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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: September 29, 2019

or

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _________ to _________

Commission file number: 1-9824

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

Delaware	52-2080478
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2100 “Q” Street, Sacramento, CA	95816
(Address of principal executive offices)	(Zip Code)

(916) 321-1844
(Registrant’s telephone number, including area code)

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

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

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

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

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

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

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

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

As of November 8, 2019, the registrant had shares of common stock as listed below outstanding:

Class A Common Stock	5,502,435
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
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited; amounts in thousands, except per share amounts)

	Quarters Ended		Nine Months Ended	
	September 29, 2019	September 30, 2018	September 29, 2019	September 30, 2018
REVENUES — NET:				
Advertising	$ 76,754	$ 95,102	$ 247,404	$ 301,942
Audience	78,333	84,040	241,737	255,143
Other	12,351	11,923	37,283	37,186
	167,438	191,065	526,424	594,271
OPERATING EXPENSES:				
Compensation	57,828	73,501	188,719	230,650
Newsprint, supplements and printing expenses	11,147	12,913	34,072	40,333
Depreciation and amortization	5,575	19,041	40,504	57,496
Other operating expenses	82,905	90,527	254,196	271,993
Goodwill and other asset write-downs (see Notes 2 and 5)	295,270	14,148	296,009	14,207
	452,725	210,130	813,500	614,679
OPERATING LOSS	(285,287)	(19,065)	(287,076)	(20,408)
NON-OPERATING INCOME (EXPENSE):				
Interest expense	(19,733)	(23,346)	(59,697)	(60,181)
Equity income (loss) in unconsolidated companies, net	(39)	(473)	(1,568)	573
Gains related to investments in unconsolidated companies	—	1,721	—	1,721
Gain (loss) on extinguishment of debt, net	—	36,286	(1,986)	30,918
Retirement benefit expense	(4,330)	(2,778)	(19,386)	(8,335)
Other — net	173	271	541	512
	(23,929)	11,681	(82,096)	(34,792)
Loss before income taxes	(309,216)	(7,384)	(369,172)	(55,200)
Income tax benefit	(4,513)	(14,422)	(4,982)	(2,932)
NET INCOME (LOSS)	$ (304,703)	$ 7,038	$ (364,190)	$ (52,268)
Net income (loss) per common share:				
Basic	$ (38.43)	$ 0.90	$ (46.08)	$ (6.74)
Diluted	$ (38.43)	$ 0.90	$ (46.08)	$ (6.74)
Weighted average number of common shares:				
Basic	7,929	7,778	7,904	7,754
Diluted	7,929	7,850	7,904	7,754

See notes to the condensed consolidated financial statements.

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

	Quarters Ended		Nine Months Ended	
	September 29, 2019	September 30, 2018	September 29, 2019	September 30, 2018
NET INCOME (LOSS)	$ (304,703)	$ 7,038	$ (364,190)	$ (52,268)
OTHER COMPREHENSIVE INCOME (LOSS):				
Pension and post retirement plans: [1]				
Change in pension and post-retirement benefit plans	5,441	5,550	33,434	16,649
Other comprehensive income	5,441	5,550	33,434	16,649
Comprehensive income (loss)	$ (299,262)	$ 12,588	$ (330,756)	$ (35,619)

[1] There is no income tax benefit associated with the quarters and nine months ended September 29, 2019, or September 30, 2018, due to the recognition of a valuation allowance.

See notes to the condensed consolidated financial statements.

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

	September 29, 2019	December 30, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	$ 11,419	$ 21,906
Trade receivables (net of allowances of $1,447 and $3,008)	49,290	81,709
Other receivables	8,599	12,198
Newsprint, ink and other inventories	6,471	9,115
Assets held for sale	17,305	9,920
Other current assets	15,926	15,505
	109,010	150,353
Property, plant and equipment, net	208,019	233,692
Intangible assets:		
Identifiable intangibles — net	82,278	143,347
Goodwill	447,095	705,174
	529,373	848,521
Investments and other assets:		
Investments in unconsolidated companies	2,976	3,888
Operating lease right-of-use assets	46,977	—
Other assets	57,402	58,847
	107,355	62,735
	$ 953,757	$ 1,295,301
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Current portion of long-term debt	$ 1,468	$ 4,312
Accounts payable	27,519	37,521
Accrued pension liabilities	117,210	11,510
Accrued compensation	21,101	20,481
Income taxes payable	—	6,535
Unearned revenue	55,384	58,340
Accrued interest	11,810	26,037
Financing obligation	13,027	10,417
Current portion of operating lease liabilities	8,494	—
Other accrued liabilities	5,773	5,385
	261,786	180,538
Non-current liabilities:		
Long-term debt	608,801	633,383
Deferred income taxes	15,178	20,775
Pension and postretirement obligations	528,457	655,310
Financing obligations	132,556	108,252
Operating lease liabilities	47,999	—
Other long-term obligations	30,516	38,708
	1,363,507	1,456,428
Commitments and contingencies		
Shareholders' equity (deficit):		
Common stock $.01 par value:		
Class A (authorized 200,000,000 shares, issued 5,561,493 shares and 5,384,303 shares)	56	53
Class B (authorized 60,000,000 shares, issued 2,428,191 shares and 2,428,191 shares)	24	24
Additional paid-in-capital	2,217,898	2,216,681
Accumulated deficit	(2,318,299)	(1,954,132)
Treasury stock at cost, 59,893 shares and 252 shares	(360)	(2)
Accumulated other comprehensive loss	(570,855)	(604,289)
	(671,536)	(341,665)
	$ 953,757	$ 1,295,301

See notes to the condensed consolidated financial statements.

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

	Nine Months Ended	
	September 29, 2019	September 30, 2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (364,190)	$ (52,268)
Reconciliation to net cash provided by (used in) operating activities:		
Depreciation and amortization	40,504	57,496
Gain on disposal of property and equipment (excluding other asset write-downs)	(2,124)	(2,820)
Retirement benefit expense	19,386	8,335
Stock-based compensation expense	1,220	1,819
Deferred income taxes	(5,597)	(2,170)
Equity (income) loss in unconsolidated companies	1,568	(573)
Gains related to investments in unconsolidated companies	—	(1,721)
Distributions of income from investments in unconsolidated companies	550	2,876
(Gain) loss on extinguishment of debt, net	1,986	(30,918)
Goodwill and other asset write-downs	296,009	14,207
Amortization of bond fees and other debt-related items	7,492	3,654
Other	(7,047)	(4,773)
Changes in certain assets and liabilities:		
Trade receivables	32,419	32,622
Inventories	2,644	(1,911)
Other assets	6,609	2,380
Accounts payable	(9,876)	(1,378)
Accrued compensation	620	(2,452)
Income taxes	(6,535)	(10,379)
Accrued interest	(14,227)	3,645
Other liabilities	(7,958)	(7,793)
Net cash provided by (used in) operating activities	(6,547)	7,878
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(1,901)	(9,262)
Proceeds from sale of property, plant and equipment and other	5,060	4,052
Contributions to cost and equity investments	(825)	(2,301)
Proceeds from sale of unconsolidated companies and other-net	—	5,301
Net cash provided by (used in) investing activities	2,334	(2,210)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repurchase of notes and related expenses	(36,602)	(459,539)
Proceeds from issuance of debt	—	361,449
Payment of financing costs	(28)	(17,387)
Proceeds from sale-leaseback financing obligations	29,743	15,749
Purchase of treasury shares	(358)	(424)
Other	(1,029)	(441)
Net cash used in financing activities	(8,274)	(100,593)
Decrease in cash, cash equivalents and restricted cash	(12,487)	(94,925)
Cash, cash equivalents and restricted cash at beginning of period	50,555	131,354
CASH, CASH EQUIVALENTS AND RESTRICTED CASH AT END OF PERIOD	$ 38,068	$ 36,429

