03	\$ —

Stock-Based Compensation

All stock-based payments, including grants of stock appreciation rights, restricted stock units and common stock under equity incentive plans, are recognized in the financial statements based on their grant date fair values. As of June 30, 2019, we had two stock-based compensation plans. Stock-based compensation expenses are reported in the compensation line item in the condensed consolidated statements of operations. Total stock-based compensation expense for the periods presented in this report, are as follows:

	Quarters Ended		Six Months Ended	
	June 30, 2019	July 1, 2018	June 30, 2019	July 1, 2018
(in thousands)				
Stock-based compensation expense	\$ 303	\$ 320	\$ 966	\$ 1,061

Earnings Per Share (EPS)

Basic EPS excludes dilution from common stock equivalents and reflects income divided by the weighted average number of common shares outstanding for the period. Diluted EPS is based upon the weighted average number of outstanding shares of common stock and dilutive common stock equivalents in the period. Common stock equivalents arise from dilutive stock appreciation rights and restricted stock units and are computed using the treasury stock method. Anti-dilutive common stock equivalents are excluded from diluted EPS. The weighted average anti-dilutive common stock equivalents that could potentially dilute basic EPS in the future, but were not included in the weighted average share calculation, consisted of the following:

	Quarters Ended		Six Months Ended	
	June 30, 2019	July 1, 2018	June 30, 2019	July 1, 2018
(shares in thousands)				
Anti-dilutive common stock equivalents	511	198	464	201

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Forward-Looking Information

This quarterly report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, as amended, including statements relating to future financial performance and operations, trends in advertising, uses of cash, including offers for or repurchases of our debt, the refinancing of our debt and our pension plan obligations. These statements are based upon our current expectations and knowledge of factors impacting our business and are generally preceded by, followed by or are a part of sentences that include the words "believes," "expects," "anticipates," "estimates" or similar expressions. All statements, other than statements of historical fact, are statements that could be deemed forward-looking statements. For all of those statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. Such statements are subject to risks, trends and uncertainties. These and other risks and uncertainties that could cause actual results and events to differ materially from such forward-looking statements is included in the section entitled "Forward-Looking Statements" in Part I, Item 1 of our 2018 Annual Report on Form 10-K as well as our other filings with the Securities and Exchange Commission, including our disclosures herein. We undertake no obligation to revise or update any forward-looking statements except as required under applicable law.

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to help the reader understand our results of operations and financial condition. This MD&A should be read in conjunction with our unaudited condensed consolidated financial statements and accompanying notes to the financial statements ("Notes") as of and for the six months ended June 30, 2019, included in Item 1 of this Quarterly Report on Form 10-Q, as well as with our audited consolidated financial statements and accompanying notes to the financial statements and MD&A contained in our 2018 Annual Report filed on Form 10-K with the Securities and Exchange Commission on March 8, 2019. All period references are to our fiscal periods unless otherwise indicated.

Overview

We operate 30 media companies in 14 states, providing each of our communities with high-quality news and advertising services in a wide array of digital and print formats. We are a publisher of brands such as the *Miami Herald*, *The Kansas City Star*, *The Sacramento Bee*, *The Charlotte Observer*, *The (Raleigh) News & Observer*, and the *Fort Worth Star-Telegram*. We are headquartered in Sacramento, California, and our Class A Common Stock is listed on the NYSE American under the symbol MNI.

The following table reflects our sources of revenues as a percentage of total revenues for the periods presented:

	Quarters Ended		Six Months Ended	
	June 30, 2019	July 1, 2018	June 30, 2019	July 1, 2018
Revenues:				
Advertising	47.8 %	52.3 %	47.5 %	51.3 %
Audience	45.0 %	41.5 %	45.5 %	42.4 %
Other	7.2 %	6.2 %	7.0 %	6.3 %
Total revenues	100.0 %	100.0 %	100.0 %	100.0 %

Our primary sources of revenues are digital and print for advertising and audience subscriptions. Advertising revenues include advertising delivered digital-only, advertising carried digitally and bundled as a part of newspapers (run of press ("ROP") advertising), and/or advertising inserts placed in newspapers ("preprint" advertising). Audience revenues include either digital-only subscriptions, or bundled subscriptions, which include digital and print. Our print newspapers are delivered by large distributors and independent contractors. Other revenues include commercial printing and distribution revenues.

See “Results of Operations” below for a discussion of our revenue and expense performance for the quarter and six months ended June 30, 2019, and July 1, 2018.

Recent Developments

Asset sales and leasebacks

In April 2019, we recognized a net gain of \$2.3 million related to the sale of a distribution center in Miami, Florida. We also have various sales agreements or letters of intent to sell other properties that may close in the fourth quarter of 2019 or early 2020.

In May 2019, we closed a sale and leaseback of real property in Kansas City, Missouri. The transaction resulted in net proceeds of \$29.7 million. We are leasing back the Kansas City property under a 15-year lease with initial annual payments totaling approximately \$2.8 million. The lease includes a repurchase clause allowing us to repurchase the property after the 15-year lease term. Accordingly, the lease is being treated as a financing obligation, and we continue to depreciate the carrying value of the property in our financial statements. No gain or loss will be recognized on the transfer of the property to the buyer until the transaction qualifies for sale accounting.

Debt Redemption and extinguishment of debt

In accordance with our 2026 Notes Indenture, we are required to redeem the 2026 Notes from the net cash proceeds of certain asset dispositions and from a portion of our excess cash flow (as defined in the 2026 Notes Indenture). As of December 30, 2018, we determined the mandatory redemption due to excess cash flows was \$4.6 million, and in April 2019, we redeemed \$4.6 million principal amount of the 2026 Notes at par.

In June 2019, in accordance with our 2026 Notes Indenture, we redeemed \$32.0 million aggregate principal amount of our 2026 Notes from the net proceeds of the Kansas City and Miami asset dispositions, as discussed above. As a result of the \$36.6 million principal amounts redeemed in these transactions, we recorded a loss on extinguishment of debt of \$2.0 million in the quarter and six months ended June 30, 2019.

Debt Issuance and Exchange

In March 2019, we converted approximately \$75.0 million aggregate principal amount of 2029 Debentures to additional 2031 Notes. The additional 2031 Notes have identical terms, other than with respect to the date of issuance, and will be treated as a single class for all purposes under the applicable indenture. See Note 6.

Early Retirement Incentive Program

In February 2019, we announced a one-time voluntary ERIP that was offered to approximately 450 employees. The ERIP allowed them to accept a special termination benefit based on years of continuous service and the option to take their vested benefits under our frozen Pension Plan in a lump sum payment. Nearly 50% of the employees opted into the program.

Lump sum pension and termination payments made under the ERIP totaled approximately \$35.1 million, decreasing both the benefit obligation and the fair value of plan assets. Due to the significance of this program, we remeasured the retirement plan assets and benefit obligations as of March 22, 2019, resulting in a net reduction to the pension liability of approximately \$13.1 million, the recognition of a one-time non-cash charge of \$6.8 million for the special termination benefits and it will increase our total 2019 benefit pension costs by approximately \$1.5 million. See Note 7 for additional information.

Results of Operations

The following table reflects our financial results on a consolidated basis for the quarters and six months ended June 30, 2019, and July 1, 2018.

(in thousands, except per share amounts)	Quarters Ended		Six Months Ended	
	June 30, 2019	July 1, 2018	June 30, 2019	July 1, 2018
Net loss	\$ (17,531)	\$ (20,365)	\$ (59,487)	\$ (59,306)
Net loss per diluted common share	\$ (2.21)	\$ (2.62)	\$ (7.54)	\$ (7.66)

The decrease in the net loss in the quarter ended June 30, 2019, compared to the same period in 2018, was due to greater operating income in 2019 compared to 2018 and the recognition of an income tax benefit in 2019 compared to an expense in 2018. These favorable changes were partially offset by increased net non-operating expenses in second quarter of 2019 as compared to the same period in 2018. The six months ended June 30, 2019, was relatively flat, as compared to the same period in 2018. The first six months of 2019 includes a non-cash charge of \$6.8 million related to the ERIP (see Note 7) and a non-cash deferred tax valuation allowance charge of \$9.2 million. These were partially offset by a reduction of the loss on extinguishment of debt of \$3.4 million as described in greater detail below. In addition, while advertising revenues were lower during the quarter and six months ended June 30, 2019, compared to the same periods in 2018, the lower revenues were largely offset by lower operating expenses.

