MCCLATCHY CO
Form 10-Q
November 09, 2018
Table of Contents

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 30, 2018

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

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

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 2, 2018, the registrant had shares of common stock as listed below outstanding:

Class A Common Stock	5,380,650
Class B Common Stock	2,428,191

Table of Contents

THE MCCLATCHY COMPANY

TABLE OF CONTENTS

Table of Contents

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 30, 2018	September 24, 2017	September 30, 2018	September 24, 2017
REVENUES — NET:				
Advertising	$ 95,102	$ 115,331	$ 301,942	$ 360,459
Audience	84,040	87,142	255,143	268,473
Other	11,923	10,131	37,186	30,004
	191,065	212,604	594,271	658,936
OPERATING EXPENSES:				
Compensation	73,501	80,652	230,650	258,883
Newsprint, supplements and printing expenses	12,913	15,075	40,333	49,379
Depreciation and amortization	19,041	19,588	57,496	59,016
Other operating expenses	90,527	83,963	271,993	268,784
Other asset write-downs	14,148	8,715	14,207	10,672
	210,130	207,993	614,679	646,734
OPERATING INCOME (LOSS)	(19,065)	4,611	(20,408)	12,202
NON-OPERATING INCOME (EXPENSE):				
Interest expense	(23,346)	(19,801)	(60,181)	(60,547)
Interest income	135	121	441	410
Equity income (loss) in unconsolidated companies, net	(473)	(600)	573	(696)
Impairments related to investments in unconsolidated companies, net	—	(1,866)	—	(171,013)
Gains related to investments in unconsolidated companies	1,721	—	1,721	—
Gain (loss) on extinguishment of debt, net	36,286	(1,831)	30,918	(2,700)
Retirement benefit expense	(2,778)	(3,328)	(8,335)	(9,983)
Other — net	136	23	71	106
	11,681	(27,282)	(34,792)	(244,423)

Loss before income taxes	(7,384)	(22,671)	(55,200)	(232,221)
Income tax (benefit) expense	(14,422)	237,805	(2,932)	161,276
NET INCOME (LOSS)	$ 7,038	$ (260,476)	$ (52,268)	$ (393,497)
Net income (loss) per common share:				
Basic	$ 0.90	$ (34.11)	$ (6.74)	$ (51.67)
Diluted	$ 0.90	$ (34.11)	$ (6.74)	$ (51.67)
Weighted average number of common shares:				
Basic	7,778	7,637	7,754	7,616
Diluted	7,850	7,637	7,754	7,616

See notes to the condensed consolidated financial statements.

Table of Contents

THE MCCLATCHY COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(Unaudited; amounts in thousands)

	Quarters Ended		Nine Months Ended	
	September 30, 2018	September 24, 2017	September 30, 2018	September 24, 2017
NET INCOME (LOSS)	$ 7,038	$ (260,476)	$ (52,268)	$ (393,497)
OTHER COMPREHENSIVE INCOME (LOSS):				
Pension and post retirement plans: (1)				
Change in pension and post-retirement benefit plans	5,550	7,712	16,649	12,853
Investment in unconsolidated companies: (1)				
Other comprehensive income	—	2,697	—	6,743
Other comprehensive income	5,550	10,409	16,649	19,596
Comprehensive income (loss)	$ 12,588	$ (250,067)	$ (35,619)	$ (373,901)

(1) There is no income tax benefit associated with the quarter and nine months ended September 30, 2018, or September 24, 2017, due to the recognition of a valuation allowance.

See notes to the condensed consolidated financial statements.

Table of Contents

THE MCCLATCHY COMPANY

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited; amounts in thousands, except share amounts)

