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: March 29, 2020

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:

Title of each class	Ticker Symbol	Name of each exchange on which registered
Class A Common Stock, par value $.01 per share	**N/A(1)**	**None**

(1) On February 21, 2020, the NYSE American filed a Form 25 with the Securities and Exchange Commission (the “SEC”) to delist the Class A Common Stock of The McClatchy Company. The delisting became effective 10 days after the Form 25 was filed. The deregistration of the Class A Common Stock under section 12(b) of the Securities Exchange Act of 1934 became effective on May 21, 2020, 90 days after filing of the Form 25. Following deregistration of the Class A Common Stock under Section 12(b) of the Securities Exchange Act of 1934, the Class A Common Stock shall remain registered under Section 12(g) of the Securities Exchange Act of 1934. Beginning on February 16, 2020, the Class A Common Stock was quoted on the OTC Pink Market under the symbol “MNIQQ.”

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 June 19, 2020, the registrant had shares of common stock as listed below outstanding:

Class A Common Stock	5,506,185	Class B Common Stock	2,428,191

THE MCCLATCHY COMPANY

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

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

	Three Months Ended	
	March 29, 2020	March 31, 2019
REVENUES — NET:		
Advertising	$ 62,095	$ 85,195
Audience	80,692	83,112
Other	13,238	12,017
	156,025	180,324
OPERATING EXPENSES:		
Compensation	58,442	69,435
Newsprint, supplements and printing expenses	8,880	11,696
Depreciation and amortization	14,992	17,518
Other operating expenses	83,328	88,204
Goodwill and other asset write-downs (see Notes 3 and 6)	63,762	739
	229,404	187,592
OPERATING LOSS	(73,379)	(7,268)
NON-OPERATING INCOME (EXPENSE):		
Interest expense (contractual interest expense of $19,340 for three months ended March 29, 2020)	(15,108)	(20,044)
Reorganization items, net	(95,167)	—
Retirement benefit expense	(3,867)	(10,727)
Other — net	135	(479)
	(114,007)	(31,250)
Loss before income taxes	(187,386)	(38,518)
Income tax (benefit) expense	(8,733)	3,438
NET LOSS	$ (178,653)	$ (41,956)
Net loss per common share:		
Basic	$ (22.52)	$ (5.34)
Diluted	$ (22.52)	$ (5.34)
Weighted average number of common shares:		
Basic	7,934	7,858
Diluted	7,934	7,858

See notes to the condensed consolidated financial statements.

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

	Three Months Ended	
	March 29, 2020	**March 31, 2019**
NET LOSS	$ (178,653)	$ (41,956)
OTHER COMPREHENSIVE INCOME:		
Pension and post retirement plans: [1]		
Change in pension and post-retirement benefit plans	6,735	22,552
Other comprehensive income	6,735	22,552
Comprehensive loss	$ (171,918)	$ (19,404)

[1] There is no income tax benefit associated with the three months ended March 29, 2020, or March 31, 2019, due to the recognition of a valuation allowance.

See notes to the condensed consolidated financial statements.

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

	March 29, 2020	December 29, 2019
ASSETS		
Current assets:		
Cash and cash equivalents	$ 14,540	$ 10,514
Trade receivables (net of allowances of $2,950 and $1,754)	46,834	56,096
Other receivables	16,865	8,348
Newsprint, ink and other inventories	4,794	5,297
Assets held for sale	14,968	14,170
Other current assets	20,448	20,087
	118,449	114,512
Property, plant and equipment, net	187,563	203,575
Intangible assets:		
Identifiable intangibles — net	64,260	69,253
Goodwill	361,185	420,178
	425,445	489,431
Investments and other assets:		
Investments in unconsolidated companies	2,726	2,726
Operating lease right-of-use assets	43,195	45,128
Other assets	66,693	55,883
	112,614	103,737
	$ 844,071	$ 911,255
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable	$ 30,433	$ 29,758
Accrued pension liabilities	—	124,200
Accrued compensation	19,432	18,932
Income taxes payable	3,366	—
Unearned revenue	55,279	55,155
Accrued interest	13,986	25,307
Financing obligation	13,027	13,027
Current portion of operating lease liabilities	7,308	8,105
Other accrued liabilities	2,103	5,146
	144,934	279,630
Non-current liabilities:		
Long-term debt	250,292	607,672
Deferred income taxes	15,098	15,027
Pension and postretirement obligations	4,581	526,010
Financing obligations	131,995	132,278
Operating lease liabilities	44,999	46,733
Other long-term obligations	24,252	27,361
	471,217	1,355,081
Total liabilities not subject to compromise	616,151	1,634,711
Liabilities subject to compromise	1,122,888	—
Commitments and contingencies		
Stockholders' deficit:		
Common stock $.01 par value:		
Class A (authorized 200,000,000 shares, issued 5,507,220 shares and 5,506,030 shares)	55	55
Class B (authorized 60,000,000 shares, issued 2,428,191 shares and 2,428,191 shares)	24	24
Additional paid-in-capital	2,218,229	2,217,823
Accumulated deficit	(2,543,869)	(2,365,216)
Accumulated other comprehensive loss	(569,404)	(576,139)
Treasury stock at cost, 1,035 shares and 608 shares	(3)	(3)
	(894,968)	(723,456)
	$ 844,071	$ 911,255

See notes to the condensed consolidated financial statements.

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

	Three Months Ended	
	March 29, 2020	**March 31, 2019**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (178,653)	$ (41,956)
Reconciliation to net cash provided by (used in) operating activities:		
Depreciation and amortization	14,992	17,518
Gain on disposal of property and equipment (excluding other asset write-downs)	333	(43)
Retirement benefit expense	3,867	10,727
Stock-based compensation expense	406	663
Deferred income taxes	71	132
Non-cash reorganization items, net	83,173	—
Goodwill and other asset write-downs	63,762	739
Amortization of bond fees and other debt-related items	1,481	2,547
Non-cash lease expense	1,933	1,998
Other	312	649
Changes in certain assets and liabilities:		
Trade receivables	9,262	23,962
Inventories	503	(533)
Other assets	(19,867)	(3,490)
Accounts payable	16,488	(6,671)
Accrued compensation	812	2,720
Income taxes	3,366	3,260
Accrued interest	6,791	(13,531)
Postretirement obligations and other liabilities	(2,463)	(4,403)
Net cash provided by (used in) operating activities	6,569	(5,712)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(649)	(259)
Proceeds from sale of property, plant and equipment and other	3	147
Contributions to cost and equity investments	—	(125)
Net cash used in investing activities	(646)	(237)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payment of financing costs	(771)	(28)
Purchase of treasury shares	—	(268)
Other	(593)	(283)
Net cash used in financing activities	(1,364)	(579)
Increase (decrease) in cash, cash equivalents and restricted cash	4,559	(6,528)
Cash, cash equivalents and restricted cash at beginning of period	37,163	50,555
CASH, CASH EQUIVALENTS AND RESTRICTED CASH AT END OF PERIOD	$ 41,722	$ 44,027

See notes to the condensed consolidated financial statements

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

	Common Stock				Accumulated		
	Class A $.01 par value	Class B $.01 par value	Additional Paid-In Capital	Accumulated Deficit	Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance at December 29, 2019	$ 55	$ 24	$ 2,217,823	$ (2,365,216)	$ (576,139)	$ (3)	$ (723,456)
Net loss	—	—	—	(178,653)	—	—	(178,653)
Other comprehensive income	—	—	—	—	6,735	—	6,735
Issuance of 1,190 Class A shares under stock plans	—	—	—	—	—	—	—
Stock compensation expense	—	—	406	—	—	—	406
Purchase of 427 shares of treasury stock	—	—	—	—	—	—	—
Balance at March 29, 2020	$ 55	$ 24	$ 2,218,229	$ (2,543,869)	$ (569,404)	$ (3)	$ (894,968)

	Common Stock				Accumulated		
	Class A $.01 par value	Class B $.01 par value	Additional Paid-In Capital	Accumulated Deficit	Other Comprehensive Income (Loss)	Treasury Stock	Total
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 58,637 shares of treasury stock	—	—	—	—	—	(268)	(268)
Balance at March 31, 2019	$ 55	$ 24	$ 2,217,342	$ (1,996,065)	$ (581,737)	$ (270)	$ (360,651)

See notes to the condensed consolidated financial statements

THE MCCLATCHY COMPANY
(DEBTOR IN POSSESSION)
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*.

Basis of Presentation

Preparation of the financial statements in conformity with accounting principles generally accepted in the United States ("U.S. GAAP") 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 balances and transactions are eliminated.

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. These financial statements 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 29, 2019 ("Form 10-K"). Each of the fiscal periods included herein comprise 13 weeks for the first-quarter periods.

Reclassifications

Certain amounts in the accompanying condensed consolidated statement of operations and condensed consolidated statement of cash flows for the three months ended March 31, 2019, have been reclassified to conform to the three months ended March 29, 2020, presentation.

Going Concern

We have concluded that our financial condition and projected operating results (including the effects of the COVID-19 pandemic as defined below), required contributions to our qualified defined benefit pension plan ("Pension Plan") (as described below), defaults under our debt agreements, and the risks and uncertainties surrounding our Chapter 11 Cases (see Note 2) raise substantial doubt as to our ability to continue as a going concern and it is not probable that our plans will mitigate the going concern uncertainty within the next twelve months.

As of March 29, 2020, we faced liquidity challenges relating to approximately $124.2 million in minimum required contributions that are due in the next 12 months to our Pension Plan. In January 2020, we entered into a Standstill Agreement with the Pension Benefit Guaranty Corporation ("PBGC"), pursuant to which the PBGC agreed not to exercise the remedies available to it as a result of our not making a previously scheduled qualified pension contribution of $4.0 million due in January 2020. The payment obligations to the Pension Plan were further stayed when we filed for reorganization under Chapter 11 in February 2020. However, section 3608 of the CARES Act (as defined below) delays all minimum required contributions due in calendar year 2020 until January 1, 2021. As a result, the notice of missed payment in January 2020 no longer constitutes a missed contribution as of March 29, 2020.

As of March 29, 2020, we had $703.3 million aggregate principal amount of outstanding debt consisting of $262.9 million of our Senior Secured Notes due 2026 (“2026 Notes” or “First Lien Notes”), $157.1 million of our Junior Term Loan, $268.4 million of our senior secured junior lien 2031 Notes and $14.9 million of our Debentures. See Notes 2 and 7 regarding a discussion about our long-term debt obligations that have been reclassified to liabilities subject to compromise as of March 29, 2020.

The accompanying condensed consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business.

Financial Reporting in Reorganization

Effective February 13, 2020, we applied Accounting Standard Codification, No. 852, “*Reorganizations*,” (“ASC 852”) which is applicable to companies under Chapter 11 bankruptcy protection. ASC 852 requires the financial statements for periods subsequent to the Chapter 11 filing to distinguish transactions and events that are directly associated with the reorganization from the ongoing operations of the business. Expenses, realized gains and losses, and provisions for losses that are directly associated with reorganization proceedings must be reported separately as “Reorganization items, net” in the condensed consolidated statements of operations. In addition, the balance sheet must distinguish between debtor pre-petition liabilities subject to compromise from pre-petition or post-petition liabilities that are not subject to compromise. Liabilities subject to compromise are pre-petition obligations that are not fully secured and have at least a possibility of not being repaid at the full claim amount. See Note 2 for additional discussion of the liabilities subject to compromise and reorganization items, net.

NYSE American Delisting

Our Class A Common Stock was previously listed on the NYSE American under the symbol MNI. On February 13, 2020, the NYSE American suspended the trading of our Class A Common Stock upon our filing the Chapter 11 petitions, and our Class A Common Stock has been quoted “over-the-counter” on the OTC Pink Market, operated by OTC Markets Group, under the symbol MNIQQ. On February 21, 2020, the NYSE American filed a Form 25 with the SEC to delist our Class A Common Stock from the NYSE American. The delisting was effective 10 days after the Form 25 was filed. The deregistration of the Common Stock under Section 12(b) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), became effective on May 21, 2020, 90 days after the filing date of the Form 25.

Coronavirus (COVID-19) Pandemic

In early 2020, the World Health Organization declared that the recent coronavirus disease 2019 (“COVID-19”) outbreak was a global health emergency and then in March 2020, they raised the COVID-19 outbreak to “pandemic” status. The transmission of COVID-19 and efforts to contain its spread have resulted in international, national and local border closings and other significant travel restrictions and disruptions, significant disruptions to business operations, supply chains and customer activity, event cancellations and restrictions, service cancellations, reductions and other changes, significant challenges in healthcare service preparation and delivery, quarantines and related government actions and policies, as well as general concern and uncertainty that has negatively affected the economic environment.

We are unable to predict the duration or extent of the COVID-19 induced business disruption, or its financial impact. The COVID-19 outbreak has negatively impacted our advertising revenues and the collectability of some of our accounts receivables. To address the financial impact of COVID-19, we have taken steps to reduce operating expenses, while continuing to deliver news and information that is vital to our subscribers and customers in the communities we serve. We will continue to monitor the COVID-19 situation and the impact it has on our financial results, which may require us to take additional actions to ensure our operating expenses align with revenues.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”) was signed into law. Key provisions of the CARES Act include one-time payments to individuals, strengthened unemployment insurance, additional health-care funding, loans and grants to certain businesses, and temporary amendments to the Internal Revenue Code.

While we do not qualify for any of the business loans or grants under the CARES Act, modifications to the tax rules for the carryback of net operating losses and business interest limitations allowed us to file for a federal tax refund of approximately $11.7 million. In addition, section 2302 of the CARES Act allows us to delay the payment of our share of certain payroll taxes incurred from March 27, 2020, through December 31, 2020.