Revenues

During the quarter and six months ended June 30, 2019, total revenues decreased 12.6% and 11.0%, respectively, compared to the same periods in 2018, primarily due to the continued decline in demand for advertising. The decline in print advertising was primarily a result of large retail advertisers continuing to reduce preprinted inserts and in-newspaper ROP advertising in favor of digital products. We expect this trend to continue for the foreseeable future. In addition, we experienced lower page views in the first six months of 2019 compared to the same period in 2018 resulting in a decline in digital advertising revenues, primarily impacting programmatic revenues in the national advertising category, as discussed below.

The following table summarizes our revenues by category:

(in thousands)	Quarters Ended				Six Months Ended			
	June 30, 2019	July 1, 2018	\$ Change	% Change	June 30, 2019	July 1, 2018	\$ Change	% Change
Advertising								
Digital-only	\$ 31,250	\$ 39,362	\$ (8,112)	(20.6)	\$ 65,683	\$ 75,667	\$ (9,984)	(13.2)
Digital bundled with print	6,506	7,054	(548)	(7.8)	12,620	13,775	(1,155)	(8.4)
Total digital	37,756	46,416	(8,660)	(18.7)	78,303	89,442	(11,139)	(12.5)
Print	32,459	39,930	(7,471)	(18.7)	63,652	78,555	(14,903)	(19.0)
Direct marketing and other	15,240	20,607	(5,367)	(26.0)	28,695	38,843	(10,148)	(26.1)
Total advertising	85,455	106,953	(21,498)	(20.1)	170,650	206,840	(36,190)	(17.5)
Total audience	80,292	84,825	(4,533)	(5.3)	163,404	171,103	(7,699)	(4.5)
Other revenues	12,915	12,570	345	2.7	24,932	25,263	(331)	(1.3)
Total revenues	\$ 178,662	\$ 204,348	\$ (25,686)	(12.6)	\$ 358,986	\$ 403,206	\$ (44,220)	(11.0)
Supplemental advertising detail:								
Retail	\$ 39,238	\$ 47,484	\$ (8,246)	(17.4)	\$ 79,493	\$ 91,814	\$ (12,321)	(13.4)
National	7,688	11,697	(4,009)	(34.3)	15,846	21,454	(5,608)	(26.1)
Classified	23,289	27,165	(3,876)	(14.3)	46,616	54,729	(8,113)	(14.8)
Direct marketing and other	15,240	20,607	(5,367)	(26.0)	28,695	38,843	(10,148)	(26.1)
Total advertising	\$ 85,455	\$ 106,953	\$ (21,498)	(20.1)	\$ 170,650	\$ 206,840	\$ (36,190)	(17.5)

Advertising Revenues

Total advertising revenues decreased 20.1% and 17.5% during the quarter and six months ended June 30, 2019, respectively, compared to the same periods in 2018. We experienced declines in all of our advertising revenue categories, as discussed below.

The following table reflects the category of advertising revenue as a percentage of total advertising revenue for the periods presented:

	Quarters Ended		Six Months Ended	
	June 30, 2019	July 1, 2018	June 30, 2019	July 1, 2018
Advertising:				
Total digital	44.2 %	43.4 %	45.9 %	43.2 %
Print	38.0 %	37.3 %	37.3 %	38.0 %
Direct marketing and other	17.8 %	19.3 %	16.8 %	18.8 %
Total advertising	100.0 %	100.0 %	100.0 %	100.0 %

Digital:

Total digital advertising revenues decreased 18.7% and 12.5% during the quarter and six months ended June 30, 2019, respectively, compared to the same periods in 2018. Digital advertising constituted 44.2% and 45.9% of total advertising revenues in the quarter and six months ended June 30, 2019, respectively, compared to 43.4% and 43.2% for the same periods in 2018. Total digital advertising includes digital-only advertising and digital advertising bundled with print.

Digital-only advertising is defined as digital advertising sold on a stand-alone basis or as the primary advertising buy. Digital-only advertising revenues decreased 20.6% and 13.2% in the second quarter and first six months of 2019, respectively, compared to the same periods in 2018, largely due to lower page views. As expected the decline in digital-only advertising continued due to lower audience traffic compared to the second quarter of 2018, largely the result of a strategic tightening of website paywalls that accelerated paid digital subscriptions and a change in algorithms by a large platform company in the last half of 2018 that impacted us and the rest of the industry. In addition, we restructured our advertising function during the second quarter of 2019, which temporarily impacted sales in the second quarter.

Digital advertising revenues bundled with print products declined 7.8% and 8.4% in the second quarter and first six months of 2019, respectively, compared to the same periods in 2018 as a result of fewer print advertising sales, and a decline in digital sales.

The newspaper industry continues to experience a secular shift in advertising demand from print to digital products as advertisers look for multiple advertising channels to reach their customers and are increasingly focused on online customers. While our product offerings and collaboration efforts in digital advertising have steadily grown, we expect to continue to face intense competition in the digital advertising space. We will continue to adjust our content, targeting and paywalls as we pursue the best experience for our digital customers, knowing that it may impact the mix of digital advertising and digital audience revenues.

Print:

Print advertising decreased 18.7% and 19.0% in the quarter and six months ended June 30, 2019, respectively, compared to the same periods in 2018.

In the second quarter of 2019, the decreases in print advertising revenues were primarily due to decreases of 15.9% in retail ROP advertising revenues, 18.9% in preprint advertising revenues, and 19.4% in classified advertising, compared to the same period in 2018. In the first six months of 2019, the decrease in print advertising revenues was primarily due to decreases of 16.9% in retail ROP advertising revenues, 20.7% in preprint advertising revenues, and 20.2% in classified advertising, compared to the same period in 2018.

Direct Marketing and Other:

Direct marketing and other advertising revenues decreased 26.0% and 26.1% during the quarter and six months ended June 30, 2019, respectively, compared to the same periods in 2018. The decrease was largely due to declines in insert advertising in our total market coverage (“TMC”) products by large retail customers and from eliminating certain niche and direct marketing products that were not profitable.

Audience Revenues

Total audience revenues decreased 5.3% and 4.5% during the quarter and six months ended June 30, 2019, respectively, compared to the same periods in 2018. Through the first six months of 2019, total audience revenues represented 45.5% of the total revenues compared to 42.4% in the first six months of 2018.

Overall, digital audience revenues increased 8.1% and 8.7% in the quarter and six months ended June 30, 2019, respectively, compared to the same periods in 2018. Digital-only audience revenues increased 57.6% and 54.0% in the quarter and six months ended June 30, 2019, respectively, compared to the same periods in 2018. The increase in digital-only audience revenues during 2019 was a result of a 51.6% increase in our digital-only subscribers to 185,500 as of the end of the second quarter of 2019 compared to 122,400 as of the end of the second quarter in 2018.

Print audience revenues decreased 10.9% and 10.0% in the quarter and six months ended June 30, 2019, respectively, compared to the same periods in 2018, primarily due to lower print circulation volumes that were partially offset by pricing adjustments. We have a dynamic pricing model for our traditional subscriptions for which pricing is constantly being adjusted. Print circulation volumes continue to decline as a result of fragmentation of audiences faced by our industry as available media outlets proliferate and readership trends change. To help reduce potential attrition due to the increased pricing, we also increased our subscription-related marketing and promotion efforts.

Operating Expenses

Total operating expenses decreased 14.6% and 10.8% in the quarter and six months ended June 30, 2019, respectively, compared to the same periods in 2018, primarily due to decreases in compensation and other operating expenses, as discussed below. Our total operating expenses reflect our continued effort to reduce costs through streamlining processes to gain efficiencies.