	September 30, 2018	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$ 4,492	$ 99,387
Trade receivables (net of allowances of $3,772 and $3,225)	65,791	101,081
Other receivables	11,591	11,556
Newsprint, ink and other inventories	9,829	7,918
Assets held for sale	5,924	6,332
Other current assets	17,997	19,000
	115,624	245,274
Property, plant and equipment, net	242,414	257,639
Intangible assets:		
Identifiable intangibles — net	178,216	228,222
Goodwill	705,174	705,174
	883,390	933,396
Investments and other assets:		
Investments in unconsolidated companies	3,696	7,172
Other assets	61,389	62,437
	65,085	69,609
	$ 1,306,513	$ 1,505,918
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Current portion of long-term debt	$ —	$ 74,140
Accounts payable	30,478	31,856
Accrued pension liabilities	8,941	8,941
Accrued compensation	21,598	24,050
Income taxes payable	—	10,133
Unearned revenue	60,193	60,436
Accrued interest	11,599	7,954
Other accrued liabilities	16,958	18,832
	149,767	236,342
Non-current liabilities:		
Long-term debt	638,651	707,252
Deferred income taxes	25,892	28,062
Pension and postretirement obligations	584,158	599,763
Financing obligations	106,192	91,905
Other long-term obligations	43,077	46,926
	1,397,970	1,473,908

Commitments and contingencies		
Stockholders' equity (deficit):		
Common stock $.01 par value:		
Class A (authorized 200,000,000 shares, issued 5,429,199 shares and 5,256,325 shares)	54	52
Class B (authorized 60,000,000 shares, issued 2,428,191 shares and 2,443,191 shares)	24	24
Additional paid-in-capital	2,216,926	2,215,109
Accumulated deficit	(2,025,033)	(1,970,097)
Treasury stock at cost, 48,654 shares and 3,157 shares	(475)	(51)
Accumulated other comprehensive loss	(432,720)	(449,369)
	(241,224)	(204,332)
	$ 1,306,513	$ 1,505,918

See notes to the condensed consolidated financial statements.

3

Table of Contents

THE MCCLATCHY COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited; amounts in thousands)

	Nine Months Ended	
	September 30, 2018	September 24, 2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (52,268)	$ (393,497)
Reconciliation to net cash provided by (used in) operating activities:		
Depreciation and amortization	57,496	59,016
Gain on disposal of property and equipment (excluding other asset write-downs)	(2,820)	(10,269)
Retirement benefit expense	8,335	9,983
Stock-based compensation expense	1,819	1,786
Deferred income taxes	(2,170)	153,725
Equity (income) loss in unconsolidated companies	(573)	696
Gains related to investments in unconsolidated companies	(1,721)	—
Impairments related to investments in unconsolidated companies, net	—	171,013
Distributions of income from investments in unconsolidated companies	2,876	—
(Gain) loss on extinguishment of debt, net	(30,918)	2,700
Other asset write-downs	14,207	10,672
Other	(1,119)	(4,823)
Changes in certain assets and liabilities:		
Trade receivables	32,622	24,409
Inventories	(1,911)	2,526
Other assets	2,380	1,358
Accounts payable	(1,378)	(4,001)
Accrued compensation	(2,452)	(3,160)
Income taxes	(10,379)	(2,304)
Accrued interest	3,645	6,093
Other liabilities	(7,793)	(5,464)
Net cash provided by operating activities	7,878	20,459
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(9,262)	(7,378)
Proceeds from sale of property, plant and equipment and other	4,052	22,656
Distributions from equity investments	—	7,318
Contributions to cost and equity investments	(2,301)	(2,698)
Proceeds from sale of unconsolidated companies and other-net	5,301	66,652
Net cash provided by (used in) investing activities	(2,210)	86,550

CASH FLOWS FROM FINANCING ACTIVITIES:		
Repurchase of notes and related expenses	(459,539)	(70,615)
Proceeds from issuance of debt	361,449	—
Payment of financing costs	(17,387)	—
Proceeds from sale-leaseback financing obligations	15,749	43,971
Purchase of treasury shares	(424)	(457)
Other	(441)	861
Net cash used in financing activities	(100,593)	(26,240)
Increase (decrease) in cash, cash equivalents and restricted cash	(94,925)	80,769
Cash, cash equivalents and restricted cash at beginning of period	131,354	36,248
CASH, CASH EQUIVALENTS AND RESTRICTED CASH AT END OF PERIOD	$ 36,429	$ 117,017

See notes to the condensed consolidated financial statements

4

Table of Contents

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

1. SIGNIFICANT ACCOUNTING POLICIES

Business and Basis of Accounting

The McClatchy Company (“Company,” “we,” “us” or “our”) operates 30 media companies in 14 states, providing each of its 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.