As discussed above, the CARES Act permits a delay in the payment of minimum required pension contributions due in 2020 to January 1, 2021. The delayed payment must include interest from the original due dates of the minimum required contribution. See Notes 2 and 8 regarding a discussion about our pension and post-retirement obligations that have been reclassed to liabilities subject to compromise as of March 29, 2020.

2. CHAPTER 11 BANKRUPTCY FILING

Bankruptcy Petitions

On February 13, 2020 ("Petition Date"), McClatchy and each of our 53 wholly owned subsidiaries filed voluntary petitions ("Chapter 11 Cases") for reorganization under Chapter 11 of the U.S. Bankruptcy Code ("Bankruptcy Code") in the U.S. Bankruptcy Court for the Southern District of New York ("Bankruptcy Court"). The Chapter 11 Cases are being jointly administered under the caption In re: The McClatchy Company, et al., Case No. 20-10418.

Operation and Implications of the Bankruptcy Filing

We and our 30 local media companies will continue to operate our businesses as "debtors-in-possession" under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of the Bankruptcy Code and orders of the Bankruptcy Court. We intend to continue to operate our businesses in the ordinary course during the pendency of the Chapter 11 Cases.

In general, as debtors-in-possession under the Bankruptcy Code, we are authorized to continue to operate as an ongoing business but may not engage in transactions outside the ordinary course of business without the prior approval of the Bankruptcy Court. Pursuant to first-day and second day motions filed with the Bankruptcy Court, the Bankruptcy Court authorized us to conduct our business activities in the ordinary course, including, among other things and subject to the terms and conditions of such orders, authorizing us to: (i) obtain debtor-in-possession financing, (ii) pay employee wages and benefits, (iii) fund customer and subscriber programs, (iv) pay vendors and suppliers in the ordinary course for all goods and services going forward, and (v) pay critical vendors, utilities, and taxes in the ordinary course.

Debtor-In-Possession Financing

To ensure sufficient liquidity throughout the Chapter 11 Cases, on February 13, 2020, we obtained $50.0 million of debtor-in-possession financing under a credit agreement ("DIP Credit Agreement") from Encina Business Credit, LLC ("Encina"). This DIP Credit Agreement, coupled with our normal operating cash flows, is providing liquidity for McClatchy and all of our local news outlets to operate as usual and fulfill ongoing commitments to stakeholders.

The DIP Credit Agreement, which replaces our former asset based loan ("ABL") revolver from Wells Fargo Bank, N.A. ("Wells Fargo"), provides for a secured debtor-in-possession credit facility ("DIP Facility") consisting of a new revolving loan facility in the aggregate principal amount of up to $50.0 million, which will be in the form of revolving loans or, subject to a sub-limit of $3.5 million, in the form of letters of credit. Our obligations under the DIP Facility are and will be secured by all of our assets, whether now existing or hereafter acquired. The maturity date of the DIP Facility is no longer than August 12, 2021. See Note 7 for further discussion of our debt.

Proposed Plan of Reorganization

Prior to and following the filing of the Chapter 11 Cases, we pursued approval of a proposed restructuring plan with our secured lenders, bondholders, and the Pension Benefit Guaranty Corporation ("PBGC"). We included lenders holding approximately 87% of our First Lien Notes in these confidential discussions. Unfortunately, we were unable to come to an agreement with our stakeholders and therefore, were unable to obtain approval from our creditors for the proposed restructuring plan at that time.

Proposed Sale

On May 11, 2020, the Bankruptcy Court (“Section 363”) approved our motion for an auction process through which we are authorized to determine the highest or otherwise best offer for the sale of all or substantially all of our assets pursuant to Section 363 of the Bankruptcy Code or for sponsorship proposals with respect to a Chapter 11 plan of reorganization. The auction is scheduled to commence on July 8, 2020, and the approval hearing by the Bankruptcy Court is scheduled to take place on July 24, 2020.

Reorganization Items, Net

We have incurred and will continue to incur significant costs associated with the reorganization, including costs such as debtor-in-possession financing, and legal and professional fees. The amount of these costs incurred since the Petition Date have been charged to expense and are expected to significantly affect our results of operations. These costs have been partially offset by non-cash gains on the write off of rejected leases. In accordance with ASC 852, costs and gains associated with the bankruptcy proceedings since the Petition Date have been recorded as reorganization items, net, within our accompanying condensed consolidated statement of operations for the three months ended March 29, 2020.

Reorganization items incurred as a result of the Chapter 11 Cases are as follows:

(in thousands)	Three Months Ended March 29, 2020
Professional fees	$ 11,912
Write-off of unamortized deferred financing costs	83,040
DIP financing fees	88
Write-off of leasehold improvements on rejected leases	897
Provision for estimated damages on rejected leases	765
Gains on write-off of net lease liabilities for rejected leases	(1,535)
Reorganization items, net	$ 95,167

Professional fees include legal and financial advisor professional fees related to the Chapter 11 Cases. Write-off of unamortized deferred financing costs includes; (i) unamortized debt discounts, debt issuance costs, and fair market value adjustments for all tranches of debt except for the First Lien Notes as all other debt has been classified as liabilities subject to compromise at face value, and (ii) the cancellation of our ABL Credit Agreement (as described in Note 7). Provision for estimated damages relates to estimated claims by the lessors on rejected leases.

As of March 29, 2020, $11.6 million of the reorganization items, net, were unpaid and accrued in accounts payable in the accompanying condensed consolidated balance sheet.

Liabilities Subject to Compromise

As discussed above, since the Petition Date, we have been operating as debtor in possession under the jurisdiction of the Bankruptcy Court and in accordance with provisions of the Bankruptcy Code. The accompanying condensed consolidated balance sheet as of March 29, 2020, includes amounts classified as liabilities subject to compromise, which represent liabilities we anticipate will be allowed as claims in the Chapter 11 Cases. These amounts represent our current estimate of known or potential obligations to be resolved in connection with the Chapter 11 Cases, and may differ from actual future settlement amounts paid. Differences between liabilities estimated and claims filed, or to be filed, will be investigated and resolved in connection with the claims resolution process. We will continue to evaluate these liabilities throughout the Chapter 11 process and adjust amounts as necessary. Such adjustments may be material. These liabilities subject to compromise are not fully secured and have a possibility of not being repaid at the full claim amount.

Liabilities subject to compromise at March 29, 2020, consisted of the following:

(in thousands)	Three Months Ended March 29, 2020
Accounts payable	$ 16,578
Accrued compensation	312
Other accrued liabilities	1,669
Other long-term liabilities	3,237
Accounts payable, accrued and other liabilities	21,796
Debt subject to compromise	440,418
Accrued interest on debt subject to compromise	18,112
Long-term debt and accrued interest	458,530
Pension and postretirement obligations	642,562
Liabilities subject to compromise	$ 1,122,888

Determination of the value at which liabilities will ultimately be settled cannot be made until the Bankruptcy Court approves a sale of the Company's assets or a plan of reorganization. We will continue to evaluate the amount and classification of our pre-petition liabilities. Any additional liabilities that are subject to compromise will be recognized accordingly, and the aggregate amount of liabilities subject to compromise may change.

3. 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.

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 March 29, 2020, and December 29, 2019, the carrying amount of these items approximates fair value because of the short maturity of these financial instruments.

Long-term debt. At March 29, 2020, the carrying value and the estimated fair value of our 2026 Notes (as defined in Note 7), including the current portion of long-term debt, was $250.3 million and $251.0 million, respectively. As of December 29, 2019, the carrying value and the estimated fair value of the 2026 Notes, including the current portion of long-term debt, was $249.8 million and $240.5 million, respectively. The fair value of our 2026 Notes 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 or future settlement value through our Chapter 11 proceedings.

At March 29, 2020, the carrying value and the estimated fair value of our Debentures, Junior Term Loan and 2031 Notes (as defined in Note 7), was $440.4 million and $180.5 million, respectively. At December 29, 2019, the carrying value and the estimated fair value of our Debentures, Junior Term Loan and 2031 Notes, was $357.9 million and $213.3 million, respectively. Observable market data 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 March 29, 2020. These are considered to be Level 3 inputs under the fair value measurements and disclosure guidance and may not be representative of actual value or future settlement value through our Chapter 11 proceedings. At March 29, 2020, in accordance with ASC 852, the carrying value of our Debentures, Junior Term Loan and 2031 Notes equaled the aggregate principal value of the notes and were classified as liabilities subject to compromise.

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 assets 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 and see Note 6 regarding goodwill and intangible newspaper masthead impairments recorded during the quarter ended March 29, 2020.

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 March 29, 2020, we had land and/or buildings classified as assets held for sale at six of our media companies compared to only five as of December 29, 2019. During the three months ended March 29, 2020, we began to actively market for sale one property, which includes land and buildings at one of our media companies.

The carrying value of the land and building at one of the properties held for sale during 2019 was reduced to its estimated fair value less selling costs. As a result, an impairment charge of $0.7 million was recorded in goodwill and other asset write-downs during the three months ended March 31, 2019. There were no similar impairment charges during the three months ended March 29, 2020.

Property, Plant and Equipment

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

	Three Months Ended	
(in thousands)	**March 29, 2020**	**March 31, 2019**
Depreciation expense	$ 14,768	$ 5,717

During the three months ended March 29, 2020, we accelerated $10.0 million in depreciation expense primarily related to the production equipment associated with outsourcing our printing process in Miami, Florida. We had no accelerated depreciation in the three months ended March 31, 2019.

Goodwill and Intangible Assets

We test the recorded amount of goodwill for impairment 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 are generally 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. See Note 6 for discussion of our goodwill impairment testing results.

In the first quarter of 2020, there was significant volatility in the market as initial reactions to the COVID-19 pandemic began to impact companies and long-term impacts of COVID-19 on domestic and foreign affairs were unknown. The market sentiment created a wide range of metrics for our peer group, making the market approach less reliable or meaningful than it has been historically. As such, we used the income approach to estimate that fair value of the reporting units rather than a market approach as the implied revenue and EBITDA multiples from the market approach did not yield as reliable fair values given the volatile market conditions at the time of the interim assessment. See Note 6 for discussion of our goodwill impairment testing results.

The recorded amount of identifiable intangible assets related to 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. See Note 6 for discussion of our intangible assets impairment testing results.

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 had no impairment of such long-lived assets during the three months ended March 29, 2020, or March 31, 2019.

Investments in Unconsolidated Companies

Investments in unconsolidated companies are accounted for using either the equity method or the measurement alternative method. Investments through which we exercise significant influence but do not have control over the investee are accounted for under the equity method. Investments through which we are not able to exercise significant influence over the investee are accounted for under the measurement alternative method as these investments do not have readily determinable fair values. The measurement alternative method was elected for investments without readily determinable fair values formerly accounted for under the cost method. The measurement alternative value represents cost minus any impairments, if any, plus or minus any observable price changes. There was no impairment of our investments in unconsolidated companies during the three months ended March 29, 2020, or March 31, 2019.

Financing Obligations

Financing obligations (also known as failed sale and leaseback transactions) consist of contributions of real properties to the Pension Plan (see Note 8) 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.

We account for all of these properties that we lease back as financing transactions and, accordingly, we continue to depreciate the carrying value of the properties in our financial statements. No gain or loss will be recognized on the contributed or sold properties until the financing obligation is extinguished. For the contributed properties, at the time of our contribution to the Pension Plan, our pension obligation was reduced and our financing obligations were recorded equal to the fair market value of the properties. For all of the contributed and sold properties, the financing obligation is reduced by a portion of the lease payments made either to the Pension Plan or to the new owners each month.

See Note 12 for additional discussion related to rejected financing obligation leases subsequent to March 29, 2020

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 California, Washington and the Central region, while the other operating segment ("Eastern Segment") consists primarily of media companies' operations in the Carolinas and the East and Southeast regions.

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 29, 2019, our valuation allowance against a majority of our deferred tax assets was $176.1 million. For the three months ended March 29, 2020, we recorded an increase in the valuation allowance of $8.5 million. Our valuation allowance as of March 29, 2020, was $184.6 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 August 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("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. We adopted Topic 820 as of December 30, 2019, and the adoption did not have an impact on our condensed consolidated financial statements.

In March 2020, the FASB issued ASU No. 2020-04, "*Reference Rate Reform ("ASC 848"): Facilitation of the Effects of Reference Rate Reform on Financial Reporting.*" ASU 2020-04 provides optional expedients and exceptions for applying GAAP to contract modifications and hedging relationships, subject to meeting certain criteria, that reference LIBOR or another rate that is expected to be discontinued. The amendments in the ASU are effective for all entities as of March 12, 2020 through December 31, 2022. The adoption of this guidance did not have a material 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, 2019-05, 2019-11, 2020-02 and 2020-03, which provide further guidance and clarification on specific items within the previously issued update. ASU 2016-13 is effective for us for interim and annual reporting periods beginning after December 15, 2022. 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.

In December 2019, the FASB issued ASU No. 2019-12, "*Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes.*" ASU 2019-12 modifies Accounting Standards Codification 740 to remove certain exceptions and also add guidance to reduce complexity in certain areas. For companies that file with the Securities and Exchange Commission, the standard is effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. Early adoption is permitted but requires simultaneous adoption of all provisions of the new standard. We are currently in the process of evaluating the impact of the adoption on our condensed consolidated financial statements.