See notes to the condensed consolidated financial statements

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

	Common Stock Class A $.01 par value	Common Stock Class B $.01 par value	Additional Paid-In Capital	Accumulated Deficit	Accumulated 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 56,934 shares of treasury stock	—	—	—	—	—	(268)	(268)
Balance at March 31, 2019	$ 55	$ 24	$ 2,217,342	$ (1,996,065)	$ (581,737)	$ (270)	$ (360,651)
Net loss	—	—	—	(17,531)	—	—	(17,531)
Other comprehensive income	—	—	—	—	5,441	—	5,441
Issuance of 2,320 Class A shares under stock plans	1	—	(1)	—	—	—	—
Stock compensation expense	—	—	303	—	—	—	303
Purchase of 851 shares of treasury stock	—	—	—	—	—	(85)	(85)
Balance at June 30, 2019	$ 56	$ 24	$ 2,217,644	$ (2,013,596)	$ (576,296)	$ (355)	$ (372,523)
Net loss	—	—	—	(304,703)	—	—	(304,703)
Other comprehensive income	—	—	—	—	5,441	—	5,441
Issuance of 6,260 Class A shares under stock plans	—	—	—	—	—	—	—
Stock compensation expense	—	—	254	—	—	—	254
Purchase of 1,856 shares of treasury stock	—	—	—	—	—	(5)	(5)
Balance at September 29, 2019	$ 56	$ 24	$ 2,217,898	$ (2,318,299)	$ (570,855)	$ (360)	$ (671,536)

See notes to the condensed consolidated financial statements

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

	Common Stock				Accumulated		
	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 31, 2017	$ 52	$ 24	$ 2,215,109	$ (1,970,097)	$ (449,369)	$ (51)	$ (204,332)
Net loss	—	—	—	(38,941)	—	—	(38,941)
Cumulative effect adjustment of Topic 606	—	—	—	(2,668)	—	—	(2,668)
Other comprehensive income	—	—	—	—	5,550	—	5,550
Issuance of 94,184 Class A shares under stock plans	1	—	(1)	—	—	—	—
Stock compensation expense	—	—	741	—	—	—	741
Purchase of 33,805 shares of treasury stock	—	—	—	—	—	(307)	(307)
Balance at April 1, 2018	$ 53	$ 24	$ 2,215,849	$ (2,011,706)	$ (443,819)	$ (358)	$ (239,957)
Net loss	—	—	—	(20,365)	—	—	(20,365)
Other comprehensive income	—	—	—	—	5,549	—	5,549
Conversion of 15,000 Class B shares to Class A shares	—	—	—	—	—	—	—
Issuance of 34,830 Class A shares under stock plans	1	—	(1)	—	—	—	—
Stock compensation expense	—	—	320	—	—	—	320
Purchase of 6,193 shares of treasury stock	—	—	—	—	—	(64)	(64)
Balance at July 1, 2018	$ 54	$ 24	$ 2,216,168	$ (2,032,071)	$ (438,270)	$ (422)	$ (254,517)
Net income	—	—	—	7,038	—	—	7,038
Other comprehensive income	—	—	—	—	5,550	—	5,550
Issuance of 43,860 Class A shares under stock plans	—	—	—	—	—	—	—
Stock compensation expense	—	—	758	—	—	—	758
Purchase of 5,499 shares of treasury stock	—	—	—	—	—	(53)	(53)
Balance at September 30, 2018	$ 54	$ 24	$ 2,216,926	$ (2,025,033)	$ (432,720)	$ (475)	$ (241,224)

See notes to the condensed consolidated financial statements

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

1. BUSINESS AND BASIS OF ACCOUNTING

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

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 items and transactions are eliminated.

In our opinion, the accompanying unaudited condensed consolidated financial statements reflect all adjustments, which are of a normal recurring nature, that are necessary to present fairly our financial position, results of operations, and cash flows for the interim periods presented. The financial statements contained in this report are not necessarily indicative of the results to be expected for the full year. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 30, 2018 ("Form 10-K"). Each of the fiscal periods included herein comprise 13 weeks for the third-quarter periods and 39 weeks for the nine-month periods.

Going Concern

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. For the nine months ended September 29, 2019, we reported a net loss of $364.2 million. As of September 29, 2019, we had a working capital deficit of $152.8 million, of which $108.7 million is attributable to minimum required contributions to our qualified defined benefit pension plan ("Pension Plan") coming due in the next twelve months.

We face liquidity challenges relating to the minimum required contributions in fiscal year 2020 to our Pension Plan. These required contributions are estimated to be approximately $124.2 million, which would be paid in installments beginning in January 2020 with the bulk of those payments due September 15, 2020, or afterwards.

To address our liquidity needs and the going concern uncertainty, in June 2019 we filed an application for a waiver of the minimum required contributions under the Pension Plan in accordance with section 412 of the Internal Revenue Code for the 2019, 2020 and 2021 plan years with the Internal Revenue Service ("IRS"). In early November 2019, the IRS declined to grant us our three-year waiver request.

We continue to explore other means of pension relief, including working with many members of Congress in search of legislative relief that would mitigate the burden of the minimum required contributions. We have also consulted with the Pension Benefit Guaranty Corporation ("PBGC") to discuss measures allowed under existing regulations to provide a more permanent solution, such as a distress termination of the Pension Plan. A distress termination would allow us to continue to operate and relieve the current liquidity pressures of the minimum required contributions under Employee Retirement Income Security Act ("ERISA"). However, there can be no assurance that the ongoing discussions with Congress and/or the PBGC will result in any relief including a restructuring transaction, or that such relief will occur on a timely basis or at all.

In addition to seeking pension relief, we are engaged in discussions with our largest debt holder, regarding the recapitalization of our balance sheet and outstanding debt obligations and the formulation of a restructuring plan that would provide a more permanent, rather than temporary, solution. No agreement has been reached with respect to the above discussions and discussions remain ongoing. We will continue to work collaboratively with our constituents to achieve the goals of our business plan and balance the interests of a wide range of stakeholders. However, there can be no assurance that the ongoing discussions with our debt holder will result in any restructuring transaction, that we will obtain any required stakeholder consent to consummate a restructuring transaction, or that the restructuring transaction will occur on a timely basis or at all.

In conjunction with all of these efforts to address our liquidity pressures, we have engaged the financial and legal services of Evercore Group L.L.C., FTI Consulting, Inc., Skadden, Arps, Slate, Meagher & Flom LLP and the Groom Law Group, Chartered (collectively, “Advisors”), who are all assisting us in evaluating and executing available transactions with our stakeholders.

We believe we have taken and are continuing to take prudent actions to address our ability to continue as a going concern; however, there is no assurance that such alternatives will be available on terms acceptable to us, in a timely manner or at all, or our plans will fully mitigate the liquidity challenges we face because some matters are not within our control. These conditions raise substantial doubt about our ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued. The condensed consolidated financial statements do not include any adjustments relating to the recoverability or classification of assets or liabilities that might be necessary should we be unable to continue as a going concern.

NYSE American Continued Listing Status

On September 9, 2019, we received written notification from NYSE American LLC ("NYSE American") indicating that we were not in compliance with certain listing standards. We have approximately 18 months from the receipt of the notice to become compliant under a plan that is subject to approval by NYSE American.

We are below compliance with Sections 1003(a)(i) and 1003(a)(ii) of the NYSE American continued listing standards since we reported a stockholders' deficit of $372.5 million as of June 30, 2019 and net losses in each of the four most recent fiscal years ended December 30, 2018. However, NYSE American will not normally consider suspending dealings in, or removing from the list, the securities of an issuer which is below the continued listing standards set forth in Sections 1003(a)(i)-(iii) of the NYSE American continued listing standards if the issuer meets certain other criteria, including, among others, total assets and revenues of $50 million in the last fiscal year or in two of the last three fiscal years, and a market value of publicly held shares (as defined by NYSE American) of at least $15 million.

We submitted a plan to NYSE American on October 9, 2019, advising how we plan to regain compliance with the continued listing standards by March 9, 2021. If NYSE American does not accept the plan, NYSE American will initiate delisting procedures. If NYSE American accepts our plan, our common stock will continue to be listed and traded on NYSE American during the cure period, subject to our compliance with the plan and other continued listing standards.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fair Value of Financial Instruments

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

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

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

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 September 29, 2019, and December 30, 2018, the carrying amount of these items approximates fair value because of the short maturity of these financial instruments.

Long-term debt. At September 29, 2019, the carrying value and the estimated fair value of our 2026 Notes (as defined in Note 6), including the current portion of long-term debt, was $254.3 million and $254.7 million, respectively. As of December 30, 2018, the carrying value and the estimated fair value of the 2026 Notes, including the current portion of long-term debt, was $287.2 million and $302.4 million, respectively. The fair value of our long-term debt described above was determined using quoted market prices. These are considered to be Level 2 inputs under the fair value measurements and disclosure guidance and may not be representative of actual value.