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

In our opinion, the accompanying unaudited condensed consolidated financial statements reflect all adjustments, which are of a normal recurring nature, that are necessary to present fairly our financial position, results of operations, and cash flows for the interim periods presented. The financial statements contained in this report are not necessarily indicative of the results to be expected for the full year. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2017 (“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.

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. During the quarter ended September 30, 2018, as a result of the refinancing transactions discussed in Note 5, we transferred our Debentures (as defined in Note 5) from Level 2 to Level 3 in the fair value hierarchy.

Table of Contents

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

Cash and cash equivalents, accounts receivable and accounts payable. As of September 30, 2018, and December 31, 2017, the carrying amount of these items approximates fair value because of the short maturity of these financial instruments.

Long-term debt. At September 30, 2018 the carrying value and the estimated fair value of our 2026 Notes (as defined in Note 5) was $290.0 million and $314.3 million, respectively. As of December 31, 2017, the carrying value and the estimated fair value of the long-term debt, including the current portion of long-term debt, was $781.4 million and $810.7 million, respectively. The fair value of our long-term debt is described above was determined using quoted market prices, including the current market activity of our publicly-traded notes and bank debt, trends in investor demand for debt and market values of comparable publicly-traded debt. 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 30, 2018, the carrying value and the estimated fair value of our Debentures and Junior Term Loans (as defined in Note 5), was $348.6 million and $328.7 million, respectively. The fair values of our Debentures and Junior Term loans were estimated based on available market evidence, including quoted market prices for the same or similar instruments. If market evidence was not available or reliable, 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 30, 2018. 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 the expected cash flows and the discount rates that we estimate market participants would seek for bearing the risk associated with such assets.

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. During the nine months ended September 24, 2017, we recorded a $2.0 million write down of non-newsprint inventory, which is reflected in the other asset write-downs line on our condensed consolidated statement of operations. There were no similar write-downs of newsprint, ink or other inventories during the nine months ended September 30, 2018.

Property, Plant and Equipment

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

	Quarters Ended		Nine Months Ended	
(in thousands)	September 30, 2018	September 24, 2017	September 30, 2018	September 24, 2017
Depreciation expense	$ 7,146	$ 7,496	$ 21,638	$ 22,748

Assets Held for Sale

During the nine months ended September 30, 2018, we began to actively market for sale the land and buildings at two 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 $0.1 million was recorded during the nine months ended September 30, 2018, and is included in other asset write-downs on our condensed

Table of Contents

consolidated statement of operations. The land and building at this property were sold during the quarter ended July 1, 2018, with no gain or additional loss. The assets at the second property remain classified as assets held for sale.

Intangible Assets and Goodwill

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. The required approach uses accounting judgments and estimates of future operating results. Changes in estimates or the application of alternative assumptions could produce significantly different results. Impairment testing is done at a reporting unit level. 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 a combination of a discounted cash flow model and market based approaches. The estimates and judgments that most significantly affect the fair value calculation are assumptions related to future revenue, newsprint prices, compensation levels, discount rate, hypothetical transaction structures, and for the market based approach, private and public market trading multiples for newspaper assets. We consider current market capitalization, based upon the recent stock market prices plus an estimated control premium, in determining the reasonableness of the aggregate fair value of the reporting units. We had no impairment of goodwill during the quarters and nine months ended September 30, 2018, or September 24, 2017.

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. We performed an interim testing of impairment of intangible newspaper mastheads as of September 30, 2018, due to the continuing challenging business conditions in certain markets as of the end of the third quarter of 2018. We also performed an interim testing of impairment of intangible newspaper mastheads as of September 24, 2017, due to the continuing challenging business conditions and the resulting weakness in our stock price as of the end of the third quarter of 2017. Individual newspaper mastheads were estimated using the present value of expected future cash flows, using estimates, judgments and assumptions discussed above that we believe were appropriate in the circumstances. As a result of these interim tests, we recorded intangible newspaper masthead impairment charge of $14.1 million in the quarter and nine months ended September 30, 2018, and $8.7 million in the quarter and nine months ended September 24, 2017. Both of which are recorded in other asset write-downs on our condensed consolidated statements of operations.