In January 2020, the FASB issued ASU No. 2020-01, "*Investments – Equity Securities (Topic 321), Investments – Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815).*" ASU 2020-01 clarify certain interactions between the guidance to account for certain equity securities under Topic 321, the guidance to account for investments under the equity method of accounting in Topic 323, and the guidance in Topic 815, which could change how an entity accounts for an equity security over under the measurement alternative or a forward contract or purchased option to purchase securities that, upon settlement of the forward contract or exercise of the purchased option, would be accounted for under the equity method of accounting or the fair value option in accordance with Topic 825, Financial Instruments. It is effective for us for interim and 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 consolidated financial statements.

4. 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 the 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 as a CPM basis and other – 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 term 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 advertisements 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 advertisements on our websites and video advertisements on our owned and operated player are reported on a gross basis. However, there are some third-party products and services that we offer to customers and various revenue share arrangements, such as exchange platforms, that are reported on a net revenue 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 revenues 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 each 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, considering 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.

Other revenues also include revenues from subleasing contracts and grant and sponsorship revenue received through our Community Funding Initiatives and the Compass Experiment. Revenues received from subleasing are discussed in Note 5. Grants and sponsorships are accounted for in accordance with ASC Subtopic 958-605, *Not-for-Profit Entities – Revenue Recognition*, and revenues are recorded when funds are received and no conditions exist, or after conditions have been met.

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 stand-alone selling price. We generally determine stand-alone 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 increase in the unearned revenue balance for the three months ended March 29, 2020, reflects cash payments received or due in advance of satisfying our performance obligations, partially offset by $34.1 million of revenues recognized that were included in the unearned revenue balance as of December 29, 2019.

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.

5. 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 right-of-use (“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 nine 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 recognition of our ROU assets and lease liabilities.

Most leases include escalating lease payments, and many include 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 (formerly known as a capital 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 March 29, 2020, and December 29, 2019, respectively. As of March 29, 2020, the payments run over the course of the remaining 6 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 use our effective yield of our secured debt as the 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.

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

(in thousands)	Three Months Ended March 29, 2020	Three Months Ended March 31, 2019
Financing lease costs:		
Amortization of ROU asset	$ 24	$ 24
Interest on lease liabilities	18	20
Operating lease costs	3,169	3,464
Short-term lease cost	360	713
Variable lease cost	327	467
Sublease income	(1,491)	(1,461)
Total lease costs	$ 2,407	$ 3,227

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 March 29, 2020, the aggregate future lease payments for operating leases are as follows:

(in thousands)	Operating Leases
2020 (remainder)	$ 8,696
2021	10,055
2022	10,384
2023	9,535
2024	8,550
2025	7,085
Thereafter	13,864
Total undiscounted cash flows	68,169
Less imputed interest	(15,862)
Total lease liability	$ 52,307

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

	March 29, 2020		March 31, 2019	
	Operating Leases	Financing Lease	Operating Leases	Financing Lease
Weighted average remaining lease term (years)	6.48	5.59	7.44	6.58
Weighted average discount rate	9.19 %	10.50 %	9.12 %	10.50 %

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

(in thousands)	Three Months Ended March 29, 2020	Three Months Ended March 31, 2019
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash outflow from operating leases	$ 3,303	$ 3,504
Operating cash outflow from financing lease	18	20
Financing cash outflow from financing lease	20	17
ROU assets obtained in exchange for new operating lease liabilities	1,172	263

As of March 29, 2020, we do not have any new financing leases or significant additional operating leases that have not yet commenced.

Rejected Leases

During the quarter ended March 29, 2020, we obtained approval from the Bankruptcy Court to reject five of our operating leases with a total net liability of approximately $1.5 million. As a result, we terminated these leases by writing off the net lease liabilities and recorded gains of $1.5 million on the write-off of these rejected leases during the three months ended March 29, 2020. In addition, ASC 852 requires us to analyze any estimated damages we may be required to pay the lessors as a result of rejecting these leases. Therefore, we recorded an $0.8 million charge related to the estimated damages on these rejected leases during the same period that are included in liabilities subject to compromise. Also see Note 12 for additional discussion related to rejected leases subsequent to March 29, 2020.

6. INTANGIBLE ASSETS AND GOODWILL

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

(in thousands)	December 29, 2019	Impairment Charges	Amortization Expense	March 29, 2020
Intangible assets subject to amortization	$ 838,336	$ —	$ —	$ 838,336
Accumulated amortization	(831,878)	—	(224)	(832,102)
	6,458	—	(224)	6,234
Mastheads	62,795	(4,769)	—	58,026
Goodwill	420,178	(58,993)	—	361,185
Total	$ 489,431	$ (63,762)	$ (224)	$ 425,445

Impairment of Goodwill and Intangible Assets

During the quarter ended March 29, 2020, we performed an interim test of impairment of goodwill and intangible newspaper mastheads due to the continuing challenging business conditions, the impact of COVID-19, and changes in our assessment of profitability in future years. The fair values of our reporting units for goodwill impairment testing and individual newspaper mastheads were estimated using the present value of expected future cash flows, using estimates, judgments and assumptions (see Note 3) that we believe were appropriate in the circumstances. As a result, we recorded impairment charges in our Western and Eastern reporting units related to goodwill of $19.9 million and $39.1 million, respectively, during the quarter ended March 29, 2020. We also recorded an intangible newspaper masthead impairment charge of $4.8 million in the first quarter of 2020. These impairments were recorded in the goodwill and other asset write-downs line item on our condensed consolidated statements of operations.

We had no impairment of goodwill or intangible newspaper mastheads during the three months ended March 31, 2019.

Amortization expense with respect to intangible assets is summarized below:

	Three Months Ended	
(in thousands)	March 29, 2020	March 31, 2019
Amortization expense	$ 224	$ 11,801

The estimated amortization expense for the remainder of fiscal year 2020 and the five succeeding fiscal years is as follows:

Year	Amortization Expense (in thousands)
2020 (Remainder)	$ 579
2021	680
2022	655
2023	667
2024	640
2025	363

7. LONG-TERM DEBT

In connection with the Chapter 11 Cases, we entered into the DIP Credit Agreement. See Note 2. The DIP Credit Agreement replaces the ABL Credit Agreement, defined below.

The commencement of the Chapter 11 Cases constituted an event of default and caused the automatic and immediate acceleration of all debt outstanding under our various debt agreements. However, any efforts to enforce payment obligations under the debt agreements are automatically stayed as a result of the filing of the Chapter 11 Cases, and the creditors' rights of enforcement in respect of the debt agreements are subject to the applicable provisions of the Bankruptcy Code.

As of March 29, 2020, all of our long-term debt was in fixed rate obligations. As of March 29, 2020, and December 29, 2019, our outstanding long-term debt consisted of senior secured notes, unsecured notes, and loans. Our outstanding long-term debt obligations are stated net of unamortized debt issuance costs, fair value adjustments and unamortized discounts, if applicable, totaling $12.6 million and $95.6 million as of March 29, 2020, and December 29, 2019, respectively. The unamortized discounts include fair value adjustments on unsecured debt acquired in 2006, as well as the Junior Term Loans and the 2026 Notes that included original issue discounts from our 2018 debt refinancing. Effective with the filing of the Chapter 11 Cases, all of the outstanding long-term debt, except for our first lien 2026 Notes, was reclassified to liabilities subject to compromise at face value. As such, during the quarter ended March 29, 2020, we recognized a $81.7 million write-off of unamortized debt issuance costs related to the notes, loans and debentures, that were all subordinate to the First Lien Notes, in reorganization items, net, on our condensed consolidated statements of operations.

Our previous ABL Credit Agreement had unamortized debt issuance costs of $1.4 million as of December 29, 2019, that were included in other assets on our condensed consolidated balance sheets. As discussed above, the ABL Credit Agreement was replaced with the DIP Credit Agreement in February 2020. Therefore, during the quarter ended March 29, 2020, we recognized a $1.4 million write-off of unamortized debt issues costs related to the ABL Credit Agreement in reorganization items, net on our condensed consolidated statements of operations.

Our long-term debt consisted of the following:

	Face Value at	Carrying Value	
(in thousands)	March 29, 2020	March 29, 2020	December 29, 2019
DIP Credit Agreement	$ —	$ —	$ —
ABL Credit Agreement	—	—	—
Notes:			
9.000% senior secured notes due in 2026	262,851	250,292	249,793
7.795% junior term loan due in 2030	157,083	157,083	126,148
6.875% senior secured junior lien notes due in 2031	268,423	268,423	217,392
7.150% debentures due in 2027	7,105	7,105	6,855
6.875% debentures due in 2029	7,807	7,807	7,484
Long-term debt prior to reclassification to Liabilities subject to compromise	$ 703,269	$ 690,710	$ 607,672
Less amounts reclassified to Liabilities subject to compromise	440,418	440,418	—
Total long-term debt	$ 262,851	$ 250,292	$ 607,672

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") 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.

Debtor-In-Possession Credit Facility

As discussed above, in February 2020 we entered into a $50.0 million DIP Credit Agreement. The DIP Credit Agreement, which replaces our former ABL Credit Agreement, provides for a DIP Facility consisting of a new revolving loan facility in an aggregate principal amount of up to $50.0 million, which is in the form of revolving loans and a sub-limit of $3.5 million, in the form of letters of credit. Our obligations under the DIP Facility will be secured by all of our assets, whether now existing or hereafter acquired. The maturity date of the DIP Facility is no longer than August 12, 2021.

The proceeds of the loans extended under the DIP Credit Agreement may be used for purposes permitted by orders of the Bankruptcy Court, including (i) for working capital and other general corporate purposes, (ii) to pay transaction costs, professional fees and other obligations and expenses incurred in connections with the DIP Facility, the Chapter 11 Cases and the transactions contemplated thereunder, and (iii) to pay adequate protection expenses, if any to the extent set forth in any order entered by the Bankruptcy Court. We have the right to prepay loans under the DIP Credit Agreement in whole or in part at any time without penalty. Subject to availability under the DIP Credit Agreement's borrowing base, amounts repaid may be reborrowed.

Loans under the DIP Facility bear interest based upon the London Interbank Offered Rate ("LIBOR") plus an applicable margin rate of 3.5%. Interest on loans is payable monthly in arrears. If LIBOR is discontinued or is no longer reliable, borrowings under the DIP Facility would bear interest using the Base Rate plus 1.5%. The Base Rate is considered the greatest of the federal funds rate plus 0.50%, 1.5%, or the Wells Fargo publicly announced prime rate.

Any portion of the available DIP Facility that is unused is assessed a fee of .50%, which is also due monthly and in arrears. The DIP Facility carries an early termination fee of 1.5% of the commitment amount being terminated within the first year of the agreement.

As of March 29, 2020, under the DIP Credit Agreement we had $12.5 million of available credit. The borrowing base is recalculated twice monthly and calculated based on secured advertising accounts receivable and inventory balances. It is also subject to seasonality of advertising sales around year-end holiday periods (and resulting growth in advertising accounts receivable balances).

The DIP Credit Agreement contains customary representations, warranties and covenants that are typical and customary for debtor-in-possession facilities of this type, including, but not limited to specified restrictions on indebtedness, liens, guarantee obligations, mergers, acquisitions, consolidations, liquidations and dissolutions, sales of assets, leases, payment of dividends and other restricted payments, voluntary payments of other indebtedness, investments, loans and advances, transactions with affiliates, sale and leaseback transactions and compliance with case milestones. The DIP Credit Agreement also contains customary events of default, including as a result of certain events occurring in the Chapter 11 Cases. The DIP Credit Agreement was subject to approval by the Bankruptcy Court.

ABL Credit Agreement and LOC Facility

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, as administrative agent ("ABL Credit Agreement") provided 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 provided for a $35.0 million cash secured letter of credit facility ("LOC Facility"). As discussed above, the ABL Credit Agreement was in effect until the Petition Date and then was replaced by the DIP Credit Agreement. As of the petition date, the ABL Credit Agreement was terminated other than for Surviving Obligations. Surviving Obligations include the ability to continue the previously collateralized letters of credit to maturity and continue with treasury and commercial card programs. In consideration for the Surviving Obligations, we agreed to provide additional cash collateral for those programs and the letters of credit outstanding.

As of March 29, 2020, we had $26.7 million standby letters of credit secured under the Surviving Obligations. As of March 29, 2020, and December 29, 2019, we were required to provide cash collateral equal to 102% and 100%, respectively, of the aggregate stated amount of each outstanding letter of credit. Cash collateral associated with the standby letters of credit, under the Surviving Obligations, is considered restricted cash and is classified in other assets on our condensed consolidated balance sheets.

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 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 29, 2019, there was no excess cash flow redemption due.

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;
- 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 becomes 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. Due to the automatic stay provisions in the Chapter 11 Cases, ASC 852 confirms that it is unnecessary to reclassify these 2026 Notes to current and therefore, they remain in long-term liabilities as of March 29, 2020.

2031 Senior Secured Junior Lien Notes and Indenture

Under the terms of the Junior Term Loan Agreement (discussed below), upon written notice to us, 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. 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. 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.

In accordance with ASC 852, we stopped accruing interest on our 2031 Notes as of the Petition Date. As of March 29, 2020, all accrued and unpaid interest on our 2031 Notes was classified as liabilities subject to compromise on the condensed consolidated balance sheet. See Note 2.

Junior 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%. In accordance with ASC 852, we stopped accruing interest on our Junior Term Loan Agreement as of the Petition Date. As of March 29, 2020, all accrued and unpaid interest on our Junior Term Loan has been classified as liabilities subject to compromise on the condensed consolidated balance sheet. See Note 2.