The following table summarizes operating expenses:

(in thousands)	Quarters Ended				Six Months Ended			
	June 30, 2019	July 1, 2018	\$ Change	% Change	June 30, 2019	July 1, 2018	\$ Change	% Change
Compensation expenses	\$ 61,456	\$ 77,937	\$ (16,481)	(21.1)	\$ 130,891	\$ 157,149	\$ (26,258)	(16.7)
Newsprint, supplements and printing expenses	11,229	13,761	(2,532)	(18.4)	22,925	27,420	(4,495)	(16.4)
Depreciation and amortization expenses	17,411	19,222	(1,811)	(9.4)	34,929	38,455	(3,526)	(9.2)
Other operating expenses	83,087	91,817	(8,730)	(9.5)	171,291	181,466	(10,175)	(5.6)
Other asset write-downs	—	—	—	nm	739	59	680	nm
	<u>\$ 173,183</u>	<u>\$ 202,737</u>	<u>\$ (29,554)</u>	(14.6)	<u>\$ 360,775</u>	<u>\$ 404,549</u>	<u>\$ (43,774)</u>	(10.8)

nm – not meaningful

Compensation expenses, which included both payroll and fringe benefit costs, decreased 21.1% and 16.7% in the quarter and six months ended June 30, 2019, respectively, compared to the same periods in 2018. Payroll expenses declined 21.9% and 17.1% during the quarter and six months ended June 30, 2019, respectively, compared to the same periods in 2018, primarily due to the reduction in headcount. Average full-time equivalent employees declined 22.3% and 20.6% in the quarter and six months ended June 30, 2019, respectively, compared to the same periods in 2018, partially reflecting the ERIP we discussed above in *Recent Developments*. Fringe benefit costs decreased 16.8% and 14.5% in the quarter and six

[Table of Contents](#)

months ended June 30, 2019, respectively, compared to the same periods in 2018, which is consistent with the decreases in payroll expenses.

Newsprint, supplements and printing expenses decreased 18.4% and 16.4% in the quarter and six months ended June 30, 2019, respectively, compared to the same periods in 2018. Newsprint expense declined 19.6% and 14.7% during the first six months of 2019, respectively, compared to the same periods in 2018. The newsprint expense decline reflects a decrease in newsprint tonnage used of 21.7% and 21.8%, in the second quarter and first six months of 2019, offset by an increase in newsprint prices of 2.7% and 9.0% during the quarter and first six months of 2019, respectively, compared to the same periods in 2018. During these same periods, printing expenses, which are primarily costs associated with outsourced printing to third-parties, decreased 14.5% and 16.1%, respectively.

Depreciation and amortization expenses decreased 9.4% and 9.2% in the quarter and six months ended June 30, 2019, respectively, compared to the same periods in 2018. Depreciation expense decreased \$1.7 million and \$3.2 million in the second quarter and first six months of 2019, respectively, compared to the same periods in 2018, as a result of assets becoming fully depreciated in previous periods. Amortization expense decreased 1.1% and 1.5% in the second quarter and first six months of 2019, respectively, compared to the same periods in 2018. A majority of the intangible assets subject to amortization became fully amortized in the second quarter of 2019 and therefore amortization expense during the remainder of 2019 and in future years will be significantly lower. See Note 5.

Other operating expenses decreased 9.5% and 5.6% in the quarter and six months ended June 30, 2019, respectively, compared to the same periods in 2018. The decrease was primarily a result of cost savings initiatives and other efforts to reduce operational costs, as well as the timing of gains on the sale of property and equipment. During the second quarter of 2019 compared to the same period in 2018, we had decreases in various categories, such as postage, travel, circulation delivery costs and other miscellaneous expenses. We also recognized a \$2.3 million gain on the sale of a distribution center in Miami, Florida, as discussed above in *Recent Developments*, during the second quarter of 2019. These decreases in expense and gain on sale of assets were partially offset by an increase in property taxes and other professional services. During the first six months of 2019, compared to the same period in 2018, we had decreases in various categories, such as bad debt, postage, travel, circulation delivery costs and other miscellaneous expenses. These decreases were partially offset by an increase in third-party related fees and the change in gain on sale of property and equipment. The first quarter of 2018 included a \$3.1 million gain on the disposal of property and equipment, which reduced operating expenses in 2018, with a similar transaction for \$2.3 million in the second quarter of 2019.

Other asset write-downs include charges of \$0.7 million and \$0.1 million in the first six months of 2019 and 2018, respectively. These write-downs are related to classifying certain land and buildings as assets held for sale during the applicable periods.

Non-Operating Expenses

Interest Expense:

Total interest expense increased 11.0% and 8.5% in the quarter and six months ended June 30, 2019, respectively, compared to the same periods in 2018. In the second quarter and first six months of 2019, interest expense related to debt balances increased by \$2.1 million and \$3.8 million compared to the same periods in 2018, primarily related to higher overall debt balances resulting from the debt refinancing that occurred in the second quarter of 2018. See Note 6 for additional information.

Extinguishment of Debt:

In the quarter and six months ended June 30, 2019, we redeemed \$36.6 million of our 2026 Notes and recorded a loss on extinguishment of debt of \$2.0 million. During the first quarter of 2019, our exchange of \$75.0 million of the 2029 Debentures to additional 2031 Notes did not result in a gain or loss on extinguishment of debt. See Note 6 for further discussion.

[Table of Contents](#)

During the quarter and six months ended July 1, 2018, we redeemed or repurchased \$0.5 million and \$95.5 million, respectively, aggregate principal amount of our 2022 Notes. We repurchased these notes at prices higher than par value and we wrote off historical debt issuance costs. As a result, we recorded losses on the extinguishment of debt totaling \$19.0 thousand and \$5.4 million during the quarter and first six months of 2018, respectively.

Income Taxes:

In the quarter and six months ended June 30, 2019, we recorded an income tax benefit of \$3.9 million and \$0.5 million, respectively. As discussed more fully in Note 2 under *Income Taxes*, during the first six months of 2019, we recorded a charge of \$9.2 million related to the current period impact of the valuation allowance on deferred tax assets. The remaining income tax benefit differed from the expected federal tax amounts primarily due to the inclusion of state income taxes and certain permanently non-deductible expenses.

Liquidity and Capital Resources

Sources and Uses of Liquidity and Capital Resources:

Our cash and cash equivalents were \$19.6 million as of June 30, 2019, compared to \$20.1 million and \$21.9 million as of July 1, 2018, and December 30, 2018, respectively.

For the foreseeable future, we expect that most of our cash and cash equivalents, and our cash generated from operations will be used to (i) repay debt, (ii) pay income taxes, (iii) fund our capital expenditures, (iv) invest in new revenue initiatives, digital investments and enterprise-wide operating systems, (v) make required contributions to the Pension Plan, and (vi) for other corporate uses as determined by management and our Board of Directors. As of June 30, 2019, we had approximately \$708.5 million in total aggregate principal amount of debt outstanding, consisting of \$268.1 million of our 2026 Notes, \$14.9 million of our Debentures, \$157.1 million of our Junior Term Loan and \$268.4 million of our 2031 Notes. As of June 30, 2019, we were not permitted to incur additional pari passu obligations under the limitation on indebtedness incurrence test as defined in the 2026 Notes Indenture.

We expect to continue to opportunistically repurchase or restructure our debt from time to time if market conditions are favorable, whether through privately negotiated repurchases of debt using cash from operations, or other types of tender offers or exchange offers or other means. We may refinance or restructure a significant portion of this debt prior to the scheduled maturity of such debt. However, we may not be able to do so on terms favorable to us or at all. We are required to redeem the 2026 Notes from the net cash proceeds of certain asset dispositions and from a portion of our excess cash flow (as defined in the 2026 Notes Indenture).

Pension Plan Matters

We made no cash contributions to the Pension Plan during the first six months of 2019 or all of 2018. During the fourth quarter of 2019, we expect to make a required pension contribution under the Employee Retirement Income Security Act of approximately \$3.1 million and we expect to have material contributions in the future. In June 2019, we filed an application for a waiver of the minimum required contributions under the pension plan in accordance with section 412 of the Internal Revenue Code for the 2019, 2020 and 2021 plan years with the Internal Revenue Service ("IRS").

We are requesting the waiver of the minimum required contribution under the Pension Plan because contributions are expected to exceed our ability to pay them in the next 14 months. Minimum required contributions for fiscal year 2020 are estimated to be approximately \$120.0 million, which would be paid in quarterly installments beginning in April 2020 with the bulk of those payments due in September 2020 or afterwards.

There can be no assurance that the IRS will grant the waivers. Even if one or more the waivers are granted by the IRS, we expect to have material contributions to the Pension Plan in the future. If the waivers are not granted, it would likely have a material adverse effect on our liquidity.

[Table of Contents](#)

We believe that our cash from operations is sufficient to satisfy our liquidity needs over the next 12 months, while maintaining adequate cash and cash equivalents to fund our operations.