At September 29, 2019, the carrying value and the estimated fair value of our Debentures, Junior Term Loan and 2031 Notes (as defined in Note 6), was $356.0 million and $251.5 million, respectively. At December 30, 2018, the carrying value and the estimated fair value of our Debentures, Junior Term Loan and 2031 Notes, was $350.4 million and $296.5 million, respectively. Market evidence was not available or reliable to value our Debentures, Junior Term Loan and 2031 Notes. The fair value was based on the net present value of the future cash flows using interest rates derived from market inputs and a Treasury yield curve in effect at September 29, 2019. These are considered to be Level 3 inputs under the fair value measurements and disclosure guidance and may not be representative of actual value.

Certain assets are measured at fair value on a nonrecurring basis; that is, they are subject to fair value adjustments only in certain circumstances (for example, when there is evidence of impairment). Our non-financial assets that may be measured at fair value on a nonrecurring basis are assets held for sale, goodwill, intangible assets not subject to amortization and cost or equity method investments. All of these are measured using Level 3 inputs. We utilize valuation techniques that seek to maximize the use of observable inputs and minimize the use of unobservable inputs. The significant unobservable inputs include, but are not limited to, the expected cash flows and the discount rates that we estimate market participants would seek for bearing the risk associated with such assets. See Goodwill and Intangible Asset discussion below regarding valuation inputs and see Note 5 regarding goodwill and intangible newspaper masthead impairments recorded during the quarter ended September 29, 2019.

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 September 29, 2019, we have land and/or buildings classified as assets held for sale at six of our media companies compared to only three as of December 30, 2018. During the nine months ended September 29, 2019, we began to actively market for sale five properties, which includes land and/or buildings, at four of our media companies. In connection with classifying these assets as assets held for sale, the carrying value of the land and building at one of the properties was reduced to its estimated fair value less selling costs, as determined based on the current market conditions and the estimated selling price. As a result, an impairment charge of $0.7 million was recorded during the nine months ended September 29, 2019, and is included in goodwill and other asset write-downs on our condensed consolidated statement of operations.

During the quarter ended September 29, 2019, we sold land and a building in Belleville, Illinois and during the nine months ended September 29, 2019, we sold the land and building at one of our smaller properties in Miami, Florida. We recorded gains of $0.5 million and $2.8 million during the quarter and nine-months ended September 29, 2019, respectively, which are included in other operating expenses on our condensed consolidated statement of operations.

Property, Plant and Equipment

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

	Quarters Ended		Nine Months Ended	
(in thousands)	**September 29, 2019**	**September 30, 2018**	**September 29, 2019**	**September 30, 2018**
Depreciation expense	$ 5,299	$ 7,146	$ 16,626	$ 21,638

Goodwill and Intangible Assets

We test for impairment of goodwill annually at year-end, or whenever events occur, or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. We perform this testing on our operating segments, which are also considered our reporting units. An impairment loss is recognized when the carrying amount of the reporting unit's net assets exceeds the estimated fair value of the reporting unit. The fair value of our reporting units is determined using an equal weighting of a market approach and an income approach. We use market multiples derived from a set of competitors or companies with comparable market characteristics to establish fair values for a reporting unit (market approach). We also estimate fair value using discounted projected cash flow analysis (income approach). This analysis requires significant judgments, including estimation of future cash flows, which is dependent on internal forecasts, the long-term rate of growth for our business, and the determination of our weighted average cost of capital. Changes in these estimates and assumptions could materially affect the determination of fair value and goodwill impairment for each reporting unit. See Note 5 for discussion of our goodwill impairment testing results.

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 5 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 quarter and nine months ended September 29, 2019, or September 30, 2018.

Investments in Unconsolidated Companies

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

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

Under the cost method, our share of earnings or losses of such investee companies is not included in the condensed consolidated balance sheet and statements of operations. However, impairment charges are recognized in the condensed consolidated statement of operations. If circumstances suggest that the value of the investee company has subsequently recovered, such recovery is not recorded. There was no impairment of our investments in unconsolidated companies during the quarter and nine months ended September 29, 2019, or September 30, 2018.

On September 13, 2018, we sold our remaining 3.0% ownership interest in CareerBuilder, LLC ("CareerBuilder") and received gross proceeds of $5.3 million. As a result of this sale, we recognized a gain on sale of investments in unconsolidated companies of $1.7 million in the quarter and nine months ended September 30, 2018. In the nine months ended September 30, 2018, we also received distributions totaling approximately $2.8 million from CareerBuilder, which relate to returns of earnings. Our 3.0% ownership interest in CareerBuilder was accounted for under the cost method.

Financing Obligations

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

Segment Reporting

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

Income Taxes

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

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

We perform our assessment of the deferred tax assets quarterly, weighing the positive and negative evidence as outlined in ASC 740-10, *Income Taxes*. As we have incurred three years of cumulative pre-tax losses, such objective negative evidence limits our ability to give significant weight to other positive subjective evidence, such as projections for future growth and profitability. As of December 30, 2018, our valuation allowance against a majority of our deferred tax assets was $143.8 million. For the quarter and nine months ended September 29, 2019, we recorded valuation allowance charges of $4.8 million and $14.0 million, respectively, which are recorded in income tax expense on our condensed consolidated statements of operations. Our valuation allowance as of September 29, 2019, was $157.8 million.

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

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

Recently Adopted Accounting Pronouncements

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

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

The new standard provides a number of optional practical expedients that we adopted. We elected the "package of practical expedients" which permitted us not to reassess under the new standard our prior conclusions about lease identification, lease classification and initial direct costs. The new standard also provides expedients for our ongoing accounting. We elected the short-term lease recognition exemption for all leases that qualify. For those leases that qualified, we did not recognize ROU assets or liabilities. We also elected the practical expedient allowing us to combine lease and non-lease components for our real estate leases. Additional information and disclosures required by this new standard are contained in Note 4.

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

Recently Issued Accounting Pronouncements Not Yet Adopted

In June 2016, the FASB issued ASU 2016-13, "*Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.*" ASU 2016-13 requires that financial assets measured at amortized cost be presented at the net amount expected to be collected. The measurement of expected credit losses is to be based upon a broad set of information to include historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. ASU 2016-13 has been amended by ASU's 2018-19, 2019-04 and 2019-05, which provide further guidance and clarification on specific items within the previously issued update. In October 2019, the FASB approved a proposal to grant private companies, not-for-profit organizations and certain small public companies an effective date delay for its credit loss standard. After the FASB issues the final ASU, ASU 2016-13 and the subsequent updates will be 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 2018-13, "*Fair Value Measurement (Topic 820): Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement.*" ASU 2018-02 adds, removes and modifies various disclosure requirements within Topic 820. It is effective for us for interim and annual reporting periods beginning after December 15, 2019. An entity is permitted to early adopt any removed or modified disclosures upon issuance of this guidance and delay adoption of the additional disclosures until their effective date. We are currently in the process of evaluating the impact of the adoption on our condensed consolidated financial statements.

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

3. REVENUES

Revenue Recognition

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

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

Advertising Revenues

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

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

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

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

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

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

Most products, including the printed newspaper advertising product, banner ads on our websites and video ads on our owned and operated player are reported on a gross basis. However, there are some third-party products and services that we offer to customers and various revenue share arrangements, such as exchange platforms, that are reported on a net basis. Revenues are earned through being a reseller of a product or participating in an exchange where control over the service provided is limited and costs of the arrangement are net of revenue received.

Audience Revenues

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

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

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

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

Other Revenues

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

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

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

Arrangements with Multiple Performance Obligations

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

Unearned Revenues

We record unearned revenues when cash payments are received or due in advance of our performance, including amounts which are refundable. The decrease in the unearned revenue balance for the nine months ended September 29, 2019, reflects cash payments received or due in advance of satisfying our performance obligations, offset by $54.1 million of revenues recognized that were included in the unearned revenue balance as of December 30, 2018.

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

4. LEASES

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

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

None of our leases contain contingent rent provisions or concessions, residual value guarantees or restrictive covenants. Our leases have remaining terms of less than one year to 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 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 September 29, 2019, and December 30, 2018, respectively. As of September 29, 2019, the payments run over the course of the remaining 6.0 years and are not material to the future lease payments schedules presented below. The finance lease asset is recorded within the other assets line item of the condensed consolidated balance sheet. The finance lease short-term and long-term obligations are recorded within other accrued liabilities and other long-term liabilities line items of the condensed consolidated balance sheet, respectively.