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 March 29, 2020. As of March 29, 2020, all accrued and unpaid interest on the 2027 Debentures and the 2027 Debentures has been classified as liabilities subject to compromise on the condensed consolidated balance sheet. See Note 2.

8. EMPLOYEE BENEFITS

Pension Plan

We maintain a Pension Plan, which covers certain eligible employees and retirees 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 employees and retirees with additional retirement benefits. These plans are funded on a pay-as-you-go basis and the accrued pension obligation is largely included in pension and postretirement obligations.

Effective with the filing of our Chapter 11 Cases, we have reclassified the current and long-term portions of the pension and supplemental retirement plan liabilities from accrued pension liabilities and pension and post-retirement obligations, respectively, to liabilities subject to compromise on the March 29, 2020, condensed consolidated balance sheet. The obligations related to our post-retirement health and welfare plan were not moved to liabilities subject to compromise because that plan was approved by the Bankruptcy Court in the Chapter 11 Cases proceedings. See Note 2 for details of the liabilities subject to compromise.

The elements of retirement benefit expense are as follows:

	Three Months Ended	
(in thousands)	March 29, 2020	March 31, 2019
Pension plans:		
Interest Cost	$ 17,302	$ 20,521
Expected return on plan assets	(20,209)	(21,502)
Special termination benefits	—	6,834
Actuarial loss	7,239	5,525
Net pension expense	4,332	11,378
Net post-retirement benefit credit	(465)	(651)
Net retirement benefit expenses	$ 3,867	$ 10,727

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 the employees 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. The remeasurement and the special termination benefits resulted in a net reduction to the pension liability 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 condensed consolidated statement of operations during the three months ended March 31, 2019.

401(k) Plan

We have a deferred compensation plan ("401(k) plan"), which enables eligible employees to defer compensation. In the three months ended March 29, 2020, and March 31, 2019, our matching contributions were $0.5 million and $0.6 million, respectively. Matching contributions are recorded in the compensation line item of our condensed consolidated statement of operations.

9. 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)	March 29, 2020	December 29, 2019
Cash and equivalents	$ 14,540	$ 10,514
Restricted cash included in other assets (1)	27,182	26,649
Total cash, cash equivalents and restricted cash	$ 41,722	$ 37,163

(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:

	Three Months Ended	
(in thousands)	March 29, 2020	March 31, 2019
Interest paid (net of amount capitalized)	$ 2,826	$ 28,323
Income taxes paid (net of refunds)	(659)	(152)
Cash paid for reorganizational items, net (1)	1,135	—

(1) Includes cash paid for professional fees and the DIP financing fees.

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.

10. COMMITMENTS AND CONTINGENCIES

Chapter 11 Cases

As discussed more fully in Note 2, on February 13, 2020, McClatchy and each of our 53 wholly owned subsidiaries filed voluntary petitions for reorganization ("Chapter 11 Cases") under Chapter 11 of the Bankruptcy Code in the Bankruptcy Court. The Chapter 11 Cases are being jointly administered under the caption *In re: The McClatchy Company, et al*., Case No. 20-10418.

Other Legal Proceedings

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 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 March 29, 2020, we had $26.7 million of standby letters of credit secured under the LOC Facility.

11. 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 29, 2019	$ (567,670)	$ (8,469)	$ (576,139)
Amounts reclassified from AOCL	6,735	—	6,735
Other comprehensive income	6,735	—	6,735
Balance at March 29, 2020	$ (560,935)	$ (8,469)	$ (569,404)

(in thousands) AOCL Component	Amount Reclassified from AOCL Three Months Ended March 29, 2020	Amount Reclassified from AOCL Three Months Ended March 31, 2019	Affected Line in the Condensed Consolidated Statements of Operations
Minimum pension and post-retirement liability	$ 6,735	$ 4,807	Retirement benefit expense [1]

[1] There is no income tax benefit associated with the three months ended March 29, 2020, or March 31, 2019, due to the recognition of a valuation allowance.

Stock Plans Activity

The following table summarizes the restricted stock units ("RSUs") activity during the three months ended March 29, 2020:

	RSUs	Weighted Average Grant Date Fair Value
Nonvested — December 29, 2019	413,466	$ 7.00
Vested	(205,028)	$ 7.55
Forfeited	(975)	$ 6.46
Nonvested — March 29, 2020	207,463	$ 6.45

The total fair value of the RSUs that vested during the three months ended March 29, 2020, was $44.9 thousand.

The following table summarizes the stock appreciation rights ("SARs") activity during the three months ended March 29, 2020:

	SARs	Weighted Average Exercise Price	Aggregate Intrinsic Value (in thousands)
Outstanding December 29, 2019	88,875	$ 31.61	$ —
Outstanding March 29, 2020	88,875	$ 31.61	$ —

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 March 29, 2020, 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:

	Three Months Ended	
(in thousands)	**March 29, 2020**	**March 31, 2019**
Stock-based compensation expense	$ 406	$ 663

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	
(shares in thousands)	**March 29, 2020**	**March 31, 2019**
Anti-dilutive common stock equivalents	360	160

12. SUBSEQUENT EVENTS

Subsequent to March 29, 2020, we received approval from the Bankruptcy Court to reject several of our operating leases and five of our financing obligations. These lease rejections, upon actual termination, will be accounted for as lease terminations or modifications in accordance with ASC 842 during the quarters ending June 28, 2020, and September 27, 2020, as applicable.

As of March 29, 2020, these rejected operating leases represented approximately $24.0 million and $31.8 million of ROU assets and operating lease liabilities, respectively, within our condensed consolidated balance sheet. We are still evaluating the full impact that the ASC 842 modification and termination accounting will have on our ROU asset and lease liability balances during the second and third quarters of 2020. In addition to any gains or losses recognized from the termination of the leases, we also estimate that we will incur $9.0 to $11.0 million in estimated damages on the rejected leases during the second and third quarters of 2020, as applicable.

As of March 29, 2020, the rejected leases that are accounted for as financing obligations represented $31.0 million of property, plant and equipment ("PP&E"), net and $41.9 million of financing obligations, within our condensed consolidated balance sheet. We expect the reduction of PP&E and the financing obligation will result in a net non-cash gain of approximately $11.0 million during the quarter and six months ending June 28, 2020. This net gain will be partially offset by $3.3 million in estimated damages on the rejected leases during the second quarter of 2020.

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, and the outcome of the Chapter 11 Cases. 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 risks and uncertainties include, but are not limited to:

- the effects of the Bankruptcy Court rulings in the Chapter 11 Cases (as defined in Note 2) and the outcome of the proceedings in general;
- the length of time the Company will operate while in the Chapter 11 Cases;
- our restructuring efforts rely on coming to terms with multiple parties who may have conflicting interests;
- the potential adverse effects of Chapter 11 Cases on the Company's liquidity or results of operations or its ability to pursue its business strategies, maintain business and operational relationships and retain key executives;
- our ability to complete definitive documentation in connection with any Chapter 11 transaction satisfactory to the Company and our stakeholders, and our ability to obtain requisite support for any proposed transaction from various stakeholders and confirm and consummate that transaction in accordance with its terms;
- the sufficiency of the DIP Facility (as defined below) to allow the Company to operate as usual and fulfill ongoing commitments to stakeholders;
- our ability to successfully emerge from Chapter 11 via a plan of reorganization or to successfully consummate the proposed sale of the business pursuant to Section 363 of the Bankruptcy Code, which will be contingent upon numerous factors, including obtaining the Bankruptcy Court's approval of a Chapter 11 plan of reorganization or sale agreement;
- our ability to obtain a new credit facility, or "exit financing" upon our emergence from Chapter 11;
- increased levels of employee attrition during the Chapter 11 Cases;
- our reliance on third party vendors and the impact of the Chapter 11 filing on such relationships;
- our ability to continue as a going concern;
- the continued trading of our securities on the OTC Pink Market;
- significant competition in the market for news and advertising;
- general economic and business conditions;
- continued diminished revenues from advertising as a result of the COVID-19 pandemic and increased costs or other disruptions as a result of COVID-19;
- changes in technology, services and standards, and changes in consumer behavior;
- ability to grow and manage our digital businesses;
- our ability to successfully execute cost-control measures, including selling excess assets;
- any changes to our business and operations that may result in goodwill and masthead impairment charges;
- any harm to our reputation, business and results of operations resulting from data security breaches and other threats and disruptions;
- fluctuating price of newsprint or disruptions in newsprint supply chain;
- any labor unrest;
- accelerated decline in print circulation volume;
- developments in the laws and regulations to which we are subject resulting in increased costs and lower revenues; and
- adverse results from litigation or governmental investigations.

Although the forward-looking statements in this report reflect the good faith judgment of our management, such statements can only be based on facts and factors currently known by them. In light of these risks and uncertainties, you are cautioned not to place undue reliance on these forward-looking statements. Except as required by law, we undertake no obligation to announce publicly revisions we make to these forward-looking statements to reflect the effect of events or circumstances that may arise after the date of this report. All written and oral forward-looking statements made subsequent to the date of this report and attributable to us or persons acting on our behalf are expressly qualified in their entirety by this section.

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 three months ended March 29, 2020, 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 2019 Annual Report filed on Form 10-K with the Securities and Exchange Commission on March 30, 2020. All period references are to our fiscal periods unless otherwise indicated.

Overview

We operate 30 media companies in 14 states, each providing its community 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 as of February 14, 2020, our Class A Common Stock is listed on the OTC Pink Market under the symbol MNIQQ.

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

	Three Months Ended	
	March 29, 2020	**March 31, 2019**
Revenues:		
Advertising	39.8 %	47.2 %
Audience	51.7 %	46.1 %
Other	8.5 %	6.7 %
Total revenues	100.0 %	100.0 %

Our primary sources of revenues are digital and print 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 three months ended March 29, 2020, and March 31, 2019.

Recent Developments

Bankruptcy Filing and Going Concern

As a result of the commencement of the Chapter 11 Cases on February 13, 2020, we are operating as a debtor-in-possession pursuant to the authority granted under Chapter 11 of the Bankruptcy Code. Pursuant to the Chapter 11 Cases, we intend to restructure our balance sheet and reduce overall indebtedness. Additionally, as a debtor-in-possession, certain of our activities are subject to review and approval by the Bankruptcy Court, including, among other things, the incurrence of secured indebtedness, material asset dispositions, and other transactions outside the ordinary course of business. There can be no guarantee we will successfully consummate a sale of our assets or agree upon a viable plan of reorganization with our various stakeholders, or that any such agreement will be reached in the time frame that is acceptable to the Bankruptcy Court.

We have concluded that our financial condition and projected operating results, contribution amounts required on our Pension Plan, defaults under our debt agreements, and the risks and uncertainties surrounding our Chapter 11 Cases raise substantial doubt as to our ability to continue as a going concern.

See Note 2 for further discussion.

Debtor-In-Possession Financing

To ensure sufficient liquidity throughout the Chapter 11 Cases, we obtained a $50.0 million DIP Credit Agreement. This DIP Credit Agreement, coupled with our normal operating cash flows, is providing liquidity for McClatchy and all of our local news outlets to operate as usual and fulfill ongoing commitments to stakeholders.

The DIP Credit Agreement, which replaces our former ABL Credit Agreement. (see Note 7 for further discussion of our debt), provides for a DIP Facility consisting of a new revolving loan facility in an aggregate principal amount up to $50 million, which is in the form of revolving loans that are subject to borrowing base limitations or, subject to a sub-limit of $3.5 million, in the form of letters of credit. Our obligations under the DIP Facility will be secured by all of our assets, whether now existing or hereafter acquired. The maturity date of the DIP Facility is no later than August 12, 2021.

Delisting of our Common Stock from the NYSE American

Our Class A Common Stock was previously listed on the NYSE American under the symbol MNI. On February 13, 2020, the NYSE American suspended the trading of our Class A Common Stock upon our filing the Chapter 11 Cases, and our Class A Common Stock has been quoted “over-the-counter” on the OTC Pink Market under the symbol MNIQQ. On February 21, 2020, the NYSE American filed a Form 25 with the SEC to delist our Class A Common Stock from the NYSE American. The delisting was effective 10 days after the Form 25 was filed. The deregistration of the Common Stock under Section 12(b) of the Exchange Act became effective on May 21, 2020, 90 days after the filing date of the Form 25.

Coronavirus (COVID-19) Pandemic

In early 2020, the World Health Organization declared that the recent COVID-19 outbreak was a global health emergency and then in March 2020, they raised the COVID-19 outbreak to “pandemic” status. Our advertising revenues are dependent on general economic and business conditions in our markets or those impacting our customers, including from natural disasters and public health emergencies, such as COVID-19. The transmission of COVID-19 and efforts to contain its spread have resulted in international, national and local border closings and other significant travel restrictions and disruptions, significant disruptions to business operations, supply chains and customer activity, event cancellations and restrictions, service cancellations, reductions and other changes, significant challenges in healthcare service preparation and delivery, quarantines and related government actions and policies, as well as general concern and uncertainty that has negatively affected the economic environment.

In the states in which we operate, the governors issued stay-at-home orders, which restricted the movements of residents except for essential tasks or to go to work in essential businesses. These restrictions have caused challenges to our business operations and have increased the risk factors listed above. And while, the news media industry has generally been designated as essential businesses thus far, if significant portions of our workforce are unable to work effectively, our operations, including the printing and delivery of print newspapers, will likely be impacted. We may be unable to perform fully on our contracts and our costs may increase. These cost increases may not be fully recoverable or adequately covered by insurance. Furthermore, the outbreak of COVID-19 has severely impacted global economic activity and caused significant volatility and negative pressure in the financial markets.