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 long lived assets subject to amortization during the quarters and nine months ended September 30, 2018, or September 24, 2017.

Financing Obligations

Financing obligations consist of contributions of real properties to the Pension Plan 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, and real property previously owned by The State in Columbia, South Carolina that we sold and leased back during the second quarter of 2018. Our long-term financing obligations increased by approximately $14.6 million during the first nine months of 2018 with the sale and leaseback of the Columbia real property.

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

Table of Contents

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.

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 31, 2017	$ (442,406)	$ (6,963)	$ (449,369)
Amounts reclassified from AOCL	16,649	—	16,649
Other comprehensive income	16,649	—	16,649
Balance at September 30, 2018	$ (425,757)	$ (6,963)	$ (432,720)

(in thousands)	Amount Reclassified from AOCL Quarters Ended		Amount Reclassified from AOCL Nine Months Ended		
AOCL Component	September 30, 2018	September 24, 2017	September 30, 2018	September 24, 2017	Affected Line in the Condensed Consolidated Statements of Operations
Minimum pension and post-retirement liability	$ 5,550	$ 7,712	$ 16,649	$ 12,853	Retirement benefit expense (1)

(1) There is no income tax benefit associated with the quarter and nine months ended September 30, 2018, or September 24, 2017, due to the recognition of a valuation allowance.

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.

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (“Tax Act”) was enacted. The Tax Act makes broad and complex changes to the U.S. tax code, including, but not limited to, (i) reducing the U.S. federal corporate rate from 35% to 21%; (ii) eliminating the corporate alternative minimum tax (“AMT”) and changing how existing AMT credits can be realized; (iii) creating a new limitation on deductible interest expense; (iv) changing rules related to uses and limitations of net operating loss carryforwards created in tax years beginning after December 31, 2017; (v) bonus depreciation that will allow for full expensing of qualified property; and (vi) limitations on the deductibility of certain executive compensation.

The SEC staff issued Staff Accounting Bulletin 118 (“SAB 118”) in December 2017, which provides guidance on accounting for the tax effects of the Tax Act. SAB 118 provides that the measurement period for the tax effects of the Tax Act should not extend more than one year from the date the Tax Act was enacted. We have concluded our evaluation of the tax implications of the Tax Act on our accounting, including the impact on state taxes, certain compensation arrangements and depreciation. There were no significant adjustments from our original conclusions as previously reported.

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 takes into account 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 performed our assessment of the deferred tax assets during the third and fourth quarters of 2017, 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 31, 2017, our valuation allowance against a majority of our deferred tax assets was $109.7 million. For the quarter and nine months ended September 30, 2018, we recorded a valuation allowance benefit of $2.8 million and a charge of $21.6 million, respectively, which is recorded in income tax (benefit) expense on our condensed consolidated statements of operations. Our valuation allowance as of September 30, 2018, was $131.3 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 recognize accrued interest related to unrecognized tax benefits in interest expense. Accrued penalties are recognized as a component of income tax expense.

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 30, 2018	September 24, 2017	September 30, 2018	September 24, 2017
Anti-dilutive common stock equivalents	127	336	199	385

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 30, 2018	December 31, 2017
Cash and equivalents	$ 4,492	$ 99,387
Restricted cash included in other assets(1)	31,937	31,967
Total cash, cash equivalents and restricted cash	$ 36,429	$ 131,354

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

9

Table of Contents

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

	Nine Months Ended	
	September 30,	September 24,
(in thousands)	2018	2017
Interest paid (net of amount capitalized)	$ 42,910	$ 45,889
Income taxes paid (net of refunds)	12,865	9,988
Other non-cash investing and financing activities related to pension plan transactions:		
Reduction of financing obligation due to sale of real properties by pension plan	(2,667)	—
Reduction of PP&E due to sale of real properties by pension plan	(2,854)	—

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 5 for definitions and further information.