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

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

(in thousands)	Quarter Ended September 29, 2019	Nine Months Ended September 29, 2019
Financing lease costs:		
Amortization of ROU asset	$ 24	$ 72
Interest on lease liabilities	19	59
Operating lease costs	3,345	10,274
Short-term lease cost	439	1,603
Variable lease cost	660	1,736
Sublease income	(1,495)	(4,416)
Total lease costs	$ 2,992	$ 9,328

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 September 29, 2019, the aggregate future lease payments for operating leases are as follows:

(in thousands)	Operating Leases
2019 (remainder)	$ 3,539
2020	12,562
2021	10,455
2022	10,624
2023	10,313
2024	8,967
Thereafter	21,858
Total undiscounted cash flows	78,318
Less imputed interest	(21,825)
Total lease liability	$ 56,493

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

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

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

	September 29, 2019	
	Operating Leases	Financing Lease
Weighted average remaining lease term (years)	7.06	6.09
Weighted average discount rate	9.19 %	10.50 %

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

(in thousands)	Nine Months Ended September 29, 2019
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash outflow from operating leases	$ 10,616
Operating cash outflow from financing lease	59
Financing cash outflow from financing lease	52
ROU assets obtained in exchange for new operating lease liabilities	2,338

As of September 29, 2019, we do not have any new financing leases or significant additional operating leases that have not yet commenced.

5. INTANGIBLE ASSETS AND GOODWILL

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

(in thousands)	December 30, 2018	Impairment Charges	Amortization Expense	September 29, 2019
Intangible assets subject to amortization	$ 838,336	$ —	$ —	$ 838,336
Accumulated amortization	(807,725)	—	(23,878)	(831,603)
	30,611	—	(23,878)	6,733
Mastheads	112,736	(37,191)	—	75,545
Goodwill	705,174	(258,079)	—	447,095
Total	$ 848,521	$ (295,270)	$ (23,878)	$ 529,373

Impairment of Goodwill and Intangible Assets

During the quarter ended September 29, 2019, 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. 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 2) 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 $218.7 million and $39.4 million, respectively, during the quarter ended September 29, 2019. We also recorded an intangible newspaper masthead impairment charge of $37.2 million in the third quarter of 2019. 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 during the quarter and nine months ended September 30, 2018. In 2018, we recorded intangible newspaper masthead impairment charges of $14.1 million in the third quarter of 2018 and $37.2 million for the full year ended December 30, 2018.

Amortization expense with respect to intangible assets is summarized below:

	Quarters Ended		Nine Months Ended	
(in thousands)	**September 29, 2019**	**September 30, 2018**	**September 29, 2019**	**September 30, 2018**
Amortization expense	$ 276	$ 11,895	$ 23,878	$ 35,858

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

Year	Amortization Expense (in thousands)
2019 (Remainder)	$ 276
2020	803
2021	680
2022	655
2023	667
2024	640

6. LONG-TERM DEBT

Our long-term debt consisted of the following:

	Face Value at	Carrying Value	
(in thousands)	**September 29, 2019**	**September 29, 2019**	**December 30, 2018**
ABL Credit Agreement	$ —	$ —	$ —
Notes:			
9.000% senior secured notes due in 2026	268,098	254,271	287,249
7.795% junior term loan due in 2030	157,083	125,414	123,213
6.875% senior secured junior lien notes due in 2031	268,423	216,278	141,447
7.150% debentures due in 2027	7,105	6,847	6,824
6.875% debentures due in 2029	7,807	7,459	78,962
Long-term debt	$ 708,516	$ 610,269	$ 637,695
Less current portion	1,548	1,468	4,312
Total long-term debt, net of current	$ 706,968	$ 608,801	$ 633,383

Our outstanding notes are stated net of unamortized debt issuance costs, fair market adjustments and unamortized discounts, if applicable, totaling $98.3 million and $107.4 million as of September 29, 2019, and December 30, 2018, respectively. Our ABL Credit Agreement has unamortized debt issuance costs of $1.5 million and $1.8 million as of September 29, 2019, and December 30, 2018, respectively, that are included in other assets on our condensed consolidated balance sheets.

Debt Redemptions, Repurchases and Extinguishment of Debt

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

During the nine months ended September 29, 2019, we redeemed $36.6 million aggregate principal amount of our 9.000% senior secured notes due in 2026 (“2026 Notes”) from the net cash proceeds of certain asset dispositions and from a portion of our excess cash flow (as defined in the 2026 Notes Indenture). As a result of these transactions, we recorded a loss on extinguishment of debt of $2.0 million during the nine months ended September 29, 2019.

During the quarter and nine months ended September 30, 2018, we recorded a net gain on the extinguishment of debt of $36.3 million and $30.9 million, respectively, as a result of all of the following transactions that occurred in 2018.

During the quarter ended September 30, 2018, in conjunction with our debt refinancing, we redeemed $344.1 million of our 9.000% senior secured notes due in 2022 (“2022 Notes”). We also executed a non-cash exchange of most of our 7.150% debentures due November 1, 2027 (“2027 Debentures”) and 6.875% debentures due March 15, 2029 (“2029 Debentures” and together with the 2027 Debentures, “Debentures”) for new Tranche A and Tranche B Junior Term Loans (as defined below).

The non-cash exchange of the Debentures discussed above was executed with a single lender and its affiliates. We reviewed all of our debt instruments held by this lender prior to and after the refinancing and determined that the new debt instruments were substantially different from the previously held instruments. We concluded that the exchange of the Debentures for the Junior Term Loans should be accounted for as an extinguishment of the Debentures. As a result, during the quarter and nine months ended September 30, 2018, we recorded a gross gain of $68.7 million, which represents the difference between the carrying value of the Debentures and the fair market value of the Junior Term Loans at time of the exchange. This gain was partially offset by $32.3 million, which represents the write-off of the unamortized discounts on the Debentures, unamortized debt issuance costs on the 2022 Notes, and premiums paid on the 2022 Notes.

The net gain on extinguishment of debt recorded on the above transactions was partially offset by a loss on extinguishment of debt recorded in conjunction with our notes redemptions and repurchases during the first six months of 2018. During the first six months of 2018, we (i) redeemed $0.5 million of our 2022 Notes through a tender offer that expired on May 22, 2018, (ii) redeemed $75.0 million of our 2022 Notes, which we had previously announced in December 2017, and (iii) repurchased $20.0 million of the 2022 Notes through a privately negotiated transaction. We recorded any applicable premiums that were paid and wrote off the associated debt issuance costs on the above transactions.

ABL Credit Agreement

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

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

As of September 29, 2019, under the ABL Credit Agreement we had $33.0 million of available credit. The Borrowing Base is recalculated monthly and is subject to seasonality of advertising sales around year-end holiday periods (and resulting growth in advertising accounts receivable balances). As of September 29, 2019, we had $26.7 million standby letters of credit secured under the LOC Facility. We are required to provide cash collateral equal to 100% of the aggregate stated amount of each outstanding letter of credit. Cash collateral associated with the LOC Facility is classified in our consolidated balance sheets in other assets.

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

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

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

2026 Senior Secured Notes and Indenture

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

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

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

- incur certain additional indebtedness and issue preferred stock;
- make certain distributions, investments and other restricted payments;
- sell assets;
- agree to any restrictions on the ability of restricted subsidiaries to make payments to us;
- create liens;
- merge, consolidate or sell substantially all of our assets, taken as a whole; and
- enter into certain transactions with affiliates.

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

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

2031 Senior Secured Junior Lien Notes and Indenture

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

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

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

Junior Term Loan Agreement

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

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

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

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

Other Debt

After giving effect to the 2031 Notes, we have $7.1 million aggregate principal amount of 2027 Debentures and $7.8 million aggregate principal amount of 2029 Debentures outstanding as of September 29, 2019.