The following table summarizes our cash flows:

(in thousands)	Six Months Ended	
	June 30, 2019	July 1, 2018
Cash flows provided by (used in)		
Operating activities	\$ 1,971	\$ 9,292
Investing activities	1,668	(3,772)
Financing activities	(7,945)	(84,779)
Decrease in cash, cash equivalents and restricted cash	<u>\$ (4,306)</u>	<u>\$ (79,259)</u>

Operating Activities:

We generated \$2.0 million of cash from operating activities in the six months ended June 30, 2019, compared to generating \$9.3 million in the six months ended July 1, 2018. The decrease in operating cash flows primarily reflects a \$14.1 million change in our accounts payable balances in the first six months of 2019 compared to the same period in 2018. This was partially offset by the timing of income tax payments in 2019 compared to 2018. In the first six months of 2019, we had net income tax payments of \$7.1 million compared to net income tax payments of \$12.0 million during the same period in 2018. The remaining changes in operating activities relate to miscellaneous timing differences in various payments and receipts.

Investing Activities:

We generated \$1.7 million of cash from investing activities in the six months ended June 30, 2019. We received proceeds from the sale of property, plant and equipment ("PP&E") of \$3.3 million. These amounts were offset by the purchase of PP&E for \$1.2 million and contributions to equity investments of \$0.4 million. We expect total capital expenditures for the full year of 2019 to range from approximately \$6.0 million to \$8.0 million.

We used \$3.8 million of cash from investing activities in the six months ended July 1, 2018. We received proceeds from the sale of PP&E of \$4.0 million. These amounts were offset by the purchase of PP&E for \$5.9 million and contributions to equity investments of \$1.9 million.

Financing Activities:

We used \$7.9 million of cash for financing activities in the six months ended June 30, 2019, compared to using \$84.8 million in the six months ended July 1, 2018. During the six months ended June 30, 2019, we redeemed \$36.6 million principal amount of our 2026 Notes at par. See Note 6 for further discussion. These redemptions were partially offset by the \$29.7 million increase in our financial obligations as a result of the sale and leaseback of one of our real properties, as described in *Recent Developments* previously. During the six months ended July 1, 2018, we repurchased or redeemed \$95.5 million principal amount of our 2022 Notes, for \$99.8 million in cash. These repurchases and redemptions in the first six months of 2018 were partially offset by the \$15.7 million increase in our financial obligations as a result of the sale and leaseback of one of our real properties.

Off-Balance-Sheet Arrangements

As of June 30, 2019, we did not have any off-balance-sheet arrangements as defined in Item 303(a)(4)(ii) of Regulation S-K.

Critical Accounting Policies

Critical accounting policies are those accounting policies that we believe are important to the portrayal of our financial condition and results and require our most difficult, subjective or complex judgments, often as a result of the need to make

[Table of Contents](#)

estimates about the effect of matters that are inherently uncertain. Our 2018 Annual Report on Form 10-K includes a description of certain critical accounting policies, including those with respect to goodwill and intangible impairment, pension and post-retirement benefits and income taxes. There have been no material changes to our critical accounting policies described in our 2018 Annual Report on Form 10-K, other than the adoption of Topic 842 (see Note 1 under the “*Recently Adopted Accounting Pronouncements*” subheader).

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

We are a smaller reporting company as defined by Rule 12b-2 of the Exchange Act and are not required to provide the information under this Item.

ITEM 4. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

Our management evaluated, with the participation of our Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”), the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a - 15(e) or 15d - 15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on this evaluation, our management, including the CEO and CFO, concluded that our disclosure controls and procedures were effective at that time to ensure that information we are required to disclose in reports that we file or submit under the Securities Exchange Act of 1934 is accumulated and communicated to our management, including our principal executive and principal financial officers, as appropriate, to allow timely decisions regarding required disclosure and that such information is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting that occurred during the quarter ended June 30, 2019, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

See Note 9 included as part of this Quarterly Report on Form 10-Q for a discussion of our legal proceedings.

ITEM 1A. RISK FACTORS.

We are a smaller reporting company as defined by Rule 12b-2 of the Exchange Act and are not required to provide the information under this Item.

ITEM 5. OTHER INFORMATION.

Adoption of The McClatchy Company Executive Severance Benefit Plan

On August 7, 2019, and effective as of the same date, the Compensation Committee of the Board of Directors of the Company adopted The McClatchy Company Executive Severance Benefit Plan (the “Plan”). Certain of the Company’s named executive officers (including Mark Ziemann and Elaine Lintecum, but excluding Craig Forman) and certain other key employees designated by the Compensation Committee are eligible to participate in the Plan.

The Plan provides that if a participant experiences an “involuntary termination” (as defined in the Plan and summarized below), in addition to his or her “accrued compensation” (as defined in the Plan), the participant will be entitled to receive severance benefits in the form of a lump sum cash payment by the Company equal to two times the sum of (i) the participant’s “annual base salary” (as defined in the Plan), plus (ii) the participant’s “annual target cash incentive” (as defined in the Plan).

For purposes of the Plan, an “involuntary termination” means the occurrence of either of the following during the period beginning 90 days prior to a “change in control” (as defined in the Plan) and ending on the date that is the second anniversary of such change in control:

- Termination of the participant’s employment by the Company without “cause” (as defined in the Plan), other than by reason of the participant’s death or “disability” (as defined in the Plan), or
- The participant’s resignation after the occurrence of any of the following events undertaken without the participant’s express consent: (i) a material diminution in the participant’s base compensation; (ii) a material diminution in the participant’s authority, duties, or responsibilities; or (iii) a material change in the geographic location at which the participant must perform his or her duties, measured by distance; provided, that the participant must provide notice of the occurrence of such a termination event within 90 days after its initial occurrence, the Company must fail to cure the circumstances giving rise to such termination event within 30 days after receiving such notice, and the participant must terminate employment within 180 days after the initial occurrence of such termination event.

Payment of the severance benefits is conditioned upon the participant’s execution of a release of claims, as well as the participant’s agreement to honor the Plan’s protective covenants, including non-solicitation, confidentiality, non-disparagement, and cooperation covenants. If the participant violates a protective covenant, he or she will be required repay the full amount of any severance benefits received and will forfeit any severance benefits that have not yet been paid. Severance benefits paid under the Plan will also be subject to any “clawback” or recoupment policy of the Company in effect as of the participant’s termination date and generally applicable to executives.

The Plan provides that if a participant may receive any amount, whether under the Plan or otherwise, that is a “parachute payment” within the meaning of Section 280G(b)(2) of the Internal Revenue Code of 1986, as amended, the amount to be paid to the participant will be reduced to the extent such reduction would result in greater after-tax payments to the participant.

[Table of Contents](#)

The foregoing description is qualified in its entirety by reference to the text of the Plan, which is attached hereto as Exhibit 10.2 and incorporated by reference herein.

ITEM 6. EXHIBITS

Exhibit Number		Description
10.1	*	The McClatchy Company 2012 Omnibus Incentive Plan (as amended and restated March 23, 2017 and further amended May 16, 2019)
10.2	*	The McClatchy Company Executive Severance Benefit Plan
31.1		Certification of the Chief Executive Officer of The McClatchy Company pursuant to Rule 13a-14(a) under the Exchange Act
31.2		Certification of the Chief Financial Officer of The McClatchy Company pursuant to Rule 13a-14(a) under the Exchange Act
32	**	Certification of the Chief Executive Officer and the Chief Financial Officer of The McClatchy Company pursuant to 18 U.S.C. Section 1350
101.INS		XBRL Instance Document
101.SCH		XBRL Taxonomy Extension Schema
101.CAL		XBRL Taxonomy Extension Calculation Linkbase
101.DEF		XBRL Extension Definition Linkbase
101.LAB		XBRL Taxonomy Extension Label Linkbase
101.PRE		XBRL Taxonomy Extension Presentation Linkbase

* Compensation plans or arrangements for the Company's executive officers and directors

** Furnished, not filed

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

The McClatchy Company
(Registrant)

August 8, 2019
Date

/s/Craig I. Forman
Craig I. Forman
Chief Executive Officer

August 8, 2019
Date

/s/R. Elaine Lintecum
R. Elaine Lintecum
Chief Financial Officer

**THE MCCLATCHY COMPANY
EXECUTIVE SEVERANCE BENEFIT PLAN
(EFFECTIVE AS OF AUGUST 7, 2019)**

1. PURPOSE.

The Compensation Committee (the “*Compensation Committee*”) of the Board of Directors of The McClatchy Company has adopted this The McClatchy Company Executive Severance Benefit Plan (the “*Plan*”), effective as of August 7, 2019 (the “*Effective Date*”). The purpose of the Plan is to retain senior executives and encourage dedication to their duties by ensuring the equitable treatment of those who may experience an Involuntary Termination in connection with a Change in Control. The Plan thus provides each Participant with severance benefits following the Participant’s Involuntary Termination in exchange for the release described in the Plan and adherence to certain covenants protective of the Company and its Affiliates.