Recently Adopted Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09 (“Topic 606”), “Revenue from Contracts with Customers.” Topic 606 supersedes the revenue recognition requirements in Topic 605 "Revenue Recognition." ASU 2014-09 outlines a new, single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance. Topic 606 requires revenue recognition to depict the transfer of promised goods or services to customers in an amount that reflects the consideration a company expects to receive in exchange for those goods or services. In 2016 and 2017, the FASB issued additional updates: ASU No. 2016-08, 2016-10, 2016-11, 2016-12, 2016-20 and 2017-05. These updates provided further guidance and clarification on specific items within the previously issued update. We adopted Topic 606 as of January 1, 2018, using the modified retrospective transition method. See Note 2 for further details.

In January 2016, the FASB issued ASU No. 2016-01, “Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities.” ASU 2016-01 addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. We adopted ASU 2016-01 as of January 1, 2018, on a prospective basis, but it did not have an impact on our condensed consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, “Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments.” ASU 2016-15 addresses eight specific cash flow issues and is intended to reduce diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. We adopted ASU 2016-15 as of January 1, 2018, retrospectively, but it did not have an impact on our condensed consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18, “Statement of Cash Flows (Topic 230): Restricted Cash.” ASU 2016-18 addresses the presentation of restricted cash in the statement of cash flows. The standard requires an entity to include restricted amounts with cash and cash equivalents in the statement of cash flows. An entity will no longer present transfers between cash and cash equivalents and restricted amounts on the statement of cash flows. We adopted ASU 2016-18 as of January 1, 2018, using the retrospective transition method to each period presented. As a result of the adoption, net cash provided by operating activities increased of $2.0 million to exclude the changes in restricted cash, resulting in the nine months ended September 24, 2017, on our condensed consolidated financial statements.

Recently Issued Accounting Pronouncements Not Yet Adopted

In February 2016, the FASB issued ASU No. 2016-02, “Leases” (Accounting Standards Codification 842 (“ASC 842”)) and it replaces the existing guidance in ASC 840, “Leases.” ASC 842 requires lessees to recognize most leases on their balance sheets as lease liabilities with corresponding right-of-use assets (“ROU”). For income statement purposes operating leases will result in straight-line expenses and capital leases will result in expenses similar to current financing

Table of Contents

leases. The new lease standard does not substantially change lessor accounting. The guidance also requires additional disclosures to enable users of financial statements to understand the amount, timing and uncertainty of cash flows arising from leases. In 2018, the FASB issued ASU No. 2018-01, ASU 2018-10, and ASU 2018-11 that provides further guidance and clarification on specific items within the previously issued update. ASC 842 is effective for us for interim and annual reporting periods beginning after December 15, 2018, with early adoption permitted.

We plan to adopt ASC 842 in our next fiscal year beginning December 31, 2018, using the modified retrospective approach and we intend to elect certain available practical expedients upon adoption. Our leases are made up of mostly real estate, vehicle and other equipment leases. As a result, we anticipate that ASC 842 will have a material impact on our condensed consolidated balance sheets due to the recognition of ROU assets and lease liabilities for operating leases. We expect our accounting for capital leases to remain substantially unchanged and do not expect that adoption will have a material impact on our condensed consolidated statements of operations. We are in the process of reviewing various lease agreements, implementing a lease management and accounting software, and identifying changes to internal controls and processes to appropriately account and disclose for the new standard. We have not yet quantified the standards impact on the condensed consolidated financial statements. We plan to finalize our determination of the impact by the end of the fourth quarter of 2018.

In June 2016, the FASB issued ASU No. 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. It is effective for us for interim and annual reporting periods beginning after December 15, 2019, and early adoption is permitted for interim or annual reporting periods beginning after December 15, 2018. We are currently in the process of evaluating the impact of the adoption on our condensed consolidated financial statements.

In February 2018, the FASB issued ASU No. 2018-02, “Income Statement-Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income.” ASU 2018-02 allows for reclassification of stranded tax effects resulting from the Tax Act from accumulated other comprehensive income to retained earnings. This standard also requires certain disclosures about the stranded tax effects. It is effective for us for interim and annual reporting periods beginning after December 15, 2018, and early adoption is permitted. We are currently in the process of evaluating the impact of the adoption on our condensed consolidated financial statements.