7. EMPLOYEE BENEFITS

Pension Plan

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

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

The elements of retirement benefit expense are as follows:

	Quarters Ended		Nine Months Ended	
(in thousands)	**September 29, 2019**	**September 30, 2018**	**September 29, 2019**	**September 30, 2018**
Pension plans:				
Interest Cost	$ 19,596	$ 19,788	$ 59,713	$ 59,365
Expected return on plan assets	(20,772)	(22,624)	(63,047)	(67,872)
Special termination benefits	—	—	6,834	—
Actuarial loss	6,157	6,295	17,838	18,886
Net pension expense	4,981	3,459	21,338	10,379
Net post-retirement benefit credit	(651)	(681)	(1,952)	(2,044)
Net retirement benefit expenses	$ 4,330	$ 2,778	$ 19,386	$ 8,335

In August 2019, the Pension Plan sold real property in Macon, Georgia, for approximately $0.8 million, and we terminated our lease on the property. The property was included in the real property contributions that we made to the Pension Plan in fiscal year 2011. As a result of the sale by the Pension Plan, we recognized a $0.6 million loss on the sale of the Macon property in other operating expenses on the condensed consolidated statement of operations in the quarter and nine months ended September 29, 2019.

In May 2018, the Pension Plan sold real property in Lexington, Kentucky, for approximately $4.1 million, and we terminated our lease on the property. The property was included in the real property contributions that we made to the Pension Plan in fiscal year 2011. As a result of the sale by the Pension Plan, we recognized a $0.2 million loss on the sale of the Lexington property in other operating expenses on the condensed consolidated statement of operations in the nine months ended September 30, 2018.

Early Retirement Incentive Program

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

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

401(k) Plan

We have a deferred compensation plan ("401(k) plan"), which enables eligible employees to defer compensation. In the quarter and nine months ended September 29, 2019, our matching contributions were $0.5 million and $1.6 million, respectively. In the quarter and nine months ended September 30, 2018, our matching contributions were $0.6 million and $1.9 million, respectively. Matching contributions are recorded in the compensation line item of our condensed consolidated statement of operations.

8. CASH FLOW INFORMATION

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

(in thousands)	September 29, 2019	December 30, 2018
Cash and equivalents	$ 11,419	$ 21,906
Restricted cash included in other assets [1]	26,649	28,649
Total cash, cash equivalents and restricted cash	$ 38,068	$ 50,555

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

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

	Nine Months Ended	
(in thousands)	September 29, 2019	September 30, 2018
Interest paid (net of amount capitalized)	$ 57,488	$ 42,910
Income taxes paid (net of refunds)	7,335	12,865
Other non-cash investing and financing activities related to pension plan transactions:		
Reduction of financing obligation due to sale of real properties by pension plan	(1,037)	(2,667)
Reduction of PP&E due to sale of real properties by pension plan	(1,593)	(2,854)

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

During the third quarter of 2018, we completed a debt-for-debt exchange of a majority of the existing 2027 Debentures and 2029 Debentures for newly issued Tranche A Junior Term Loans and Tranche B Junior Term Loans. This transaction included a non-cash discount of $68.7 million recorded within the gain on extinguishment of debt. See Note 6 for definitions and further information.

9. COMMITMENTS AND CONTINGENCIES

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

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

The court in the Fresno case bifurcated the trial into two separate phases: the first phase addressed independent contractor status and liability for mileage reimbursement and the second phase was designated to address restitution, if any. The first 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 September 29, 2019, we had $26.7 million of standby letters of credit secured under the LOC Facility.

10. SUPPLEMENTAL EQUITY INFORMATION

Accumulated Other Comprehensive Loss

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

(in thousands)	Minimum Pension and Post-Retirement Liability	Other Comprehensive Loss Related to Equity Investments	Total
Balance at December 30, 2018	$ (595,820)	$ (8,469)	$ (604,289)
Other comprehensive income (loss) before reclassifications	17,745	—	17,745
Amounts reclassified from AOCL	15,689	—	15,689
Other comprehensive income	33,434	—	33,434
Balance at September 29, 2019	$ (562,386)	$ (8,469)	$ (570,855)

(in thousands) AOCL Component	Amount Reclassified from AOCL Quarters Ended September 29, 2019	 September 30, 2018	Amount Reclassified from AOCL Nine Months Ended September 29, 2019	 September 30, 2018	Affected Line in the Condensed Consolidated Statements of Operations
Minimum pension and post-retirement liability	$ 5,441	$ 5,550	$ 15,689	$ 16,649	Retirement benefit expense [1]

[1] There is no income tax benefit associated with the quarters and nine months ended September 29, 2019, or September 30, 2018, due to the recognition of a valuation allowance.

Stock Plans Activity

The following table summarizes the restricted stock units ("RSUs") activity during the nine months ended September 29, 2019:

	RSUs	Weighted Average Grant Date Fair Value
Nonvested — December 30, 2018	331,600	$ 9.56
Granted	285,771	$ 5.58
Vested	(170,072)	$ 9.62
Forfeited	(31,608)	$ 6.96
Nonvested — September 29, 2019	415,691	$ 7.00

The total fair value of the RSUs that vested during the nine months ended September 29, 2019, was $1.0 million.

The following table summarizes the stock appreciation rights ("SARs") activity during the nine months ended September 29, 2019:

	SARs	Weighted Average Exercise Price	Aggregate Intrinsic Value (in thousands)
Outstanding December 30, 2018	113,300	$ 32.13	$ —
Expired	(7,450)	$ 33.62	
Outstanding September 29, 2019	105,850	$ 32.02	$ —

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 September 29, 2019, we had two stock-based compensation plans. Stock-based compensation expenses are reported in the compensation line item in the condensed consolidated statements of operations. Total stock-based compensation expense for the periods presented in this report, are as follows:

(in thousands)	Quarters Ended September 29, 2019	 September 30, 2018	Nine Months Ended September 29, 2019	 September 30, 2018
Stock-based compensation expense	$ 254	$ 758	$ 1,220	$ 1,819

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		Nine Months Ended	
(shares in thousands)	**September 29, 2019**	**September 30, 2018**	**September 29, 2019**	**September 30, 2018**
Anti-dilutive common stock equivalents	478	127	471	199

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

Forward-Looking Information

This quarterly report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, as amended, including statements relating to future financial performance and operations, trends in advertising, uses of cash, including offers for or repurchases of our debt, the refinancing of our debt and our pension plan obligations. These statements are based upon our current expectations and knowledge of factors impacting our business and are generally preceded by, followed by or are a part of sentences that include the words "believes," "expects," "anticipates," "estimates" or similar expressions. All statements, other than statements of historical fact, are statements that could be deemed forward-looking statements. For all of those statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. Such statements are subject to risks, trends and uncertainties. These risks and uncertainties include, but are not limited to:

- significant competition in the market for news and advertising;
- general economic and business conditions;
- uncertainty regarding our ability to continue as a going concern could have an adverse impact on our relationships with customers, vendors, suppliers, landlords, employees, and others, which in turn could materially adversely affect our business, results of operations and financial condition;
- our ability to restructure and/or repay our existing indebtedness and meet our other obligations;
- our ability to satisfy required contributions or restructure obligations to our qualified defined benefit pension plan in the next several years;
- our ability to continue to comply with our debt covenants;
- our ability to obtain and maintain sufficient financing to provide liquidity to meet our business objectives;
- our ability to remain listed on the NYSE American;
- 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;
- financial risk arising from our consolidated debt;
- restrictions to our business due to covenants in our bond indenture and revolving credit agreement;
- fluctuating price of newsprint or disruptions in newsprint supply chain;
- any labor unrest;
- unsuccessful returns from our venture investments;
- accelerated decline in print circulation volume;
- our reliance on third party vendors;
- developments in the laws and regulations to which we are subject resulting in increased costs and lower advertising 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 nine months ended September 29, 2019, included in Item 1 of this Quarterly Report on Form 10-Q, as well as with our audited consolidated financial statements and accompanying notes to the financial statements and MD&A contained in our 2018 Annual Report filed on Form 10-K with the Securities and Exchange Commission on March 8, 2019. All period references are to our fiscal periods unless otherwise indicated.

Overview

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

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

	Quarters Ended		Nine Months Ended	
	September 29, 2019	**September 30, 2018**	**September 29, 2019**	**September 30, 2018**
Revenues:				
Advertising	45.8 %	49.8 %	47.0 %	50.8 %
Audience	46.8 %	44.0 %	45.9 %	42.9 %
Other	7.4 %	6.2 %	7.1 %	6.3 %
Total revenues	100.0 %	100.0 %	100.0 %	100.0 %

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

See "Results of Operations" below for a discussion of our revenue and expense performance for the quarter and nine months ended September 29, 2019, and September 30, 2018.