2. DEFINITIONS.

Whenever used in the Plan, the following capitalized words and phrases will have the meanings set forth below.

(a) “*Accrued Compensation*” means, with respect to a Participant: (i) any unpaid base salary owed to such Participant for services rendered to the Date of Termination; (ii) all vested benefits owed to such Participant under applicable written plans and programs maintained by the Company, including, without limitation, the Company’s 2012 Omnibus Incentive Plan and the Company’s 2018 Executive Retention Benefit Plan or any successor to either such plan, subject to the terms and conditions of such plans or programs; (iii) reasonable business expenses and disbursements incurred prior to the Date of Termination by such Participant in accordance with the Company’s applicable written business expense reimbursement policy; and (iv) any accrued but unpaid vacation payable in connection with a termination of employment of such Participant under the Company’s applicable vacation policy.

(b) “*Administrator*” means, prior to the consummation of a Change in Control, the Compensation Committee. From and after the consummation of a Change in Control, the Administrator will be a person or group of persons designated by the Compensation Committee prior to or in connection with such Change in Control, provided that any such person acting as Administrator is not an Eligible Executive or a Participant under the Plan.

(c) “*Affiliate*” means any corporation or non-corporate entity that controls, is controlled by or is under common control with the Company within the meaning of Rule 405 under the Securities Act of 1933, as amended.

(d) “*Annual Base Salary*” means, with respect to a Participant, the greater of (i)(A) if such Participant’s Involuntary Termination is on account of an event described in Section (i), the Participant’s annual base rate of salary in effect immediately prior to the date the Participant is given Notice of Termination and (B) if such Participant’s Involuntary Termination is on account of an event described in Section (ii), the Participant’s annual base rate of salary in effect immediately prior to the date of the event giving rise to such Involuntary Termination or (ii) the Participant’s annual base rate of salary in effect immediately prior to the date of consummation of the Change in Control giving rise to the CiC Period.

(e) “**Annual Target Cash Incentive**” means, with respect to a Participant, the greater of (i)(A) if such Participant’s Involuntary Termination is on account of an event described in Section (i), the Participant’s annual bonus incentive opportunity in effect immediately prior to the date the Participant is given Notice of Termination and (B) if such Participant’s Involuntary Termination is on account of an event described in Section (ii), the Participant’s annual bonus incentive opportunity in effect immediately prior to the date of the event giving rise to such Involuntary Termination or (ii) the Participant’s annual bonus incentive opportunity in effect immediately prior to the date of consummation of the Change in Control giving rise to the CiC Period. Notwithstanding the foregoing, if a Participant’s bonus opportunity is determined based on a period less than twelve (12) months, the percentage bonus opportunity for such shorter period that includes the date the Annual Target Cash Incentive is to be determined under this Section (e) shall be applied to the Participant’s Annual Base Salary and this dollar amount shall be the Participant’s Annual Target Cash Incentive.

(f) “**Board**” means the Company’s Board of Directors.

(g) “**Cause**” means, with respect to an Eligible Executive, as determined by the Administrator: (i) a willful failure by such Eligible Executive to substantially perform the duties of his or her position with the Company and its Affiliates, other than a failure resulting from such Eligible Executive’s complete or partial incapacity due to physical or mental illness or impairment, or (ii) a willful act by such Eligible Executive which constitutes gross misconduct and which is materially injurious to the Company or an Affiliate. No act, or failure to act, by the Eligible Executive shall be considered “willful” unless committed without a reasonable belief that the act or omission was in the Company’s best interest.

(h) “**Change in Control**” means the occurrence of any of the following: (i) the sale, lease, conveyance, or other disposition of all or substantially all of the Company’s assets to any “person” (as such term is used in Section 13(d) of the Securities Exchange Act of 1934, as amended, as now in effect or as hereafter amended, and any successor thereto (the “**Exchange Act**”)), entity, or group of persons acting in concert; (ii) any “person” or group of persons (other than any member of the McClatchy family or any entity or group controlled by one or more members of the McClatchy family) becoming the “beneficial owner” (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing 50% or more of the total voting power represented by the Company’s then outstanding voting securities; (iii) a merger or consolidation of the Company with any other corporation, other than a merger or consolidation that would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or its controlling entity) at least 50% of the total voting power represented by the voting securities of the Company or such surviving entity (or its controlling entity) outstanding immediately after such merger or consolidation; (iv) a contest for the election or removal of members of the Board that results in the removal from the Board of at least 50% of the incumbent members of the Board; or (v) the occurrence of a “Rule 13e-3 transaction” as such term is defined in Rule 13e-3 promulgated under the Exchange Act.

(i) “**CiC Period**” means the period beginning 90 days prior to a Change in Control and ending on the date that is the second (2nd) anniversary of such Change in Control.

(j) “**Code**” means the Internal Revenue Code of 1986, as amended. References to a Code section will be deemed to be to that section as it now exists and to any successor provision.

(k) “**Company**” means The McClatchy Company, a Delaware corporation.

(l) “**Confidential Information**” means sensitive, proprietary or other confidential information relating to the Company and its Affiliates, including without limitation, trade secrets,

processes, practices, pricing information, billing histories, customer requirements, customer lists, customer contacts, employee lists, salary information, personnel matters, financial data, operating results, plans, contractual relationships, projections for new business opportunities, new or developing business for the Company, technological innovations in any stage of development, the Company's and its Affiliate's financial data, long range or short range plans, any confidential or proprietary information of others licensed to the Company or its Affiliates, and all other data and information of a competition-sensitive nature.

(m) **"Date of Termination"** means, with respect to a Participant, the date of termination of the Participant's employment with the Company and all Affiliates, which will be specified in the applicable Notice of Termination and which, in the case of an Involuntary Termination under Section (ii), will be not less than 60 days following the Company's receipt of such Notice of Termination.

(n) **"Disability"** means, with respect to an Eligible Executive, that the Eligible Executive is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which has lasted, or can be expected to last, for a continuous period of not less than six months or which can be expected to result in death.

(o) **"Eligible Executive"** means any key employee of the Company or an Affiliate that the Administrator designates in writing as an Eligible Executive under the Plan.

(p) **"ERISA"** means the Employee Retirement Income Security Act of 1974, as amended.

(q) **"Involuntary Termination"** means, with respect to a Participant, the occurrence of either of the following during a CiC Period:

(i) the termination of the Participant's employment with the Company and all Affiliates by the Company or such Participant's employing Affiliate without Cause and other than by reason of the Participant's death or Disability, provided that the Company or the Affiliate, as applicable, may not terminate a Participant's employment hereunder unless and until the Company or the Affiliate has delivered a Notice of Termination to the Participant; or

(ii) the termination of the Participant's employment with the Company and all Affiliates by the Participant's resignation from all positions the Participant holds with the Company and its Affiliates after the occurrence of any one of the following events undertaken or resulting without the Participant's express consent, unless, if correctable, such circumstances are fully corrected within 30 days of the Notice of Termination given in respect thereof:

(A) a material diminution in the Participant's base compensation;

(B) a material diminution in the Participant's authority, duties, or responsibilities;

(C) a material change in the geographic location at which the Participant must perform his or her duties, measured by distance.

An Eligible Executive's resignation on account of a termination event described in this Section 2(p)(ii) shall not be considered an Involuntary Termination unless the Eligible Executive delivers a Notice of Termination to the Company within 90 days after the initial occurrence of such termination event and the Company or the Affiliate employing the Eligible Executive fails to cure the event or

circumstance claimed to constitute the termination event within 30 days after the Company's receipt of such Notice of Termination. If an Eligible Executive does not terminate employment under this Section 2(p)(ii) within 180 days after the initial occurrence of a termination event, the Eligible Executive will be deemed to have waived his or her right to terminate employment under this Section 2(p)(ii) on the basis of such termination event.