The majority of the COVID-19 pandemic impacts have been to total advertising revenues (39.8% of total revenues in the first quarter of 2020), the collectability of some of our accounts receivables, single copy newspaper revenues (5.1% of total revenues in the first quarter of 2020), and employee costs. We continue to monitor the situation, to assess further possible implications to our business and customers, and to take actions in an effort to mitigate adverse consequences.

On March 27, 2020, the CARES Act was signed into law. Key provisions of the CARES Act include one-time payments to individuals, strengthened unemployment insurance, additional health-care funding, loans and grants to certain businesses, and temporary amendments to the Internal Revenue Code.

While we do not qualify for any of the business loans or grants under the CARES Act, modifications to the tax rules for the carryback of net operating losses and business interest limitations allowed us to file for a federal tax refund of approximately $11.7 million. In addition, section 2302 of the CARES Act allows us to delay the payment of our share of certain payroll taxes incurred from March 27, 2020, through December 31, 2020.

Non-Cash Impairment Charges

During the quarter ended March 29, 2020, we performed an interim testing of impairment of goodwill and intangible newspaper mastheads due to the continuing challenging business conditions and changes in our assessment of profitability in future years. As a result, during the quarter ended March 29, 2020, we recorded impairment charges to goodwill and intangible newspaper mastheads of $59.0 million and $4.8 million, respectively. See Notes 3 and 6 for further discussion.

Results of Operations

The following table reflects our financial results on a consolidated basis for the three months ended March 29, 2020, and March 31, 2019.

	Three Months Ended	
(in thousands, except per share amounts)	**March 29, 2020**	**March 31, 2019**
Net loss	$ (178,653)	$ (41,956)
Net loss per diluted common share	$ (22.52)	$ (5.34)

The increase in the net loss in the three months ended March 29, 2020, compared to the same period in 2019, was primarily due to the recognition of $95.2 million of reorganizational items related to the Chapter 11 Cases during the three months ended March 29, 2020. In addition, goodwill and other asset write-downs of $63.8 million in 2020 compared to $0.7 million in 2019. While advertising revenues were lower during the three months ended March 29, 2020, compared to the same period in 2019, the lower revenues were largely offset by lower operating expenses, excluding goodwill and other asset write-downs.

Revenues

During the three months ended March 29, 2020, total revenues decreased 13.5% compared to the same period in 2019, primarily due to the continued decline in demand for advertising. The decline was accelerated in the last few weeks of the first quarter of 2020 as stay-at-home orders were issued and many businesses closed temporarily due to the COVID-19 pandemic. The decline in print advertising was also due to 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.

The following table summarizes our revenues by category:

	Three Months Ended			
(in thousands)	March 29, 2020	March 31, 2019	$ Change	% Change
Advertising				
Digital-only	$ 24,550	$ 34,433	$ (9,883)	(28.7)
Digital bundled with print	6,150	6,114	36	0.6
Total digital	30,700	40,547	(9,847)	(24.3)
Print	20,609	31,209	(10,600)	(34.0)
Direct marketing	10,786	13,439	(2,653)	(19.7)
Total advertising	62,095	85,195	(23,100)	(27.1)
Total audience	80,692	83,112	(2,420)	(2.9)
Other revenues	13,238	12,017	1,221	10.2
Total revenues	$ 156,025	$ 180,324	$ (24,299)	(13.5)

Advertising Revenues

Total advertising revenues decreased 27.1% during the three months ended March 29, 2020 compared to the same period in 2019. We experienced declines in both advertising on our owned and operated products as well as on advertising placed on our third-party partner's products, as discussed below.

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

	Three Months Ended	
	March 29, 2020	March 31, 2019
Advertising:		
Total digital	49.4 %	47.6 %
Print	33.2 %	36.6 %
Direct marketing and other	17.4 %	15.8 %
Total advertising	100.0 %	100.0 %

We categorize advertising revenues as follows:

- Digital advertising - can come in many forms, including banner ads, video, search advertising and/or liner ads, while print advertising is typically display advertising, or in the case of classified, display and/or liner advertising.
- Print advertising - directly in the newspaper is considered ROP advertising.
- Direct Marketing and Other – primarily preprint advertisements in direct mail, shared mail and niche publications, events programs, total market coverage publications and other miscellaneous advertising not included in the daily newspaper. These products are generally delivered to non-subscribers of our daily newspapers.

Digital:

Total digital advertising revenues decreased 24.3% during the three months ended March 29, 2020, compared to the same period in 2019. Digital advertising constituted 49.4% of total advertising revenues in the three months ended March 29, 2020 compared to 47.6% for the same period in 2019. 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 28.7% in the first three months of 2020 compared to the same period in 2019, largely due to display advertising and a loss of an affiliate agreement that ended in the December 2019. In addition, in March 2020 we started experiencing decreases in advertising buys as a result of the COVID-19 pandemic and the temporary closure of businesses throughout the country.

Digital advertising revenues bundled with print products increased slightly in the first quarter of 2020 compared to the same period in 2019.

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 34.0% during the three months ended March 29, 2020, compared to the same period in 2019.

In the first quarter of 2020, the decreases in print advertising revenues were primarily due to decreases of 37.2% in ROP advertising revenues and 26.4% in preprint advertising revenues compared to the same period in 2019. Print advertising results were also impacted by the COVID-19 pandemic and temporary closure of businesses. We expect to continue to see a significant decrease in print revenues in the future periods until businesses are able to allow customers back into their establishments.

Direct Marketing:

Direct marketing and other advertising revenues decreased 19.7% during the three months ended March 29, 2020, compared to the same period in 2019. The decrease was largely due to declines in insert advertising in our total market coverage (“TMC”) products by large retail customers.

Audience Revenues

Total audience revenues decreased 2.9% during the three months ended March 29, 2020, compared to the same period in 2019. Total audience revenues represented 51.7% of the total revenues during the first three months of 2020 compared to 46.1% in the same period of 2019.

Overall, total digital audience revenues decreased 3.4% in the three months ended March 29, 2020, compared to the same period in 2019. Digital audience revenues that were bundled with print decreased 11.7% but were partially offset by a 47.0% increase in digital-only audience revenues in the three months ended March 29, 2020, compared to the same period in 2019. The increase in digital-only audience revenues during 2020 was a result of a 31.5% increase in our digital-only subscribers to 235,500 as of the end of the first quarter of 2020 compared to 179,100 as of the end of the first quarter in 2019.

Print audience revenues decreased 2.7% in the three months ended March 29, 2020, compared to the same period in 2019, primarily due to lower print circulation volumes that were partially offset by pricing adjustments. 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. While the COVID-19 pandemic negatively impacted advertising, audience revenues were not as sensitive to the COVID-19 pandemic. Specifically, digital-only subscriptions saw a greater increase during the month of March 2020.

Operating Expenses

Total operating expenses increased 22.3% in the three months ended March 29, 2020, compared to the same period in 2019, primarily due to increases in goodwill and other asset write-downs. This was partially offset by decreases in compensation, newsprint and amortization expenses, as discussed below. Our total operating expenses, excluding goodwill and other asset write-downs, decreased 11.4% and reflects our continued effort to reduce costs through streamlining processes to gain efficiencies.

The following table summarizes operating expenses:

	Three Months Ended			
(in thousands)	**March 29, 2020**	**March 31, 2019**	**$ Change**	**% Change**
Compensation expenses	$ 58,442	$ 69,435	$ (10,993)	(15.8)
Newsprint, supplements and printing expenses	8,880	11,696	(2,816)	(24.1)
Depreciation and amortization expenses	14,992	17,518	(2,526)	(14.4)
Other operating expenses	83,328	88,204	(4,876)	(5.5)
Goodwill and other asset write-downs	63,762	739	63,023	nm
	$ 229,404	$ 187,592	$ 41,812	22.3

nm – not meaningful

Compensation expenses, which included both payroll and fringe benefit costs, decreased 15.8% in the three months ended March 29, 2020, compared to the same period in 2019. Payroll expenses declined 15.1% during the three months ended March 29, 2020, compared to the same period in 2019, primarily due to the reduction in headcount. Average full-time equivalent employees declined 16.4% in the three months ended March 29, 2020, compared to the same period in 2019. Fringe benefit costs decreased 19.5% in the three months ended March 29, 2020, compared to the same period in 2019, which is consistent with the decreases in payroll expenses.

Newsprint, supplements and printing expenses decreased 24.1% in the three months ended March 29, 2020, compared to the same period in 2019. Newsprint expense declined 36.5% during the first three months of 2020 compared to the same period in 2019. The newsprint expense decline reflects a decrease in newsprint tonnage used of 25.0%, in the first three months of 2020. Newsprint prices decreased 15.3% during the first three months of 2020 compared to the same period in 2019. During these same periods, printing expenses, which are primarily costs associated with outsourced printing to third-parties, decreased 25.3% due to decreases in volume printed.

Depreciation and amortization expenses decreased 14.4% in the three months ended March 29, 2020, compared to the same period in 2019. The decrease is primarily related to amortization expense that decreased $11.6 million in the first three months of 2020 compared to the same period in 2019. A majority of the intangible assets subject to amortization became fully amortized in the second quarter of 2019. This decrease in amortization expense was partially offset by an increase in depreciation expense of $9.1 million in the first three months of 2020 compared to the same period in 2019, primarily as a result of accelerated depreciation. During the first three months of 2020, we recorded accelerated depreciation expenses of $10.0 million related to the print production equipment in Miami, Florida that has been identified for outsourcing in 2020. There was no comparable accelerated depreciation in the first three months of 2019.

Other operating expenses decreased 5.5% in the three months ended March 29, 2020, compared to the same period in 2019. The decrease was primarily a result of cost savings initiatives and other efforts to reduce operational costs. During the first three months of 2020, compared to the same period in 2019, we had decreases in various categories, such as marketing, third-party related fees for interactive services, circulation delivery costs, professional fees and other miscellaneous expenses. These decreases were partially offset by an increase in bad debt and other miscellaneous expenses.

Goodwill and other asset write-downs include charges of $63.8 million in the first three months of 2020 compared to $0.7 million in the same period in 2019. These write-downs in the first quarter of 2020 are due to impairment charges to goodwill of $59.0 million and intangible newspaper mastheads of $4.8 million. Other asset write-downs in the first quarter of 2019 includes impairment charges recognized upon classifying certain land and buildings as assets held for sale.

Non-Operating Expenses

Interest Expense:

Total interest expense decreased 24.6% in the three months ended March 29, 2020, compared to the same period in 2019. In the first three months of 2020, interest expense related to debt balances decreased $5.6 million compared to the same period in 2019. The decrease in the first quarter of 2020 is partially due to lower overall debt balances resulting from redemptions made in 2019, but also due to the cessation of interest accruals on outstanding pre-petition debt beginning February 13, 2020, in accordance with ASC 852. As such, we stopped accruing interest expense on all of our long-term debt except for the first lien 2026 Notes.

Reorganizational items, net:

Reorganizational items, net, totaled $95.2 million for the three months ended March 29, 2020, and include charges and gains incurred since the Petition Date related to the Chapter 11 Cases. See Note 2 for a detailed description of the charges and offsetting gains. We expect professional fees to continue to be substantial until such time that the Chapter 11 Cases have concluded.

Income Taxes:

In the three months ended March 29, 2020, we recorded an income tax benefit of $8.7 million. As discussed more fully in Note 3 under *Income Taxes*, during the first three months of 2019, we recorded charges of $8.5 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, certain permanently non-deductible expenses, the impact of non-tax deductible charges related to intangibles and goodwill, and the ability to carryback our net operating loss generated in 2019 resulting in an income tax benefit for the receivable due to changes in the tax laws from the CARES Act.

Liquidity and Capital Resources

As a result of the commencement of the Chapter 11 Cases on February 13, 2020, we are operating as a debtor-in-possession pursuant to the authority granted under Chapter 11 of the Bankruptcy Code. As a debtor-in-possession, certain of our activities are subject to review and approval by the Bankruptcy Court, including, among other things, the incurrence of secured indebtedness, material asset dispositions, and other transactions outside the ordinary course of business. There can be no guarantee we will successfully consummate a sale of our assets or agree upon a viable plan of reorganization with our various stakeholders or reach any such agreement in the time frame that is acceptable to the Bankruptcy Court. See Note 2 for additional information.

We have entered into a $50.0 million DIP Credit Agreement with Encina which, coupled with our normal operating cash flows, is providing liquidity for McClatchy and all of our local news outlets to operate as usual and fulfill ongoing commitments to stakeholders. The proceeds of the loans extended under the DIP Credit Agreement may be used for purposes permitted by orders of the Bankruptcy Court, including (i) for working capital and other general corporate purposes, (ii) to pay transaction costs, professional fees and other obligations and expenses incurred in connections with the DIP Facility, the Chapter 11 Cases and the transactions contemplated thereunder, and (iii) to pay adequate protection expenses, if any to the extent set forth in any order entered by the Bankruptcy Court.

As a result of the substantial doubt about our ability to continue as a going concern for the next twelve months, and the associated steps that have been undertaken to restructure our balance sheet, our expected cash outflows related to interest payments on our debt in 2020 are difficult to predict at this time. We expect to make adequate protection payments on our DIP Credit Agreement and our first lien notes during 2020 in accordance with the Bankruptcy Court order approving the DIP Credit Agreement but do not expect to make interest payments on our other loans, notes and debentures. We plan to fund our ongoing operations through available borrowings under our DIP Credit Agreement as well as cash generated from operations.