Recent Developments

Non-Cash Impairment Charges

During the quarter ended September 29, 2019, 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 September 29, 2019, we recorded impairment charges to goodwill and intangible newspaper mastheads of $258.1 million and $37.2 million, respectively. See Notes 2 and 5 for further discussion.

Asset sales and leasebacks

In September 2019, we recognized a gain of $0.5 million related to the sale of land and a building in Belleville, Illinois. In October 2019, we sold land and a building in Kennewick, Washington related to our operations of the *Tri-City Herald*. We will recognize a gain of approximately $0.6 million on that transaction during the fourth quarter of 2019.

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

In April 2019, we recognized a net gain of $2.3 million related to the sale of a distribution center in Miami, Florida.

Debt Redemption and extinguishment of debt

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

In June 2019, in accordance with our 2026 Notes Indenture, we redeemed $32.0 million aggregate principal amount of our 2026 Notes from the net proceeds of the Kansas City and Miami asset dispositions, as discussed above. As a result of the $36.6 million principal amounts redeemed in these transactions, we recorded a loss on extinguishment of debt of $2.0 million in the quarter and nine months ended September 29, 2019.

During the fourth quarter of 2019, in accordance with our 2026 Notes Indenture, we will redeem approximately $5.2 million aggregate principal amount of our 2026 Notes from the net proceeds of the Belleville and Tri-City asset dispositions, as discussed above. As of September 29, 2019, the net proceeds of the Belleville transaction of $1.5 million are classified as current portion of long-term debt.

Debt Issuance and Exchange

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

Early Retirement Incentive Program

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

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

Results of Operations

The following table reflects our financial results on a consolidated basis for the quarters and nine months ended September 29, 2019, and September 30, 2018.

(in thousands, except per share amounts)	Quarters Ended September 29, 2019	Quarters Ended September 30, 2018	Nine Months Ended September 29, 2019	Nine Months Ended September 30, 2018
Net income (loss)	$ (304,703)	$ 7,038	$ (364,190)	$ (52,268)
Net income (loss) per diluted common share	$ (38.43)	$ 0.90	$ (46.08)	$ (6.74)

The increase in the net loss in the quarter and nine months ended September 29, 2019, compared to the same periods in 2018, was primarily due to goodwill and other asset write-downs of $296.0 million in 2019 compared to $14.2 million in 2018. In addition, we recognized a $36.3 million and $30.9 million gain on the extinguishment of debt during the quarter and nine months ended September 30, 2018, respectively, compared to a $2.0 million loss on extinguishment of debt in the nine months ended September 29, 2019. The first nine months of 2019 include a non-cash charge of $6.8 million related to the ERIP (see Note 7) and a non-cash deferred tax valuation allowance charge of $14.0 million. In addition, while advertising revenues were lower during the quarter and nine months ended September 29, 2019, compared to the same periods in 2018, the lower revenues were largely offset by lower operating expenses, excluding goodwill and other asset write-downs.

Revenues

During the quarter and nine months ended September 29, 2019, total revenues decreased 12.4% and 11.4%, respectively, compared to the same periods in 2018, primarily due to the continued decline in demand for advertising. The decline in print advertising was primarily a result of large retail advertisers continuing to reduce preprinted inserts and in-newspaper ROP advertising in favor of digital products. We expect this trend to continue for the foreseeable future. In addition, we experienced lower page views in the first nine months of 2019 compared to the same period in 2018 resulting in a decline in digital advertising revenues, primarily impacting programmatic revenues in the national advertising category, as discussed below.

The following table summarizes our revenues by category:

(in thousands)	Quarters Ended September 29, 2019	Quarters Ended September 30, 2018	$ Change	% Change	Nine Months Ended September 29, 2019	Nine Months Ended September 30, 2018	$ Change	% Change
Advertising								
Digital-only	$ 29,903	$ 36,346	$ (6,443)	(17.7)	$ 95,586	$ 112,013	$ (16,427)	(14.7)
Digital bundled with print	6,010	6,342	(332)	(5.2)	18,630	20,117	(1,487)	(7.4)
Total digital	35,913	42,688	(6,775)	(15.9)	114,216	132,130	(17,914)	(13.6)
Print	27,821	35,001	(7,180)	(20.5)	91,473	113,556	(22,083)	(19.4)
Direct marketing and other	13,020	17,413	(4,393)	(25.2)	41,715	56,256	(14,541)	(25.8)
Total advertising	76,754	95,102	(18,348)	(19.3)	247,404	301,942	(54,538)	(18.1)
Total audience	78,333	84,040	(5,707)	(6.8)	241,737	255,143	(13,406)	(5.3)
Other revenues	12,351	11,923	428	3.6	37,283	37,186	97	0.3
Total revenues	$ 167,438	$ 191,065	$ (23,627)	(12.4)	$ 526,424	$ 594,271	$ (67,847)	(11.4)
Supplemental advertising detail:								
Retail	$ 34,258	$ 42,663	$ (8,405)	(19.7)	$ 113,751	$ 134,477	$ (20,726)	(15.4)
National	7,555	10,335	(2,780)	(26.9)	23,401	31,789	(8,388)	(26.4)
Classified	21,921	24,691	(2,770)	(11.2)	68,537	79,420	(10,883)	(13.7)
Direct marketing and other	13,020	17,413	(4,393)	(25.2)	41,715	56,256	(14,541)	(25.8)
Total advertising	$ 76,754	$ 95,102	$ (18,348)	(19.3)	$ 247,404	$ 301,942	$ (54,538)	(18.1)

Advertising Revenues

Total advertising revenues decreased 19.3% and 18.1% during the quarter and nine months ended September 29, 2019, respectively, compared to the same periods in 2018. We experienced declines in all of our advertising revenue categories, as discussed below.

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

	Quarters Ended September 29, 2019	Quarters Ended September 30, 2018	Nine Months Ended September 29, 2019	Nine Months Ended September 30, 2018
Advertising:				
Total digital	46.8 %	44.9 %	46.2 %	43.8 %
Print	36.2 %	36.8 %	37.0 %	37.6 %
Direct marketing and other	17.0 %	18.3 %	16.8 %	18.6 %
Total advertising	100.0 %	100.0 %	100.0 %	100.0 %

Digital:

Total digital advertising revenues decreased 15.9% and 13.6% during the quarter and nine months ended September 29, 2019, respectively, compared to the same periods in 2018. Digital advertising constituted 46.8% and 46.2% of total advertising revenues in the quarter and nine months ended September 29, 2019, respectively, compared to 44.9% and 43.8% for the same periods in 2018. Total digital advertising includes digital-only advertising and digital advertising bundled with print.

Digital-only advertising is defined as digital advertising sold on a stand-alone basis or as the primary advertising buy. Digital-only advertising revenues decreased 17.7% and 14.7% in the third quarter and first nine months of 2019, respectively, compared to the same periods in 2018, largely due to lower page views. As expected, the decline in digital-only advertising continued due to lower audience traffic compared to the third quarter of 2018, largely the result of a strategic tightening of website paywalls that accelerated paid digital subscriptions and a change in algorithms by a large platform company in the last half of 2018 that impacted us and the rest of the industry. In addition, we restructured our advertising function during the second quarter of 2019, which temporarily impacted sales in the second quarter, and to a lesser extent, the third quarter of 2019.

Digital advertising revenues bundled with print products declined 5.2% and 7.4% in the third quarter and first nine months of 2019, respectively, compared to the same periods in 2018 as a result of fewer print advertising sales and a decline in digital sales.

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

Print:

Print advertising decreased 20.5% and 19.4% in the quarter and nine months ended September 29, 2019, respectively, compared to the same periods in 2018.

In the third quarter of 2019, the decreases in print advertising revenues were primarily due to decreases of 20.2% in retail ROP advertising revenues, 20.8% in preprint advertising revenues, and 19.5% in classified advertising, compared to the same period in 2018. In the first nine months of 2019, the decrease in print advertising revenues was primarily due to decreases of 17.9% in retail ROP advertising revenues, 20.7% in preprint advertising revenues, and 20.0% in classified advertising, compared to the same period in 2018.