(r) "**Notice of Termination**" means, as the case may be, (i) a written notice of Involuntary Termination under Section (i) required to be delivered to a Participant by the Company or an Affiliate employing the Participant, which must set forth (A) the Date of Termination and (B) that the Involuntary Termination is not on account of Cause or Disability (or must omit any reference to the Involuntary Termination being on account of Cause or Disability), or (ii) a written notice of Involuntary Termination under Section (ii) required to be delivered by a Participant to the Company, which must set forth (A) the Date of Termination and (B) with reasonable specificity, the event or circumstance claimed to constitute the termination event.

(s) "**Participant**" means an Eligible Executive who becomes a participant in the Plan pursuant to Section 3.

(t) "**Protective Covenants**" means, with respect to a Participant, the restrictions and limitations described in Section 5.

(u) "**Section 409A**" means Section 409A of the Code and applicable Internal Revenue Service guidance and Treasury Regulations issued under such section.

(v) "**Vendor**" means any of the Company's or its Affiliates' material suppliers, vendors, contractors, consultants, advisors, representatives or agents that have been involved in any project in which the Company or its Affiliates has at any time within the preceding five years performed any significant development efforts of which the Participant has significant knowledge.

3. PARTICIPATION.

An Eligible Executive will become a Participant in the Plan if the Eligible Executive (a) receives from the Company or delivers to the Company, as the case may be, a valid Notice of Termination and (b) actually experiences an Involuntary Termination. A Participant's participation in the Plan is subject to all of the terms and conditions of the Plan. To participate in and receive benefits under the Plan, each Participant agrees to observe all of the provisions of the Plan and to comply with all decisions taken by the Company and the Administrator in construing and administering the Plan.

4. OBLIGATIONS OF THE COMPANY UPON INVOLUNTARY TERMINATION.

Subject to the requirements and conditions of this Section 4, if a Participant experiences an Involuntary Termination, the Company will pay the Participant the Accrued Compensation described in Section (a) and, subject to satisfaction of the release, Protective Covenant affirmation and other conditions of Section (c), provide the Participant with the severance benefits described in Section (b), in each case as follows:

(a) Accrued Compensation. The Participant will be entitled to receive payment of all Accrued Compensation. The Accrued Compensation described in Section 2(a)(i) will be paid in accordance with the regular payroll otherwise applicable to the Participant. The Accrued Compensation described in Section (a)(iii) will be paid within 45 days after the submission of requests for reimbursement in accordance with the applicable policies and procedures of the Company and in any

event no later than the end of the calendar year following the calendar year in which the Date of Termination occurs. The Accrued Compensation described in described in Sections (a)(ii) and (a)(iv) will be paid within the periods for payment specified in the applicable benefit plans or employee programs (and any award agreements thereunder).

(b) Severance Benefits. The Participant will be entitled to receive a severance benefit equal to the product of (i) the sum of (A) the Participant's Annual Base Salary, plus (B) the Participant's Annual Target Cash Incentive, multiplied by (ii) two. Except to the extent required by Section (iii), payment of such amount will be made in cash in a lump sum as soon as reasonably practicable and in no event more than 60 days following the Participant's Date of Termination.

(c) Entitlement to Benefits; Release of Claims; Agreement to Protective Covenants. As a condition to the Participant's receipt of the severance benefits described in Section (b), the Participant must execute and deliver to the Company a release of claims against the Company, its Affiliates and agents, such release to be in a form and at the time determined by the Company, in its reasonable discretion, but no earlier than the Date of Termination and allow such release to become effective in accordance with its terms, but in any event no later than 60 days following the Participant's Date of Termination; and (A) execute and deliver to the Company resignations of all officer and director positions the Participant holds with the Company and its Affiliates; and (B) execute and deliver to the Company an agreement affirming the Participant's acknowledgement of, and agreement to, the Protective Covenants, in each case no later than 45 days after the Date of Termination or, if earlier, the date the Company sets for delivery of the release of claims. No severance benefits will be payable under the Plan for the Participant's Involuntary Termination if the Participant does not execute such release in favor of the Company, or if the Participant purports to rescind the release in whole or in part, or if the Participant does not execute and deliver the agreements, instruments and other documents described in Section 1(a)(ii), all within the time frames described herein.

(d) Mitigation. Participants will not be obligated to seek other employment in mitigation of the amounts payable under the Plan, and obtaining other employment will in no event effect any reduction of the Company's obligations to make the payments and provide the benefits required under the Plan.

5. PROTECTIVE COVENANTS.

As a condition to any Participant's right to receive the severance benefits provided in Section (b), such Participant agrees to and covenants as follows:

(a) Non-Solicitation. During the Participant's employment with the Company and/or its Affiliates and for a twelve (12)-month period following the Participant's Date of Termination, the Participant agrees that the Participant will not, except with the prior express written consent of the Board's Chairman, either directly or indirectly:

(i) Entice, induce or solicit, or attempt to entice, induce, or solicit, any employee, independent contractor, or other personnel of the Company or an Affiliate to leave employment or other service of the Company or an Affiliate;

(ii) Hire, on his or her own behalf or on behalf of another entity or person, any employee, independent contractor, or other personnel who left employment or other service of the Company or an Affiliate within one-year prior to the Participant's Date of Termination;

(iii) Advise, consult for, represent, or lobby on behalf of any business, organization, person, third party, or other entity on matters adverse to the Company; or

(iv) Entice, induce, or solicit, or attempt to entice, induce, or solicit, any Vendor or customer to withdraw, curtail, cancel, or otherwise alter in an adverse manner its business or relationship with the Company or an Affiliate.

(b) Confidential Information. The Participant acknowledges that during such Participant's employment with the Company or the employing Affiliate, the Participant has been given access to and has become acquainted with Confidential Information.

(i) The Participant agrees that during such Participant's employment and at all times thereafter, the Participant shall not, directly or indirectly, communicate, disclose, or divulge to any person, or use for his or her own benefit or the benefit of any person, in any manner, any Confidential Information, except as required in the course of the Participant's employment with the Company or an Affiliate or as otherwise may be required by applicable law. Notwithstanding the foregoing, with respect to Confidential Information that constitutes a trade secret, pursuant to 18 U.S.C. § 1833(b), an individual may not be held liable under any criminal or civil federal or state trade secret law for disclosure of a trade secret: (A) made in confidence to a government official, either directly or indirectly, or to an attorney, solely for the purpose of reporting or investigating a suspected violation of law or (B) in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal. Additionally, an individual suing an employer for retaliation based on the reporting of a suspected violation of law may disclose a trade secret to his attorney and use the trade secret information in the court proceeding, so long as any document containing the trade secret is filed under seal and the individual does not disclose the trade secret except pursuant to court order.

(ii) The Participant acknowledges that the Company's Confidential Information is a valuable, confidential, special, and unique asset of the Company and its Affiliates, expensive to produce and maintain, and essential for the profitable operation of their respective businesses.

(iii) All documents relating to the businesses of the Company and its Affiliates including, without limitation, documents, including electronic records, whether prepared by the Participant or otherwise coming into the Participant's possession, are the exclusive property of the Company and its applicable Affiliates and must not be removed from the premises of the Company or its Affiliates, except as required in the course of the Participant's employment with the Company or its Affiliates. The Participant shall return all such documents and electronic records (including any copies thereof) to the Company upon the Date of Termination or upon the earlier request of the Company or the Board.

(c) Non-Disparagement. The Participant shall not publicly disparage the Company, its Affiliates, or their respective officers or directors, and the Company, its Affiliates, or their respective officers or directors shall not publicly disparage the Participant. Notwithstanding the foregoing, no provision of the Plan shall preclude a Participant or a Participant's successors or members of the Board or of management of the Company or its Affiliates from making truthful statements that are required by applicable law, regulation, or legal process.