We are unable to predict when we will emerge from Chapter 11 because it is contingent upon numerous factors, many of which are out of our control. Emergence from bankruptcy is contingent upon several factors, which includes obtaining the Bankruptcy Court's approval of (i) a Chapter 11 plan of reorganization, which will enable us to transition from Chapter 11 into ordinary course operations outside of bankruptcy, or (ii) a sale of our assets pursuant to Section 363 of the Bankruptcy Code. We also may need to obtain a new credit facility, or "exit financing." Our ability to obtain such approval and financing will depend on, among other things, the timing and outcome of various ongoing matters related to the Chapter 11 Cases as well as the general global economic downturn due to the recent outbreak of COVID-19. If approved, a sale of our assets or a plan of reorganization will determine the rights and satisfaction of claims of various creditors and security holders, and is subject to the ultimate outcome of negotiations and Bankruptcy Court decisions ongoing through the date on which such plan is confirmed.

We are a highly leveraged company. Our primary sources of liquidity are cash flows generated from operations and availability under our DIP Credit Agreement. Subsequent to and during pendency of the Chapter 11 Cases, we expect that our primary liquidity requirements will be to fund operations and make required payments under our DIP Credit Agreement. Our ability to meet the requirements of our DIP Credit Agreement will be dependent on our ability to generate sufficient cash flows from operations.

Based on current financial projections, we expect to be able to continue to generate cash flows from operations and through availability on our DIP Credit Agreement, in amounts sufficient to fund our operations, satisfy our interest payment obligations on our DIP Credit Agreement and pay administrative expenses including professional fees while under Chapter 11. However, should the Chapter 11 Cases take longer than anticipated or should our financial results be materially and negatively impacted by the COVID-19 pandemic, we may be required to seek additional sources of liquidity. There can be no assurance that we will be able to obtain such liquidity on terms favorable to us, if at all.

At March 29, 2020, we had $703.3 million aggregate principal amount of outstanding debt consisting of $262.9 million of our 2026 Notes, $157.1 million of our Junior Term Loan, $268.4 million of our senior secured junior lien 2031 Notes and $14.9 million of our unsecured Debentures.

Pension Matters:

For our Pension Plan, the net retirement obligations in excess of the retirement plan assets were $650.2 million as of December 29, 2019, consisting of $124.2 million of current pension liabilities and $526.0 million of long-term pension and postretirement obligations. We will seek the Bankruptcy Court's authority to terminate our Pension Plan, and appoint the PBGC as the plan's trustee. Under a plan termination, the PBGC would continue to pay the Pension Plan participants their benefits, subject to federal statutory limits. Under current regulations, we believe that such a solution would not have an adverse impact on qualified pension benefits for substantially all plan participants.

Sources and Uses of Liquidity and Capital Resources:

Our cash and cash equivalents were $14.5 million as of March 29, 2020, compared to $17.4 million and $10.5 million as of March 31, 2019, and December 29, 2019, respectively.

The following table summarizes our cash flows:

	Three Months Ended	
(in thousands)	**March 29, 2020**	**March 31, 2019**
Cash flows provided by (used in)		
Operating activities	$ 6,569	$ (5,712)
Investing activities	(646)	(237)
Financing activities	(1,364)	(579)
Increase (decrease) in cash, cash equivalents and restricted cash	$ 4,559	$ (6,528)

Operating Activities:

We generated $6.6 million of cash from operating activities in the three months ended March 29, 2020, compared to using $5.7 million in the three months ended March 31, 2019. The increase in operating cash flows primarily reflects lower accounts payable payments in 2020 compared to 2019 due to the Chapter 11 Cases which limits our ability to pay pre-petition amounts and the change in our accrued interest balances in the first three months of 2020 compared to the same period in 2019. This was partially offset by payments of approximately $10.0 million in additional deposits that were required as part of the Chapter 11 Cases. In the first three months of 2020, we had interest payments of $2.8 million compared to interest payments of $28.3 million during the same period in 2019. The remaining changes in operating activities relate to miscellaneous timing differences in various payments and receipts.

Investing Activities:

We used $0.6 million of cash from investing activities in the three months ended March 29, 2020, primarily for the purchase of PP&E. We expect total capital expenditures for the full year of 2020 to be approximately $4.0 million.

We used $0.2 million of cash from investing activities in the three months ended March 31, 2019, primarily for the purchase of purchase of PP&E.

Financing Activities:

We used $1.4 million of cash for financing activities in the three months ended March 29, 2020, compared to using $0.6 million in the three months ended March 31, 2019. In 2020, the net cash used was primarily related to $0.8 million for the debt issuance costs related to the DIP financing.

Off-Balance-Sheet Arrangements

As of March 29, 2020, 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 estimates about the effect of matters that are inherently uncertain. Our 2019 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 2019 Annual Report on Form 10-K.

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 March 29, 2020, 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 10 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 6. EXHIBITS

Exhibit Number		Description
10.1		Standstill Agreement dated January 14, 2020 by and between the Company and the Pension Benefit Guaranty Corporation
10.2		Form of Debtor-in-Possession Credit Agreement, dated February 12, 2020, among Encina Business Credit, LLC, as administrative agent for each member of the Lender Group and the Bank Product Providers, the Company, as a debtor and debtor-in-possession, and certain of the Borrowers party thereto
10.3		Engagement Letter, dated February 23, 2020, by and between The McClatchy Company and FTI Consulting, Inc.
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)
June 29, 2020	/s/Craig I. Forman
Date	Craig I. Forman Chief Executive Officer
June 29, 2020	/s/Peter R. Farr
Date	Peter R. Farr Chief Financial Officer

[FTI Logo]

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CONFIDENTIAL

February 23, 2020

Mr. Craig Forman
Chief Executive Officer
The McClatchy Company
2100 Q Street
Sacramento, CA 95816

Re: The McClatchy Company

Dear Mr. Forman:

The purpose of this letter is to confirm the understanding and agreement (the "Agreement") between The McClatchy Company (the "Client" or "Company") and FTI Consulting, Inc. ("FTI") concerning the Client's engagement of FTI to provide certain temporary employees to the Client as described in Exhibit B (the "Services"). This Agreement is effective on [Date] (the "Effective Date"). The FTI Standard Terms and Conditions attached hereto as Exhibit "A" are also incorporated herein and forms part of this Agreement.

1. <u>Temporary Officers, Hourly Temporary Employees and Services</u>

FTI will provide Sean M. Harding to serve as the Client's Chief Restructuring Officer (the "CRO" or "Temporary Officer) reporting to the Board of Directors ("Board") in connection with the Engagement. The Temporary Officer, as well as any additional Hourly Temporary Staff, (as defined below), shall have such duties as the Chief Executive Officer ("CEO") may from time to time determine, and shall at all times report to and be subject to supervision by the Board. Without limiting the foregoing, the Temporary Officer, as well as any Hourly Temporary Staff, shall work with other senior management of the Client, and other professionals, to provide the Services.

In addition to providing the Temporary Officers, FTI may also provide the Client with additional staff (the "Hourly Temporary Staff" and, together with the Temporary Officer, the "FTI Professionals"), subject to the terms and conditions of this Agreement. The Hourly Temporary Staff may be assisted by or replaced by other FTI professionals reasonably satisfactory to the Board and/or Committee, as required, who shall also become Hourly Temporary Staff for purposes hereof. The initial schedule of Hourly Temporary Staff is set out on Exhibit "C". FTI will keep the CEO reasonably informed as to FTI's staffing and will not add additional Hourly Temporary Staff to the assignment without first consulting with the Client.

If our retention is approved by the Bankruptcy Court, our role will include serving as principal bankruptcy financial advisors to the debtors and debtors in possession in those cases under a general retainer, subject to court approval.

The services we will provide in connection with the Engagement will encompass all services normally and reasonably associated with this type of engagement that we are requested and are able to provide and that are consistent with our ethical obligations. With respect to all matters of our Engagement, we will coordinate closely with the Company as to the nature of the services that we will render and the scope of our engagement.

As usual, our Engagement is to represent the Company and not its individual directors, officers, employees or shareholders. However, we anticipate that in the course of that Engagement, we may provide information or advice to directors, officers or employees in their corporate capacities.

The engagement of FTI to perform the Services shall be subject to the approval of the Bankruptcy Court and shall be substantially as provided in this Agreement as modified by the retention order approved by the Bankruptcy Court. Client agrees, at Client's expense, to file an application (the "Application") to employ FTI as crisis and turnaround manager *nunc pro tunc* to the Effective Date pursuant to § 363 of the Bankruptcy Code. The Client agrees to file all required applications, including the Application, for the employment or retention of FTI at the earliest practical time.

The Services do not include (i) audit, legal, tax, environmental, accounting, actuarial, employee benefits, insurance advice or similar specialist and other professional services which are typically outsourced and which shall be obtained directly where required by the Client at Client's expense; or (ii) investment banking, including valuation or securities analysis, including advising any party or representation of the Client on the purchase, sale or exchange of securities or representation of the Client in securities transactions. FTI is not a registered broker-dealer in any jurisdiction and will not offer advice or its opinion or any testimony on valuation or exchanges of securities or on any matter for which FTI is not appropriately licensed or accredited. An affiliate of FTI is a broker-dealer but is not being engaged by the Client to provide any investment banking or broker-dealer services. The Client agrees to supply office space, and office and support services to FTI as reasonably requested by FTI in connection with the performance of its duties hereunder.

2. Compensation to FTI

Fees in connection with this Engagement will be based upon the time incurredproviding the Services, multiplied by our standard hourly rates, summarized as follows:

	United States Per Hour (USD)
Senior Managing Directors	$920 – 1,295
Directors / Senior Directors / Managing Directors	690 – 905
Consultants/Senior Consultants	370 – 660
Administrative / Paraprofessionals	150 – 280

Hourly rates are generally revised periodically. To the extent this engagement requires services of our International divisions or personnel, the time will be multiplied by our standard hourly rates applicable on International engagements.

In addition to the fees outlined above, FTI will bill for reasonable direct expenses which are likely to be incurred on your behalf during this Engagement. Direct expenses include reasonable and customary out-of-pocket expenses which are billed directly to the engagement such as internet access, telephone, overnight mail, messenger, travel, meals, accommodations and other expenses specifically related to this engagement. Further, if FTI and/or any of its emloyees are required to testify or provide evidence at or in connection with any judicial or administrative proceeding relating to this matter, FTI will be compensated by you at its regular hourly rates and reimbursed for reasonable allocated and direct expenses (including counsel fees) with respect thereto.

We will send the Company periodic invoices (not less frequently than monthly) for services rendered and charges and disbursements incurred on the basis discussed above, and in certain circumstances, an invoice may be for estimated fees, charges and disbursements through a date certain. Each invoice constitutes a request for an interim payment against the fee to be determined at the conclusion of our Services. Upon transmittal of the invoice, we may immediately draw upon the Initial Cash on Account (as replenished from time to time) in the amount of the invoice. The Company agrees upon submission of each such invoice to promptly wire the invoice amount to us as replenishment of the Initial Cash on Account (together with any supplemental amount to which we and the Company mutually agree), without prejudice to the Company's right to advise us of any differences it may have with respect to such invoice. We have the right to apply to any outstanding invoice (including amounts billed prior to the date hereof), up to the remaining balance, if any, of the Initial Cash on Account (as may be supplemented from time to time) at any time subject to (and without prejudice to) the Company's opportunity to review our statements.

The Company agrees to promptly notify FTI if the Company or any of its subsidiaries or affiliates extends (or solicits the possible interest in receiving) an offer of employment to a principal or employee of FTI involved in this Engagement and agrees that FTI has earned and is entitled to a cash fee, upon hiring, equal to 150% of the aggregate first year's annualized compensation, including any guaranteed or target bonus and equity award, to be paid to FTI's former principal or employee that the Company or any of its subsidiaries or affiliates hires at any time up to one year subsequent to the date of the final invoice rendered by FTI with respect to this Engagement.

Cash on Account:

FTI will transfer the funds held on account pursuant to the Engagement Contract dated July 31, 2019, the First Addendum dated November 8, 2019, and the Second Addendum dated December 30, 2019, betewen the Company and FTI, which funds will be held "on account" to be applied to our professional fees, charges and disbursements for the Engagement (the "Initial Cash on Account"). To the extent that this amount exceeds our fees, charges and disbursements upon the completion of the Engagement, we will refund any unused portion. The Company agrees to increase or supplement the Initial Cash on Account from time to time during the course of the Engagement in such amounts as the Company and we mutually shall agree are reasonably necessary to increase the Initial Cash on Account to a level that will be sufficient to fund Engagement fees, charges, and disbursements to be incurred.

In a case under the Bankruptcy Code, fees and expenses may not be paid without the express prior approval of the bankruptcy court. In most cases of this size and complexity, on request of a party in interest, the bankruptcy court permits the payment of interim fees during the case. The Company agrees that, if asked to do so by us, the Company will request the bankruptcy court to establish a procedure for the payment of interim fees during the case that would permit payment of interim fees. If the bankruptcy court approves such a procedure, we will submit invoices on account against our final fee. These interim invoices will be based on such percentage as the bankruptcy court allows of our internal time charges and costs and expenses for the work performed during the relevant period and will constitute a request for an interim payment against the reasonable fee to be determined at the conclusion of our representation.

After the Company's entities became a debtor in one or more cases under the Bankruptcy Code, some fees, charges, and disbursements (whether or not billed) incurred before the filing of bankruptcy petitions (voluntary or involuntary) remain unpaid as of the date of the filing. The unused portion, if any, of the Initial Cash on Account will be applied to any such unpaid pre-petition fees, charges and disbursements.