Direct Marketing and Other:

Direct marketing and other advertising revenues decreased 25.2% and 25.8% during the quarter and nine months ended September 29, 2019, respectively, compared to the same periods in 2018. The decrease was largely due to declines in insert advertising in our total market coverage (“TMC”) products by large retail customers and from eliminating certain unprofitable TMC programs or niche and direct marketing products.

Audience Revenues

Total audience revenues decreased 6.8% and 5.3% during the quarter and nine months ended September 29, 2019, respectively, compared to the same periods in 2018. Total audience revenues represented 46.8% and 45.9% of the total revenues during the quarter and first nine months of 2019, respectively, compared to 44.0% and 42.9% in the same periods of 2018.

Overall, digital audience revenues increased 13.4% and 10.3% in the quarter and nine months ended September 29, 2019, respectively, compared to the same periods in 2018. Digital-only audience revenues increased 44.5% and 50.4% in the quarter and nine months ended September 29, 2019, respectively, compared to the same periods in 2018. The increase in digital-only audience revenues during 2019 was a result of a 45.4% increase in our digital-only subscribers to 199,200 as of the end of the third quarter of 2019 compared to 137,000 as of the end of the third quarter in 2018.

Print audience revenues decreased 15.5% and 11.8% in the quarter and nine months ended September 29, 2019, respectively, compared to the same periods in 2018, primarily due to lower print circulation volumes that were partially offset by pricing adjustments. We have a dynamic pricing model for our traditional subscriptions for which pricing is constantly being adjusted. Print circulation volumes continue to decline as a result of fragmentation of audiences faced by our industry as available media outlets proliferate and readership trends change. To help reduce potential attrition due to the increased pricing, we also increased our subscription-related marketing and promotion efforts.

Operating Expenses

Total operating expenses increased 115.4% and 32.3% in the quarter and nine months ended September 29, 2019, respectively, compared to the same periods in 2018, primarily due to increases in goodwill and other asset write-offs. This was partially offset by decreases in compensation and amortization expenses, as discussed below. Our total operating expenses, excluding goodwill and other asset write-offs, decreased 19.7% and 13.8% respectively, and reflects our continued effort to reduce costs through streamlining processes to gain efficiencies.

The following table summarizes operating expenses:

	Quarters Ended				Nine Months Ended			
(in thousands)	**September 29, 2019**	**September 30, 2018**	**$ Change**	**% Change**	**September 29, 2019**	**September 30, 2018**	**$ Change**	**% Change**
Compensation expenses	$ 57,828	$ 73,501	$ (15,673)	(21.3)	$ 188,719	$ 230,650	$ (41,931)	(18.2)
Newsprint, supplements and printing expenses	11,147	12,913	(1,766)	(13.7)	34,072	40,333	(6,261)	(15.5)
Depreciation and amortization expenses	5,575	19,041	(13,466)	(70.7)	40,504	57,496	(16,992)	(29.6)
Other operating expenses	82,905	90,527	(7,622)	(8.4)	254,196	271,993	(17,797)	(6.5)
Goodwill and other asset write-downs	295,270	14,148	281,122	nm	296,009	14,207	281,802	nm
	$ 452,725	$ 210,130	$ 242,595	115.4	$ 813,500	$ 614,679	$ 198,821	32.3

nm – not meaningful

Compensation expenses, which included both payroll and fringe benefit costs, decreased 21.3% and 18.2% in the quarter and nine months ended September 29, 2019, respectively, compared to the same periods in 2018. Payroll expenses declined 20.7% and 18.3% during the quarter and nine months ended September 29, 2019, respectively, compared to the same periods in 2018, primarily due to the reduction in headcount. Average full-time equivalent employees declined 19.4% and 20.2% in the quarter and nine months ended September 29, 2019, respectively, compared to the same periods in 2018, partially reflecting the ERIP we discussed above in *Recent Developments*. Fringe benefit costs decreased 24.6% and 17.7% in the quarter and nine months ended September 29, 2019, respectively, compared to the same periods in 2018, which is consistent with the decreases in payroll expenses.

Newsprint, supplements and printing expenses decreased 13.7% and 15.5% in the quarter and nine months ended September 29, 2019, respectively, compared to the same periods in 2018. Newsprint expense declined 26.8% and 18.7% during the third quarter and first nine months of 2019, respectively, compared to the same periods in 2018. The newsprint expense decline reflects a decrease in newsprint tonnage used of 21.8% and 21.0%, in the third quarter and first nine months of 2019, respectively. Newsprint prices decreased 6.4% and increased 3.0% during the quarter and first nine months of 2019, respectively, compared to the same periods in 2018. During these same periods, printing expenses, which are primarily costs associated with outsourced printing to third-parties, decreased 11.8% and 14.7%, respectively.

Depreciation and amortization expenses decreased 70.7% and 29.6% in the quarter and nine months ended September 29, 2019, respectively, compared to the same periods in 2018. Depreciation expense decreased $1.8 million and $5.0 million in the third quarter and first nine months of 2019, respectively, compared to the same periods in 2018, as a result of assets becoming fully depreciated in previous periods. Amortization expense decreased 97.7% and 33.4% in the third quarter and first nine months of 2019, respectively, compared to the same periods in 2018. A majority of the intangible assets subject to amortization became fully amortized in the second quarter of 2019 and therefore amortization expense during the remainder of 2019 and in future years will be significantly lower. See Note 5.

Other operating expenses decreased 8.4% and 6.5% in the quarter and nine months ended September 29, 2019, respectively, compared to the same periods in 2018. The decrease was primarily a result of cost savings initiatives and other efforts to reduce operational costs, as well as the timing of gains on the sale of property and equipment. During the third quarter of 2019 compared to the same period in 2018, we had decreases in various categories, such as postage, travel, outsourcing costs, circulation delivery costs and other miscellaneous expenses. These decreases in expense were partially offset by an increase in computer expenses and other professional services. During the first nine months of 2019, compared to the same period in 2018, we had decreases in various categories, such as bad debt, postage, travel, outsourcing costs, circulation delivery costs and other miscellaneous expenses. These decreases were partially offset by an increase in third-party related fees for interactive services, other professional services and the change in gain on sale of property and equipment. The first quarter of 2018 included a $3.1 million gain on the disposal of property and equipment, which reduced operating expenses in 2018, with a similar transaction for $2.3 million in the second quarter of 2019.

Goodwill and other asset write-downs include charges of $295.3 million and $296.0 million in the third quarter and first nine months of 2019, respectively, compared to $14.1 million and $14.2 million in the same periods in 2018, respectively. These write-downs in the third quarter of 2019 are due to impairment charges to goodwill of $258.1 million and intangible newspaper mastheads of $37.2 million. The write-downs in the third quarter of 2018 are due to impairment charges related to intangible newspaper mastheads. During the first nine months of 2019 and 2018, goodwill and other asset write-downs also includes impairment charges recognized upon classifying certain land and buildings as assets held for sale during the applicable periods.

Non-Operating Expenses

Interest Expense:

Total interest expense decreased 15.5% and 0.8% in the quarter and nine months ended September 29, 2019, respectively, compared to the same periods in 2018. In the third quarter and first nine months of 2019, interest expense related to debt balances decreased $3.6 million and increased $0.2 million, respectively, compared to the same periods in 2018. The decrease in the third quarter of 2019 is primarily related to lower overall debt balances resulting from redemptions made in the first half of 2019.

Gains Related to Investments in Unconsolidated Companies:

As described more fully in Note 2, during the quarter and nine months ended September 30, 2018, we recorded $1.7 million gain on the sale of our investment in CareerBuilder. We had no such related transactions during the quarter and nine months ended September 29, 2019.

Extinguishment of Debt:

In the quarter and nine months ended September 29, 2019, we redeemed $36.6 million of our 2026 Notes and recorded a loss on extinguishment of debt of $2.0 million. During the first quarter of 2019, our exchange of $75.0 million of the 2029 Debentures to additional 2031 Notes did not result in a gain or loss on extinguishment of debt. See Note 6 for further discussion.

During the quarter and nine months ended September 30, 2018, we recorded a net gain on the extinguishment of debt of $36.3 million and $30.9 million, respectively, as a result of the following transactions. During the quarter and nine months ended September 30, 2018, we redeemed $344.1 million of our 2022 Notes and we executed a non-cash exchange of most of our Debentures for new Tranche A and Tranche B Junior Term Loans. Also, during the first nine months of 2018, we redeemed or repurchased $95.5 million of our 2022 Notes. As a result of these transactions, we recorded any applicable premiums that were paid, wrote off unamortized discounts and debt issuance costs, and recorded a fair market value adjustment on the exchange. See Note 6 for further discussion.