(d) Cooperation with Regard to Litigation. The Participant agrees to cooperate with the Company, during the Participant's employment and after the Date of Termination, by making himself or herself available to testify on behalf of the Company or any Affiliate, in any action, suit, or proceeding, whether civil, criminal, administrative, or investigative, and to assist the Company and/or any Affiliate in

any such action, suit, or proceeding, by providing information and meeting and consulting with the Board or its representatives or counsel, or representatives or counsel to the Company or an Affiliate as may be reasonably requested and after taking into account the Participant's post-termination responsibilities and obligations. The Company agrees to reimburse the Participant, on an after-tax basis, for all reasonable expenses, including legal fees, actually incurred in connection with the Participant's provision of testimony or assistance.

(e) Repayment; Forfeiture; Clawback. Notwithstanding anything to the contrary in the Plan, if the Participant fails to comply with the conditions of this Section 5 on one or more occasions, the Participant will be required to repay the full amount of the severance benefits provided in Section (b) that have previously been paid and will immediately forfeit all rights to the severance benefits provided in Section (b) that have not yet been paid. The repayment and forfeiture provisions of this Section (e) will be in addition to, and not in limitation of, any other remedies available to the Company or its Affiliates at law or in equity. In addition, any portion, up to and including the full amount, of the severance benefits paid to a Participant pursuant to Section (b) will be repaid by the Participant to the Company or its Affiliates if and to the extent that such severance benefits paid to such Participant are required to be repaid pursuant to (i) any Company "clawback" or recoupment policy that is adopted to comply with the requirements of any applicable law, rule, or regulation, or otherwise, provided such policy is generally applicable to Company executives and in effect as of the date of the Participant's Date of Termination; or (ii) any law, rule, or regulation.

(f) Additional Remedies. The Participant acknowledges that the Company and its Affiliates would not have an adequate remedy at law for monetary damages if the Participant breaches the Protective Covenants in this Section 5. Therefore, in addition to other remedies, the Company and its Affiliates will be entitled to seek specific enforcement and to seek injunctive and other equitable relief for beach or threatened breach.

(g) Reformation of Protective Covenants. If any Protective Covenant under Section 5 is held by a court of competent jurisdiction to be enforceable only if modified, the court is expressly authorized to modify, and the parties wish that the court would so modify, the Protective Covenants (instead of severing such otherwise unenforceable provision from the Plan in its entirety) to such extent and in such manner as it deems warranted to carry out the intent of the Protective Covenants to the maximum extent permitted by law. If any Protective Covenant is ultimately held to be unenforceable and thus stricken in its entirety notwithstanding the desire of the parties as set forth above, any such event shall not affect the validity of the remainder of the Protective Covenants, the balance of which shall continue to be binding upon the Company and its Affiliates and the Participants.

6. PARACHUTE LIMITATIONS.

If any Participant is a "disqualified individual," as defined in Section 280G(c) of the Code, then, notwithstanding any other provision of the Plan or of any other agreement, contract, or understanding entered into between the Participant and the Company or an Affiliate, except an agreement, contract, or understanding that expressly addresses Section 280G or Section 4999 of the Code (an "**Other Agreement**"), and notwithstanding any formal or informal plan or other arrangement for the direct or indirect provision of compensation to the Participant (including groups or classes of Participants or beneficiaries of which the Participant is a member), whether or not such compensation is deferred, is in cash, or is in the form of a benefit to or for the Participant (a "**Benefit Arrangement**"), any right of the Participant to any vesting, payment or benefit under the Plan will be reduced or eliminated: (a) to the extent that such right to exercise, vesting, payment, or benefit, taking into account all other rights, payments, or benefits to or for the Participant under the Plan, all Other Agreements, and all Benefit Arrangements, would cause any exercise, vesting, payment, or benefit to the Participant under the Plan to

be considered a “parachute payment” within the meaning of Section 280G(b)(2) of the Code as then in effect (a “**Parachute Payment**”); and (b) if, as a result of receiving such Parachute Payment, the aggregate after-tax amounts received by the Participant from the Company under the Plan, all Other Agreements, and all Benefit Arrangements would be less than the maximum after-tax amount that could be received by the Participant without causing any such payment or benefit to be considered a Parachute Payment. The Company will accomplish any reduction by first reducing or eliminating any cash payments (with the payments to be made at the latest date in the future being reduced first), then by reducing or eliminating any accelerated vesting of performance-based equity awards, then by reducing or eliminating any accelerated vesting of stock options or stock appreciation rights, then by reducing or eliminating any accelerated vesting of restricted stock, restricted stock units, or deferred stock units, then by reducing or eliminating any other remaining Parachute Payments.

7. EMPLOYMENT STATUS.

(a) Right to Terminate Employment. The Plan will not be deemed to be an employment contract between the Company or any Affiliate and any Participant. Nothing contained in the Plan including, without limitation, using the term “Cause” to determine benefits under the Plan, will give any Participant the right to be retained in the employ of the Company or any Affiliate or to interfere with the right of the Company to discharge any Participant at any time, nor will it give the Company or any Affiliate the right to require any Participant to remain in its employ or to interfere with the Participant’s right to terminate service at any time.

(b) Status Upon Date of Termination. Beginning upon the Participant’s Date of Termination, the Participant will cease to be an employee of the Company or any Affiliate for any purpose. The payment of severance benefits under the Plan will be payments to a former employee.

8. CLAIMS AND REVIEW PROCEDURES.

(a) Claims Procedure. Any Eligible Executive (“claimant”) who has not received benefits under the Plan that he or she believes should be paid may make a claim for such benefits. With respect to other claims under the Plan, the Company will adjudicate such claims as follows:

(i) Initiation – Written Claim. The claimant initiates a claim by submitting to the Company a written claim for the benefits.

(ii) Timing of Company Response. The Company will respond to such claimant within 90 days after receiving the claim. If the Company determines that special circumstances require additional time for processing the claim, the Company may extend the response period by an additional 90 days by notifying the claimant in writing, prior to the end of the initial 90-day period, that an additional period is required. The notice of extension must set forth the special circumstances and the date by which the Company expects to render its decision.

(iii) Notice of Decision. If the Company denies part or the entire claim, the Company will notify the claimant in writing of such denial. The Company will write the notification in a manner calculated to be understood by the claimant. The notification will set forth:

- (A) The specific reasons for the denial,
- (B) A reference to the specific provisions of the Plan on which the denial is based,

(C) A description of any additional information or material necessary for the claimant to perfect the claim and an explanation of why it is needed,

(D) An explanation of the Plan's review procedures and the time limits applicable to such procedures, and

(E) A statement of the claimant's right to bring a civil action under Section 502(a) of ERISA following an adverse benefit determination on review.

(b) Review Procedure. If the Company denies part or the entire claim, the claimant will have the opportunity for a full and fair review by the Company of the denial, as follows:

(i) Initiation – Written Request. To initiate the review, the claimant, within 60 days after receiving the Company's notice of denial, must file with the Company a written request for review.

(ii) Additional Submissions – Information Access. The claimant will then have the opportunity to submit written comments, documents, records and other information relating to the claim. The Company will also provide the claimant, upon request and free of charge, reasonable access to, and copies of, all documents, records and other information relevant (as defined in applicable ERISA regulations) to the claimant's claim for benefits.

(iii) Considerations on Review. In considering the review, the Company will take into account all materials and information the claimant submits relating to the claim, without regard to whether such information was submitted or considered in the initial benefit determination.

(iv) Timing of Company Response. The Company will respond in writing to such claimant within 60 days after receiving the request for review. If the Company determines that special circumstances require additional time for processing the claim, the Company may extend the response period by an additional 60 days by notifying the claimant in writing, prior to the end of the initial 60-day period, that an additional period is required. The notice of extension must set forth the special circumstances and the date by which the Company expects to render its decision.

(v) Notice of Decision. The Company will notify the claimant in writing of its decision on review. The Company will write the notification in a manner calculated to be understood by the claimant. The notification will set forth:

(A) The specific reasons for the denial,

(B) A reference to the specific provisions of the Plan on which the denial is based,

(C) A statement that the claimant is entitled to receive, upon request and free of charge, reasonable access to, and copies of, all documents, records and other information relevant (as defined in applicable ERISA regulations) to the claimant's claim for benefits, and

(D) A statement of the claimant's right to bring a civil action under Section 502(a) of ERISA.

9. ADMINISTRATION.

(a) Administration. The Plan is intended to constitute a severance Plan under Title I of ERISA. The Administrator will be the named fiduciary with respect to the Plan and will act for the Company under the Plan.