In August 2018, the FASB issued ASU No. 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 No. 2018-14, “Compensation-Retirement Benefits-Defined Benefit Plan-General (Subtopic 715-20): Disclosure Framework-Changes to the Disclosure Requirements for Defined Benefit Plans.” ASU 2018-14 adds, removes or clarifies various disclosure requirements within guidance. It is effective for us for annual reporting periods beginning after December 15, 2020, and early adoption is permitted. We are currently in the process of evaluating the impact of the adoption on our condensed consolidated financial statements.

In August 2018, the FASB issued ASU No. 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, and early adoption is permitted. We are currently in the process of evaluating the impact of the adoption on our condensed consolidated financial statements.

Table of Contents

2. REVENUES

Adoption of ASC 2014-09 (Topic 606), “Revenue from Contracts with Customers”

On January 1, 2018, we adopted Topic 606 using the modified retrospective method applied to those contracts which were not completed as of January 1, 2018. Results for reporting periods beginning after January 1, 2018, are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with our historic accounting under Topic 605.

We recorded a net increase to opening accumulated deficit of $2.7 million as of January 1, 2018, due to the cumulative impact of adopting Topic 606, with the impact primarily related to our audience revenues. The impact to revenues as a result of applying Topic 606 was zero and an increase of $0.4 million for the quarter and nine months ended September 30, 2018, respectively, compared to applying Topic 605.

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, as these are outside the scope of Topic 606.

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 under Topic 606.

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.

There are also monthly marketing campaigns which may include multiple products such as items sold by CPM, reputation management, search engine marketing and search engine optimization. In these arrangements as well as in a CPM sale, the contracted goods and services are performed over the specific contract term and the transfer of the performance obligation occurs as the benefits are consumed by the customer. As such, revenue is recognized daily regardless of the performance obligations classification of timing of being point in time or overtime.

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

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

For 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

Table of Contents

to our partners for their products or advertising space are recorded as operating expenses. Where we are the principal, we are primarily responsible to our customers for fulfillment of the contract goals though, from time to time, the use of 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 subscribers 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.

Table of Contents

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 30, 2018, was primarily driven by cash payments received or due in advance of satisfying our performance obligations, exceeded by $55.9 million of revenues recognized that were included in the unearned revenue balance as of December 31, 2017.

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.

Practical Expedients and Exemptions

We expense sales commissions when incurred because the amortization period would have been one year or less if capitalized. These costs are recorded within compensation expenses.

We record usage-based royalties promised in exchange for use of our intellectual property, including but not limited to photographs and articles. These royalty revenues are accrued when estimates of usage and recoverability are made. These revenues are recorded within other revenues.

We do not disclose the value of unsatisfied performance obligations for (i) contracts with an original expected length of one year or less and (ii) contracts for which we recognize revenue at the amount to which we have the right to invoice for services performed.

3. 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 31, 2017	Impairment Charges	Disposition Adjustments	Amortization Expense	September 30, 2018
Intangible assets subject to amortization	$ 839,284	$ —	$ (785)	$ —	$ 838,499
Accumulated amortization	(761,013)	—	785	(35,858)	(796,086)
	78,271	—	—	(35,858)	42,413
Mastheads	149,951	(14,148)	—	—	135,803
Goodwill	705,174	—	—	—	705,174
Total	$ 933,396	$ (14,148)	$ —	$ (35,858)	$ 883,390

Amortization expense with respect to intangible assets is summarized below:

	Quarters Ended		Nine Months Ended	
(in thousands)	September 30, 2018	September 24, 2017	September 30, 2018	September 24, 2017
Amortization expense	$ 11,895	$ 12,092	$ 35,858	$ 36,268

Table of Contents

The estimated amortization expense for the remainder of fiscal year 2018 and the five succeeding fiscal years is as follows:

Year	Amortization Expense (in thousands)
2018 (Remainder)	$ 11,802
2019	24,154
2020	803
2021	680
2022	655
2023	667

4. INVESTMENTS IN UNCONSOLIDATED COMPANIES

CareerBuilder, LLC

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 (measurement alternative under ASU 2016-01).