Income Taxes:

In the quarter and nine months ended September 29, 2019, we recorded an income tax benefit of $4.5 million and $5.0 million, respectively. As discussed more fully in Note 2 under *Income Taxes*, during the third quarter and first nine months of 2019, we recorded charges of $4.8 million and $14.0 million, respectively, 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 and the impact of non-tax deductible charges related to intangibles and goodwill.

Liquidity and Capital Resources

We face significant liquidity constraints. We are, with the assistance of our Advisors, exploring various alternatives described herein. We believe we have taken and are continuing to take prudent actions to address the substantial doubt regarding our ability to continue as a going concern, however, there is no assurance that such alternatives will be available on terms acceptable to us, or at all, or that our plans will fully mitigate the liquidity challenges we face because some matters are not within our control. If we are unable to obtain pension relief and/or a restructuring of our outstanding debt obligations, we may need to seek protection under Chapter 11 of the U.S. Bankruptcy Code to protect stakeholder value.

Sources and Uses of Liquidity and Capital Resources:

Our cash and cash equivalents were $11.4 million as of September 29, 2019, compared to $4.5 million and $21.9 million as of September 30, 2018, and December 30, 2018, respectively.

For the foreseeable future, we expect that most of our cash and cash equivalents, and our cash generated from operations, will be used to (i) repay debt, (ii) pay taxes, (iii) fund our capital expenditures, (iv) invest in new revenue initiatives, digital investments and enterprise-wide operating systems, (v) make required contributions to the Pension Plan, and (vi) for other corporate uses as determined by management and our Board of Directors. As of September 29, 2019, we had approximately $708.5 million in total aggregate principal amount of debt outstanding, consisting of $268.1 million of our 2026 Notes, $14.9 million of our Debentures, $157.1 million of our Junior Term Loan and $268.4 million of our 2031 Notes. As of September 29, 2019, we were not permitted to incur additional pari passu obligations under the limitation on indebtedness incurrence test as defined in the 2026 Notes Indenture.

We expect to continue to opportunistically repurchase or restructure our debt from time to time if market conditions are favorable, whether through privately negotiated repurchases of debt using cash from operations, or other types of tender offers or exchange offers or other means. We 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).

Restructuring Plan for Outstanding Debt

We are engaged in discussions with our largest debt holder and the PBGC regarding the recapitalization of our balance sheet and outstanding debt obligations, including obligations under our Pension Plan, and the formulation of a restructuring plan that would provide a more permanent, rather than temporary, solution. No agreement has been reached with respect to the above discussions and discussions remain ongoing. We will continue to work collaboratively with our constituents to achieve the goals of our business plan and balance the interests of a wide range of stakeholders. However, there can be no assurance that the ongoing discussions with the PBGC and our debt holder will result in any out-of-court restructuring transaction, that we will obtain any required stakeholder consent to consummate a restructuring transaction, or that the restructuring transaction will occur on a timely basis or at all.

Pension Plan Matters

We made no cash contributions to the Pension Plan during the first nine months of 2019 or all of 2018. In October 2019, we made a required pension contribution under ERISA of $3.1 million, and we expect to have material contributions in the future. Minimum required contributions for fiscal year 2020 are estimated to be approximately $124.2 million, which would be paid in quarterly installments beginning in January 2020 with the bulk of those payments due in September 2020 or afterwards.

As discussed in Note 1, to address our liquidity needs, in June 2019 we filed an application for a waiver of the minimum required contributions under the Pension Plan for the 2019, 2020 and 2021 plan years with the IRS. In early November 2019, the IRS declined to grant us our three-year waiver request.

In addition, we continue to explore other means of pension relief, including working with congressional offices in search of legislative relief that would mitigate the burden of the minimum required contributions. We have also consulted with the PBGC to discuss measures allowed under existing regulations to provide a more permanent solution, such as a distress termination of the Pension Plan. A distress termination would allow us to continue to operate and relieve the current liquidity pressures of the minimum required contributions under ERISA. Should these efforts fail, we will evaluate further measures where appropriate and available.

The following table summarizes our cash flows:

	Nine Months Ended	
(in thousands)	**September 29, 2019**	**September 30, 2018**
Cash flows provided by (used in)		
Operating activities	$ (6,547)	$ 7,878
Investing activities	2,334	(2,210)
Financing activities	(8,274)	(100,593)
Decrease in cash, cash equivalents and restricted cash	$ (12,487)	$ (94,925)

Operating Activities:

We used $6.5 million of cash from operating activities in the nine months ended September 29, 2019, compared to generating $7.9 million in the nine months ended September 30, 2018. The decrease in operating cash flows reflects a $8.5 million change in our accounts payable balances and a $17.9 million change in our accrued interest balances in the first nine months of 2019 compared to the same period in 2018. This was partially offset by the timing of income tax payments in 2019 compared to 2018. In the first nine months of 2019, we had net income tax payments of $7.3 million compared to net income tax payments of $12.9 million during the same period in 2018. The remaining changes in operating activities relate to miscellaneous timing differences in various payments and receipts.

Investing Activities:

We generated $2.3 million of cash from investing activities in the nine months ended September 29, 2019. We received proceeds from the sale of property, plant and equipment ("PP&E") of $5.1 million. These amounts were offset by the purchase of PP&E for $1.9 million and contributions to equity investments of $0.8 million. We expect total capital expenditures for the full year of 2019 to be approximately $4.0 million.

We used $2.2 million of cash from investing activities in the nine months ended September 30, 2018. We received proceeds from the sale of PP&E of $4.1 million and from the sale of an investment of $5.3 million. These amounts were offset by the purchase of PP&E for $9.3 million and contributions to equity investments of $2.3 million.

Financing Activities:

We used $8.3 million of cash for financing activities in the nine months ended September 29, 2019. Through September 29, 2019, we redeemed $36.6 million principal amount of our 2026 Notes at par. See Note 6 for further discussion. These redemptions were partially offset by the $29.7 million increase in our financial obligations as a result of the sale and leaseback of one of our real properties, as described in *Recent Developments* previously.

We used $100.6 million of cash for financing activities in the nine months ended September 30, 2018. During the first nine months of 2018, we repurchased or redeemed $439.6 million principal amount of our 2022 Notes for $459.5 million in cash and incurred financing costs of $17.4 million related to the refinancing of our debt. Those amounts were offset by cash proceeds of $361.4 million for the issuance of $310.0 million principal amount of the 2026 Notes and $75.0 million principal amount of the Junior Term Loans. We also had an increase of $15.7 million in our financing obligations as a result of the sale and leaseback of one of our real properties.

Off-Balance-Sheet Arrangements

As of September 29, 2019, we did not have any off-balance-sheet arrangements as defined in Item 303(a)(4)(ii) of Regulation S-K.

Critical Accounting Policies

Critical accounting policies are those accounting policies that we believe are important to the portrayal of our financial condition and results and require our most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. Our 2018 Annual Report on Form 10-K includes a description of certain critical accounting policies, including those with respect to goodwill and intangible impairment, pension and post-retirement benefits and income taxes. There have been no material changes to our critical accounting policies described in our 2018 Annual Report on Form 10-K, other than the adoption of Topic 842 (see Note 2 under the "*Recently Adopted Accounting Pronouncements*" subheader).

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

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

ITEM 4. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting that occurred during the quarter ended September 29, 2019, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

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

ITEM 1A. RISK FACTORS.

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

ITEM 6. EXHIBITS

Exhibit Number		Description
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)
November 13, 2019	/s/Craig I. Forman
Date	Craig I. Forman Chief Executive Officer
November 13, 2019	/s/R. Elaine Lintecum
Date	R. Elaine Lintecum Chief Financial Officer

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: November 13, 2019

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

EXHIBIT 31.2

CERTIFICATION

I, R. Elaine Lintecum, certify that:

1. I have reviewed this quarterly report on Form 10-Q of The McClatchy Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 13, 2019

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

EXHIBIT 32

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 September 29, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned officers of the Company certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to their knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 13, 2019

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

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

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

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