Any requisite court permission will be obtained in advance. We will then hold any portion of the Initial Cash on Account not otherwise properly applied for the payment of any such unpaid pre-filing fees, charges and disbursements (whether or not billed) as on account cash to be applied to our final invoice in any case under the Bankruptcy Code.

Post-petition fees, charges and disbursements will be due and payable immediately upon entry of an order containing such court approval or at such time thereafter as instructed by the court. The Company understands that while the arrangement in this paragraph may be altered in whole or in part by the bankruptcy court, the Company shall nevertheless remain liable for payment of court approved post-petition fees and expenses. Such items are afforded administrative priority under 11 U.S.C. § 503(b)(l). The Bankruptcy Code provides in pertinent part, at 11 U.S.C. § 1l29(a)(9)(A), that a plan cannot be confirmed unless these priority claims are paid in full in cash on the effective date of any plan (unless the holders of such claims agree to different treatment). It is agreed and understood that the unused portion, if any, of the Initial Cash on Account (as may be supplemented from time to time) shall be held by us and applied against the final fee application filed and approved by the court.

Additional Provisions Regarding Fees:

a) FTI may stop work or terminate the Agreement immediately upon the giving of written notice to the Client (i) if payments are not made in accordance with this Agreement, (ii) if the Application is not approved by the Bankruptcy Court, (iii) if the Chapter 11 case is dismissed or converted to a Chapter 7 proceeding, or (iv) if a Chapter 11 Trustee or other responsible person is appointed.

b) If, and only if, local Bankruptcy rules or the order approving the Application so require, FTI shall file with and serve on creditors entitled to notice thereof, a statement of staffing, professional services, compensation or expenses, on a quarterly basis, or as the Bankruptcy Court or rules may direct, and creditors and other parties in interest shall have an opportunity to object thereto and request a hearing thereon. (ii) In the event that FTI is employed post-petition as a "professional person" pursuant to § 327 of the Bankruptcy Code, Bankruptcy Court approval will generally be required to pay FTI's fees and expenses for Post-petition Services. In most cases of this size and complexity, on request of a party in interest, the bankruptcy court permits the payment of interim fees during the case. The Client agrees that in this situation it will, at the Client's expense, request the Bankruptcy Court to establish a procedure for the payment of interim fees during the case that would permit payment of interim fees. If the Bankruptcy Court approves such a procedure, we will submit invoices on account against our final fee. These interim invoices will be based on such percentage as the bankruptcy court allows of our internal time charges and costs and expenses for the work performed during the relevant period and will constitute a request for an interim payment against the reasonable fee to be determined at the conclusion of our Engagement.

c) Any unpaid post-petition fees, charges and disbursements will be due and payable immediately upon entry of an order containing such court approval or at such time thereafter as instructed by the court. The Client understands that while the arrangement in this paragraph may be altered in whole or in part by the bankruptcy court, the Client shall nevertheless remain liable for payment of court approved post-petition fees and expenses. Such items are afforded administrative priority under 11 U.S.C. § 503(b)(l). The Bankruptcy Code provides in pertinent part, at 11 U.S.C. § 1l29(a)(9)(A), that a plan cannot be confirmed unless administrative claims are paid in full in cash on the effective date of any plan (unless the holders of such claims agree to different treatment). It is agreed and understood that the unused portion, if any, of the Cash on Account shall be held by us and applied against the final fee application filed and approved by the court.

d) Client agrees that FTI is not an employee of the Client and the FTI employees and independent FTI contractors who perform the Services are not employees of the Client, and they shall not receive a W-2 from the Client for any fees earned under this engagement, and such fees are not subject to any form of withholding by the Client. The Client shall provide FTI a standard form 1099 on request for fees earned under this Engagement.

e) Copies of Invoices shall be sent by facsimile or email as follows:

To the Client at:
The McClatchy Company
2100 Q Street
Sacramento, CA 95816

Attention: Craig Forman

Additional Provisions Regarding Fees:
If a dispute develops about our fees, the Company may be entitled under Part 137 of the Rules of the Chief Administrator of the New York Courts to arbitration of that dispute if it involves more than $150,000.

3. Availability of Information

In connection with FTI's activities on the Client's behalf, the Client agrees (i) to furnish FTI with all information and data concerning the business and operations of the Client which FTI reasonably requests, and (ii) to provide FTI with reasonable access to the Client's officers, directors, partners, employees, retained consultants, independent accountants, and legal counsel. FTI shall not be responsible for the truth or accuracy of materials and information received by FTI under this agreement.

4. Notices

Notices under this Agreement to the Client shall be provided as set forth in paragraph 2(e).

Notices to FTI shall be to:
1201 West Peachtree St. Suite 500
Atlanta, GA 30309
Attn: Sean M. Harding
Phone: 404-460-6258
Fax: 404-460-6230
Email: sean.harding@fticonsulting.com

Notices shall be provided by (a) fax and email, (b) hand delivery, or (c) overnight delivery. If provided by fax and email or hand delivery, they shall be deemed effective the date given. If provided by overnight delivery, they shall be deemed effective on the date of actual receipt.

5. Miscellaneous

This Agreement: represents the entire understanding of the parties hereto and supersedes any and all other prior agreements among the parties regarding the subject matter hereof; shall be binding upon and inure to the benefit of the parties and their respective heirs, representatives, successors and assigns; may be executed by facsimile (followed by originals sent via regular mail), and in two or more counterparts, each of which shall be deemed to be an original, but all of which together shall constitute one and the same instrument; and may not be waived, modified or amended unless in writing and signed by a representative of the Client and FTI. The provisions of this Agreement shall be severable. No failure to delay in exercising any right, power or privilege related hereto, or any single or partial exercise thereof, shall operate as a waiver thereof.

Based on our understanding of the parties involved in this matter, we have compiled a list of interested parties (the "Potentially Interested Parties") and have undertaken a limited review of our records to determine FTI's professional relationships with the Company and such Potentially Interested Parties. From the results of such review, we are not aware of any conflicts of interest or relationships that we believe would preclude us from performing the Services.

As you know, however, we are a large consulting firm with numerous offices throughout the world. We are regularly engaged by new clients, which may include one or more of the Potentially Interested Parties. The FTI professionals providing services hereunder will not accept an engagement that directly conflicts with this Engagement without your prior written consent.

If this letter correctly sets forth our understanding, please so acknowledge by signing below and returning a signed copy of this letter to us.

Very truly yours,

FTI CONSULTING, INC.

By: /s/ Sean M. Harding
Name: Sean M. Harding
Title: Senior Managing Director

ACCEPTED AND AGREED this 23rd day of February 2020

On behalf of The McClathcy Company

By: /s/ Craig I. Forman
Name: Craig I Forman
Title: CEO

Date:____

EXHIBIT A

FTI CONSULTING, INC.

STANDARD TERMS AND CONDITIONS

The following are the Standard Terms and Conditions on which we will provide the Services to you set forth within the attached letter of engagement with the McClatchy Company dated as of February 23, 2020 (the "Engagement Letter"). The Engagement Letter and these Standard Terms and Conditions annexed thereto (collectively, the "Engagement Contract") form the entire agreement between us relating to the Services and replace and supersede any previous proposals, letters of engagement, undertakings, agreements, understandings, correspondence and other communications, whether written or oral, regarding the Services. The headings and titles in the Engagement Contract are included to make it easier to read but do not form part of the Engagement Contract.

1. Reports and Advice

1.1 **Use and purpose of advice and reports—** Any advice given or report issued by us is provided solely for your use and benefit and only in connection with the purpose in respect of which the Services are provided. Unless required by law, you shall not provide any advice given or report issued by us to any third party, or refer to us or the Services, without our prior written consent, which shall be conditioned on the execution of a third party release letter in the form provided by FTI. In no event, regardless of whether consent has been provided, shall we assume any responsibility to any third party to which any advice or report is disclosed or otherwise made available.

2. Information and Assistance

2.1 **Provision of information and assistance** – Our performance of the Services is dependent upon you and the Company providing us with such information and assistance as we may reasonably require from time to time.

2.2 **Punctual and accurate information** – You and Company personnel shall use reasonable skill, care and attention to ensure that all information we may reasonably require is provided on a timely basis and is accurate and complete and relevant for the purpose for which it is required. You and the Company shall also notify us if you subsequently learn that the information provided is incorrect or inaccurate or otherwise should not be relied upon.

2.3 **No assurance on financial data** – While our work may include an analysis of financial and accounting data, the Services will not include an audit, compilation or review of any kind of any financial statements or components thereof. Company management will be responsible for any and all financial information they provide to us during the course of this Engagement, and we will not examine or compile or verify any such financial information. Moreover, the circumstances of the Engagement may cause our advice to be limited in certain respects based upon, among other matters, the extent of sufficient and available data and the opportunity for supporting investigations in the time period. Accordingly, as part of this Engagement, we will not express any opinion or other form of assurance on financial statements of the Company.

2.4 **Prospective financial information** - In the event the Services involve prospective financial information, our work will not constitute an examination or compilation, or apply agreed-upon procedures, in accordance with standards established by the American Institute of Certified Public Accountants or otherwise, and we will express no assurance of any kind on such information. There will usually be differences between estimated and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material. We will take no responsibility for the achievability of results or events projected or anticipated by the management of the Company.

3. Additional Services

3.1 **Responsibility for other parties**— You and the Company shall be solely responsible for the work and fees of any other party engaged by you or the Company to provide services in connection with the Engagement regardless of whether such party was introduced to you by us. Except as provided in this Engagement Contract (including section 2 of the Engagement Letter with respect to the retention of certain agents and independent contractors), we shall not be responsible for providing or reviewing the advice or services of any such third party, including advice as to legal, regulatory, accounting or taxation matters. Further, we acknowledge that we are not authorized under our Engagement Contract to engage any third party to provide services or advice to you or the Company, other than our agents or independent contractors engaged to provide Services, without your or the Company's written authorization.

4. Confidentiality

4.1 **Restrictions on confidential information**— All parties to this Engagement Contract agree that any confidential information received from the other parties shall only be used for the purposes of providing or receiving Services under this or any other contract between us. Except as provided below, no party will disclose other contracting party's confidential information to any third party without such party's consent. Confidential information shall not include information that:

4.1.1 is or becomes generally available to the public other than as a result of a breach of an obligation under this Clause 4.1;

4.1.2 is acquired from a third party who, to the recipient party's knowledge, owes no obligation of confidence in respect of the information; or

4.1.3 is or has been independently developed by the recipient (without the use of confidential information).

4.2 **Disclosing confidential information** – Notwithstanding Clause 1.1 or 4.1 above, all parties will be entitled to disclose confidential information to a third party to the extent that this is required by valid legal process, provided that (and without breaching any legal or regulatory requirement) where reasonably practicable not less than 2 business days' notice in writing is first given to the other parties.

4.3 **Citation of engagement** – Without prejudice to Clause 4.1 and Clause 4.2 above, to the extent our engagement is or becomes known to the public, we may cite the performance of the Services to our clients and prospective clients as an indication of our experience, unless we and you specifically agree otherwise in writing.

4.4 **Internal quality reviews** – Notwithstanding the above, we may disclose any information referred to in this Clause 4 to any other FTI entity or use it for internal quality reviews; *provided*, that we shall cause such persons to keep such information confidential in accordance with the terms of this Engagement Contract.

4.5 **Maintenance of workpapers** – Notwithstanding the above, we may keep one archival set of our working papers from the Engagement, including working papers containing or reflecting confidential information, in accordance with our internal policies; *provided*, that we shall keep such materials confidential in accordance with the terms of this Engagement Contract.

5. Termination

5.1 **Termination of Engagement with notice**— Termination of Engagement with notice –This Agreement is terminable by the Client or by FTI at any time upon the giving of thirty (30) days written notice. Upon such termination by the Client (the "Termination Date"), FTI shall cease work and the Client shall have no further obligation for fees and expenses of FTI arising or incurred after the Termination Date, provided, however, that, notwithstanding any termination by the Client or by FTI in the circumstances described in paragraph (a) under “Additional Provisions Regarding Fees” in the Engagement Letter,

a) The Client shall reimburse FTI for its out-of-pocket expenses (the "Termination Expenses") incurred in connection with commitments made by FTI prior to the Termination Date with respect to advance travel arrangements reasonably incurred, to the extent FTI is unable to obtain refunds of such expenses. FTI shall provide the Client with reasonable documentation to substantiate all Termination Expenses for which payment is requested; and

5.2 **Continuation of terms**— The terms of the Engagement that by their context are intended to be performed after termination or expiration of this Engagement Contract, including but not limited to, Clauses 3 and 4 of the Engagement letter, and Clauses 1.1, 4, 6 and 7 of the Standard Terms and Conditions, are intended to survive such termination or expiration and shall continue to bind all parties.

6. Indemnification, Insurance and Liability Limitation

6.1 **Indemnification –** The Company agrees to indemnify and hold harmless FTI and any of its subsidiaries and affiliates, officers, directors, principals, shareholders, agents, independent contractors and employees (collectively “Indemnified Persons”) from and against any and all claims, liabilities, damages, obligations, costs and expenses (including reasonable attorneys’ fees and expenses and costs of investigation) arising out of or relating to your retention of FTI, the execution and delivery of this Engagement Contract, the provision of Services or other matters relating to or arising from this Engagement Contract, except to the extent that any such claim, liability, obligation, damage, cost or expense shall have been determined by final non-appealable order of a court of competent jurisdiction to have resulted from the gross negligence or willful misconduct of the Indemnified Person or Persons in respect of whom such liability is asserted (an “Adverse Determination”). The Company shall pay damages and expenses, including reasonable legal fees and disbursements of counsel as incurred in advance. FTI agrees that it will reimburse any amounts paid in advance to the extent they relate directly to an Adverse Determination.