(b) Powers of the Company. The Administrator will have all powers necessary to administer the Plan, including, without limitation, the sole power and discretionary authority to (i) interpret the provisions of the Plan, (ii) establish rules for the administration of the Plan, and (iii) prescribe any forms required to administer the Plan.

(c) Interpretation. No Participant will receive a benefit under the Plan unless the Administrator has determined that the Participant is entitled to the benefit under the terms and conditions of the Plan. The Administrator will have the authority to interpret and construe all provisions of the Plan, and any such interpretation or construction, and any other determination contemplated to be made under the Plan by the Administrator will be final, binding, and conclusive, absent manifest error.

(d) Delegation. The Administrator will have the power to delegate specific duties and responsibilities to officers or other employees of the Company or other individuals or entities. Any such delegation by the Administrator may allow further delegations by the individual or entity to which the delegation is made. The Administrator may rescind any delegation at any time. Each person or entity to which a duty or responsibility has been delegated will be responsible for the exercise of such duty or responsibility and will not be responsible for any act or failure to act of any other person or entity.

10. AMENDMENTS AND TERMINATION.

The Plan may be amended or terminated by the Administrator at any time; provided, that no amendment or termination that would be materially adverse to an Eligible Executive shall be made until the second (2nd) anniversary of the Effective Date; provided, further, that in the event of a Change in Control, no amendment that would be adverse to an Eligible Executive shall be made until the second (2nd) anniversary of the consummation of such Change in Control. Notwithstanding the foregoing, no amendment or termination shall be made that would material impair the rights of Participants receiving severance benefits under the Plan without such Participant's written consent. Notwithstanding the foregoing, the Plan may be amended by the Administrator at any time, without the consent of affected Participants and without the consent of Eligible Executives in order to avoid having the Plan become subject to the penalty provisions of Section 409A.

11. MISCELLANEOUS.

(a) No Assignment. No Participant will have any rights to sell, assign, transfer, encumber, or otherwise convey the right to receive the severance benefits due under the Plan, other than pursuant to the laws of descent and distribution, and any attempt to do so will be null and void and of no effect.

(b) Binding Effect. The Plan will inure to the benefit of and be binding upon the Participants and their respective heirs and legal representatives. The Plan will inure to the benefit of and be binding upon the Company and its successors and assigns. The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation, or otherwise) to all or substantially all of the business and/or assets of the Company to assume expressly and agree to perform under the Plan in the same manner and to the same extent as the Company would be required to perform under the Plan if no such succession had taken place. For purposes of this Section (b), "Company" means the Company as defined in Section (k) and any successor to its business and/or assets as described in this Section (b) that assumes the Plan by operation of law or otherwise.

(c) Tax Withholding. The Company will withhold any applicable income or employment taxes that are required to be withheld from the Accrued Compensation and severance benefits provided under the Plan.

(d) Severability. If any provision of the Plan is determined to be illegal or unenforceable by any court of law in any jurisdiction, the remaining provisions of the Plan will be severable and enforceable in accordance with its terms, and all provisions will remain enforceable in any other jurisdiction.

(e) Dispute Resolution.

(i) Governing Law; Jurisdiction; Waiver of Jury Trial. The Plan will be construed and interpreted in accordance with the laws of the State of California, without regard to its conflict of laws principles. All suits, actions, and proceedings relating to the Plan will be brought only in the courts of the State of California located in Sacramento County or in the United States District Court for the Eastern District of California in Sacramento, California. The Company and the Participant hereby consent to the personal jurisdiction of the courts described in this Section (e) for the purpose of all suits, actions, and proceedings relating to the Plan. The Company and the Participant each waive all objections to venue and to all claims that a court chosen in accordance with this Section (e) is improper based on a venue or inconvenience.

TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, EACH PARTICIPANT AGREES AS A CONDITION OF PARTICIPATING IN THIS PLAN TO WAIVE ANY RIGHT TO TRIAL BY JURY IN RESPECT OF ANY PROCEEDING, LITIGATION OR COUNTERCLAIM BASED ON, OR ARISING OUT OF, UNDER OR IN CONNECTION WITH THE PLAN AND TO ACKNOWLEDGE THAT SUCH WAIVER IS KNOWING, VOLUNTARY AND INTENTIONAL.

(ii) Attorneys' Fees. In the event that the Company, a Participant, an Eligible Executive or any other person institutes any legal suit, action or proceeding to enforce the covenants contained in the Plan (or obtain any other remedy in respect of any breach arising out of or relating to the Plan), and if the Participant or Eligible Executive is the prevailing party in the suit, action or proceeding, such Participant or Eligible Executive will be entitled to receive from the Company, in addition to all other damages to which such Participant or Eligible Executive may be entitled to from the Company, the reasonable costs incurred by such Participant or Eligible Executive in conducting the suit, action or proceeding, including reasonable attorneys' fees and expenses and court costs.

(f) Benefit of Other Agreements. The Administrator will reduce a Participant's payments and benefits under the Plan by any other statutory severance obligations or contractual severance benefits, obligations for pay in lieu of notice, and any other similar benefits payable to the Participant that are due in connection with the Participant's Involuntary Termination.

(g) Code Section 409A.

(i) The Plan is intended to be exempt from Section 409A and will be interpreted, construed, and administered in accordance with the applicable exemptions from Section 409A to the maximum extent possible. In connection therewith, for purposes of Section 409A, each installment payment provided under the Plan will be treated as a separate payment. Notwithstanding the foregoing, the Company makes no representations that the payments and benefits provided under the Plan comply with or are exempt from Section 409A and in no event will the Company, its Affiliates, the Board (or any member thereof), or any of their delegates be liable for all or any portion of any taxes, penalties,

interest, or other expenses that may be incurred by a Participant on account of non-compliance with Section 409A.

(ii) Notwithstanding any other provision of the Plan to the contrary, if any payment or benefit provided to the Participant in connection with his or her termination of employment is determined to constitute “nonqualified deferred compensation” within the meaning of Section 409A, any amount or benefit that otherwise would be payable or distributable under the Plan by reason of the Participant’s Involuntary Termination will not be payable or distributable to the Participant by reason of such circumstance unless the circumstances giving rise to such Involuntary Termination meet any description or definition of “separation from service” in Section 409A (without giving effect to any elective provisions that may be available under such definition). If this Section (ii) prevents the payment or distribution of any amount or benefit, such payment or distribution will be made on the date, if any, on which an event occurs that constitutes a “separation from service” under Section 409A or such later date as may be required by Section (iii).

(iii) Notwithstanding any other provision of the Plan to the contrary, if any payment or benefit provided to the Participant in connection with his or her termination of employment is determined to constitute “nonqualified deferred compensation” within the meaning of Section 409A and the Participant is determined to be a “specified employee” as defined in Section 409A(a)(2)(b)(i), then such payment or benefit will not be paid until the first payroll date to occur following the six-month anniversary of the Participant’s Date of Termination. The aggregate of any payments that would otherwise have been paid before the six-month delay will be paid to the Participant in a lump sum on such first payroll date after the six-month delay, and, therefore any remaining payments will be paid without delay in accordance with their original schedule.

To record adoption of the Plan by the Compensation Committee as of August 7, 2019, the Company has caused its authorized officer to execute the Plan.

THE MCCLATCHY COMPANY

By:

Title:

CERTIFICATION

I, Craig I. Forman, certify that:

1. I have reviewed this quarterly report on Form 10-Q of The McClatchy Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 8, 2019

/s/ Craig I. Forman

Craig I. Forman
Chief Executive Officer

CERTIFICATION

I, R. Elaine Lintecum, certify that:

1. I have reviewed this quarterly report on Form 10-Q of The McClatchy Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 8, 2019

/s/ R. Elaine Lintecum
R. Elaine Lintecum
Chief Financial Officer

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of The McClatchy Company (the “Company”) on Form 10-Q for the fiscal period ended June 30, 2019, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), each of the undersigned officers of the Company certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to their knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 8, 2019

/s/ Craig I. Forman
Craig I. Forman
Chief Executive Officer

/s/ R. Elaine Lintecum
R. Elaine Lintecum
Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to The McClatchy Company and will be retained by The McClatchy Company and furnished to the Securities and Exchange Commission or its staff upon request.

The foregoing certificate is being furnished to the Securities and Exchange Commission as an exhibit to the Form 10-Q and shall not be considered filed as part of the Form 10-Q.