Subject to any limitation post-petition required by the Bankruptcy Court, the Client agrees to indemnify and hold harmless FTI and its shareholders, directors, officers, managers, employees, contractors, agents and controlling persons (each, an “Indemnified Party”) from and against any losses, claims, damages or expenses, or if same was or is or becomes a party to or witness or other participant in, or is threatened to be made a party to or witness or other participant in, any threatened, pending or completed action, suit, proceeding or alternative dispute resolution mechanism, or any hearing, inquiry or investigation, in each case by reason of (or arising in part out of) any event or occurrence related to this agreement or any predecessor agreement for services or the fact that any Indemnified Party is or was an agent, officer director, employee or fiduciary of the Client, or by reason of any action or inaction on the part of any Indemnified Party while serving in such capacity (an “Indemnifiable Event”) against expenses (including reasonable attorneys’ fees and disbursements), judgments, fines, settlements and other amounts actually and reasonably incurred in connection with any Indemnifiable Event. The Application shall include the assumption by the Client of FTI’s right to indemnification in respect of its actions under this Agreement prior to the Petition Date. The Indemnified Party shall promptly forward to the Client all written notifications and other matter communications regarding any claim that could trigger the Client’s indemnification obligations under this Section 6. If the Client so elects or is requested by an Indemnified Party, the Client will assume the defense of such action or proceeding, including the employment of counsel reasonably satisfactory to the Indemnified Party and the payment of the reasonable fees and disbursements of such counsel. In the event, however, such Indemnified Party is advised by counsel that having common counsel would present such counsel with a conflict of interest or if the defendants in, or targets of, any such action or proceeding include both an Indemnified Party and the Client, and such Indemnified Party is advised by counsel that there may be legal defenses available to it or other Indemnified Parties that are different from or in addition to those available to the Client, or if the Client fails to assume the defense of the action or proceeding or to employ counsel reasonably satisfactory to such Indemnified Party, in either case in a timely manner, then such Indemnified Party may employ separate counsel to represent or defend it in any such action or proceeding and the Client will pay the reasonable fees and disbursements of such counsel; provided, however, that the Client will not be required to pay the fees and disbursements of more than one separate counsel (in addition to local counsel) for an Indemnified Party in any jurisdiction in any single action or proceeding. In any action or proceeding the defense of which the Client assumes, the Indemnified Party will have the right to participate in such litigation and to retain its own counsel at such Indemnified Party's own expense. The Client further agrees that the Client will not, without the prior written consent of the Indemnified Party (which consent shall not be unreasonably withheld or delayed), settle or compromise or consent to the entry of any judgment in any pending or threatened claim, action, suit or proceeding in respect of which indemnification or contribution may be sought hereunder (whether or not the Indemnified Party or any other Indemnified Party is an actual or potential party to such claim, action, suit or proceeding) unless (i) to the extent that such settlement, compromise or consent purports directly or indirectly to cover the Indemnified Party or any other Indemnified Party, such settlement, compromise or consent includes an unconditional release of the Indemnified Party and each other Indemnified Party from all liability arising out of such claim, action, suit or proceeding, or (ii) to the extent that such settlement, compromise or consent does not purport directly or indirectly to cover the Indemnified Party or any other Indemnified Party, the Client has given the Indemnified Party reasonable prior written notice thereof and used all reasonable efforts, after consultation with the Indemnified Party, to obtain an unconditional release of the other Indemnified Parties hereunder from all liability arising from all liability arising out of such claim, action, suit or proceeding. The Indemnified Party shall not enter into any closing agreement or final settlement that could trigger the Client’s indemnification obligations under this Section 6 without the written consent of the Client, which shall not unreasonably be withheld or delayed or conditioned. The Client will not be liable for any settlement of any action, claim, suit or proceeding affected without the Client’s prior written consent, which consent shall not be unreasonably withheld or delayed or conditioned, but if settled with the consent of the Client or if there be a final judgment for the plaintiff, the Client agrees to indemnify and hold harmless the Indemnified Party from and against any loss or liability by reason of such settlement or judgment, as the case may be.

6.2 **Insurance –**In addition to the above indemnification and provision regarding advancement of fees/expenses, FTI employees serving as directors or officers of the Company or its affiliates will receive the benefit of the most favorable indemnification and advancement provisions provided by the Company to its directors, officers and any equivalently placed employees, whether under the Company’s charter or by-laws, by contract or otherwise. The Company shall specifically include and cover employees and agents serving as directors and officers of the Company or affiliates from time to time with direct coverage under the Company’s policy for liability insurance covering its directors, officers and any equivalently placed employees. Prior to FTI accepting any director or officer position, the Company shall, at the request of FTI, provide FTI a copy of its current D&O policy, a certificate of insurance evidencing the policy is in full force and effect, and a copy of the signed board resolutions and any other document that FTI may reasonably request evidencing the appointment and coverage of the indemnitees. The Company shall maintain such D&O insurance for the period through which claims can be made against such persons. In the event the Company is unable to include FTI employees and agents under the Company’s policy or does not have first dollar coverage acceptable to FTI in effect for at least $10 million, FTI may, subject to the prior written consent of the Company, attempt to purchase a separate D&O insurance policy that will cover the FTI employees and agents only. The cost of the policy shall be invoiced to the Company as an out-of-pocket expense. Notwithstanding anything to the contrary, the Company’s indemnification obligations in this Section 6 shall be primary to (and without allocation against) any similar indemnification and advancement obligations of FTI, its affiliates and insurers to the indemnitees (which shall be secondary), and the Company’s D&O insurance coverage for the indemnitees shall be specifically primary to (and without allocation against) any other valid and collectible insurance coverage that may apply to the indemnitees (whether provided by FTI or otherwise).

This indemnity shall not apply to any portion of any such losses, claims, damages, liabilities and expenses to the extent it is found in a final judgment by a court of competent jurisdiction to have resulted primarily from the bad faith, gross negligence, willful misconduct or violation of law of any such Indemnified Party.. The Client agrees to use commercially reasonable best efforts to (i) include Sean Harding serving as CRO and any other FTI personnel who assume officer or director positions with the Client or who perform Services hereunder, FTI and its agents, employees, officers, subcontractors, directors, joint venture partners and members, as insureds under the Client’s directors and officers insurance; and (ii) unless it is unable to do so at a commercially reasonable cost, purchase a three-year directors and officers insurance "tail" or runoff policy (or such a policy for such shorter period as Client has the right to or is otherwise able to purchase) covering the period of FTI's service. In connection with this engagement Client represents to FTI that Client hereby represents that (i) it has timely remitted and will continue to timely remit to the appropriate beneficiaries all employee source deductions, payroll and other taxes, benefits deductions, and contribution to employee benefit programs, and has timely collected and remitted sales and use and other similar taxes to appropriate collecting authorities and will continue timely to do so; (ii) there is no litigation or other proceeding pending, or to knowledge of Client, threatened (nor is Client aware of facts that could give rise to such), in each case that seeks or could give rise to personal liability of officers and directors of Client; and (iii) Client has been in continuing compliance with all applicable laws and regulations concerning the discharge, treatment, storage, transportation or use of hazardous materials and is aware of no facts or circumstances that could give rise to Client responsibility or liability under such laws and regulations.

6.3 **Limitation of liability –** You agree that no Indemnified Person shall be liable to you, or your successors, affiliates or assigns for damages in excess of the total amount of the fees paid to FTI under this Engagement Contract. Without limiting the generality of the foregoing, in no event shall any Indemnified Person be liable for consequential, indirect or punitive damages, damages for lost profits or opportunities or other like damages or claims of any kind.

You and the Company agree that no Indemnified Person shall have any liability as a result of your retention of FTI, the execution and delivery of this Engagement Contract, the provision of Services or other matters relating to or arising from this Engagement Contract, other than liabilities that shall have been determined by final non-appealable order of a court of competent jurisdiction to have resulted from the gross negligence or willful misconduct of an Indemnified Person or Persons. Without limiting the generality of the foregoing, in no event shall any Indemnified Person be liable for consequential, indirect or punitive damages, damages for lost profits or opportunities or other like damages or claims of any kind.

7. **Governing Law, Jurisdiction and WAIVER OF JURY TRIAL —** The Engagement Contract shall be governed by and interpreted in accordance with the laws of the State of New York, without giving effect to the choice of law provisions thereof. The Bankruptcy Court having jurisdiction over the Client's Bankruptcy case shall have exclusive jurisdiction in relation to any claim, dispute or difference concerning the Engagement Contract and any matter arising from it. The parties submit to the jurisdiction of such Courts and irrevocably waive any right they may have to object to any action being brought in these Courts, to claim that the action has been brought in an inconvenient forum or to claim that those Courts do not have jurisdiction. TO FACILITATE JUDICIAL RESOLUTION AND SAVE TIME AND EXPENSE, YOU, THE COMPANY AND FTI IRREVOCABLY AND UNCONDITIONALLY AGREE NOT TO DEMAND A TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM ARISING OUT OF OR RELATING TO THE SERVICES OR ANY SUCH OTHER MATTER.

Confirmation of Standard Terms and Conditions

Subject to the terms and conditions of the Engagement Letter, we agree that FTI Consulting, Inc. is engaged upon the terms set forth in these Standard Terms and Conditions as outlined above.

On behalf of The McClatchy Company

By: /s/ Craig I. Forman
Name: Craig I. Forman
Title: CEO

Date: ______________________

EXHIBIT B

SCOPE OF SERVICES

The Services, to be performed at your direction, are expected to include the following:

1. **Chief Restructuring Officer**
   1.1 Subject to FTI's internal approval from its risk management team, confirmation that the Company has a Directors and Officers Liability insurance policy in accordance with Section 6 of the FTI Standard Terms and Conditions attached in Exhibit "A", and a copy of the signed Board of Directors' resolution (or similar document) as official confirmation of the appointment, FTI will Serve as the Company's Chief Restructuring Officer ("CRO") to lead the Company's restructuring efforts, reporting directly to the Board of Directors;
   1.2 Sean Harding will serve in the CRO role. In his capacity as CRO, Mr. Harding will be granted the right to attend and participate (but not vote) in the meetings of the Board of Directors of the Company as an observer (such role referred to as "Board Observer"). Mr. Harding will be assisted by additional FTI employees, as necessary ("Hourly Temporary Staff");

2. **Cash Management and Projections**
   2.1 Preparation of the Company's 13-week cash flow budget and Debtor-in-Posession cash flow budget;
   2.2 Assist management in managing and controlling cash disbursements;
   2.3 Develop with assistance of management on cash conservation measures and assist with implementation of cash forecasting and reporting tools as requested;

3. **Situational Assessment** – assess current situation and determine solution for highest and best recovery and recommend appropriate strategic alternative;

4. **Other –** assist with such other accounting and financial matters as requested by the Company and/or the Board of Directors and not duplicative of services provided by other professionals;

5. In consultation with the Chief Executive Officer and/or the Chief Financial Officer, and subject to the Board's approval, the authority and corporate authority to: (a) open and close bank accounts for the Company, (b) transfer funds of the Company, (c) cause the Company to pursue, settle or compromise any litigation, controversy or other dispute involving the Company, (d) cause the Company to borrow funds and to pledge any of its assets in order to pay the working capital needs of the Company, (e) cause the Company to exercise the Company's rights under the Company's agreements and other agreements in favor of the Company, and (f) cause the Company to take any other action which the CRO, in good faith, determines to be necessary, prudent or appropriate under the circumstances;

6. Assist the Company in its preparations of any required motions throughout the course of a potential Chapter 11 Bankruptcy filing;

7. Assist the Compnay in its preparation of its Statement of Financial Affairs and Statement of Assets and Liabilities;

8. Assist the Company in the preparation of the Company's Monthly Operating Reports;

9. Assist the Company with the identification of executory contracts and leases and performance of cost/benefit evaluations with respect to the affirmation or rejection of each;

10. Analyzing creditor claims by type, entity and individual claim, including assisting with development of databases, as necessary, to track such claims in a potential Chapter 11 Bankruptcy filing;

11. Assist the Company in planning communications strategies and tactics in preparation for a potential Chapter 11 Bankruptcy filing;

12. Develop associated restructuring communications materials for all critical stakeholder audiences;

13. Build a restructuring microsite;

14. Assist the Company in leak mitigation and media relations support leading up to and surrounding a potential Chapter 11 filing; and,

15. Other general business consulting, contingency planning, Bankruptcy services, or such other assistance as mutually agreed to between FTI and the Company.

EXHIBIT C

INITIAL SCHEDULE OF HOURLY TEMPORARY STAFF

Staff	**Level**	**Hourly Rate**
Louis Colasuonno	Senior Advisor I	$925
Spencer Ante	Managing Director	$760
Rachel Chesley	Managing Director	$760
Keith Colton Jr	Director	$725
Michael Yoshimura	Director	$725
Jonathan Sperry	Director I	$550
Justin Schwartz	Director	$500
Eric Brown	Senior Consultant	$630
Matthew Gleason	Senior Consultant I	$450
Hampton Kicklighter	Consultant	$370
Katharine Rosenthal	Consultant I	$350
Sabrina Negron Christianson	Consultant I	$350
Jacqueline Napolitano	Consultant I	$350

EXHIBIT 31.1

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: June 29, 2020

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

EXHIBIT 31.2

CERTIFICATION

I, Peter R. Farr, 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: June 29, 2020

/s/ Peter R. Farr
Peter R. Farr
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 March 29, 2020, 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: June 29, 2020

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

/s/ Peter R. Farr
Peter R. Farr
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.