On July 31, 2017, we along with the then-existing ownership group of CareerBuilder sold a majority of the collective ownership interest in CareerBuilder to an investor group. Our ownership interest in CareerBuilder was reduced to approximately 3.0% from 15.0%. We received $73.9 million from the closing of the transaction, consisting of approximately $7.3 million in normal distributions and $66.6 million of gross proceeds. As a result of announcing the sale prior to closing, we recorded $168.6 million in pre-tax impairment charges on our equity investment in CareerBuilder during the nine months ended September 24, 2017.

Other

During the quarter and nine months ended September 24, 2017, excluding the CareerBuilder impairments noted above, we wrote-down $1.9 million and $2.4 million, respectively, of certain other unconsolidated investments.

5. LONG-TERM DEBT

Our long-term debt consisted of the following:

(in thousands)	Face Value at September 30, 2018	Carrying Value September 30, 2018	December 31, 2017
ABL Credit Agreement	$ —	$ —	$ —
Notes:			
9.000% senior secured notes due in 2022	—	—	433,819
9.000% senior secured notes due in 2026	310,000	290,054	—
7.795% tranche A junior term loan due in 2030	157,083	122,490	—
6.875% tranche B junior term loan due in 2031	193,466	140,422	—
7.150% debentures due in 2027	7,105	6,816	85,262
6.875% debentures due in 2029	82,764	78,869	262,311
Long-term debt	$ 750,418	$ 638,651	$ 781,392
Less current portion	—	—	74,140
Total long-term debt, net of current	$ 750,418	$ 638,651	$ 707,252

Our outstanding notes are stated net of unamortized debt issuance costs, and unamortized discounts, if applicable, totaling $111.8 million and $23.7 million as of September 30, 2018, and December 31, 2017, respectively.

Table of Contents

Debt Redemptions, Repurchases and Extinguishment of Debt

During the first nine months of 2018 and 2017, we redeemed or repurchased our outstanding debt as follows:

	Nine Months Ended	
	September 30, 2018	September 24, 2017
(in thousands)	Face Value	Face Value
9.000% senior secured notes due in 2022	$ 439,630	$ 51,685
5.750% notes due in 2017	—	16,865
Total notes matured, repurchased or redeemed	$ 439,630	$ 68,550

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 occured in 2018, as described below.

During the quarter ended September 30, 2018, in conjunction with the refinancing discussed below, 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.

During the quarter and nine months ended September 24, 2017, we recorded a loss on the extinguishment of debt of $1.8 million and $2.7 million, respectively, as a result of the following transactions. During the quarter and nine months ended September 24, 2017, we (i) retired $16.9 million of debt that matured on September 1, 2017; (ii) repurchased a total $35.0 million and $50.0 million, respectively, of our 2022 Notes through privately negotiated transactions; and (iii) redeemed $1.7 million of the 2022 Notes through a tender offer we announced on August 1, 2017, in connection with the sale of a majority of our interest in CareerBuilder as required under the indenture for the 2022 Notes. The notes that matured and the notes that were redeemed as a result of our offer to purchase, were transacted at the principal amount plus accrued and unpaid interest. The 2022 Notes that we repurchased through privately negotiated transactions were repurchased at a premium, and we wrote off the associated debt issuance costs.

Table of Contents

Debt Refinancing in July 2018

On July 16, 2018, we entered into an Indenture ("2026 Notes Indenture"), 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") as described more fully under the section "2026 Senior Secured Notes and Indenture" below.

In connection with the issuance of the 2026 Notes and other junior debt instruments described below, we completed a refinancing of all of our 2022 Notes and substantially all of our Debentures, and our revolving credit facilities. On July 16, 2018, we deposited sufficient funds with The Bank of New York Mellon Trust Company, N.A., as trustee ("2022 Notes Trustee"), to pay the redemption price payable for all outstanding 2022 Notes, plus accrued and unpaid interest due on the 2022 Notes to, but excluding, the redemption date. The 2022 Notes were issued under an Indenture, dated as of December 18, 2012, among the Company, guarantor subsidiaries of the Company and the 2022 Notes Trustee ("2022 Notes Indenture").

As a result of this refinancing, we satisfied and discharged our obligations (subject to certain exceptions) under the 2022 Notes Indenture and the related security documents in accordance with the satisfaction and discharge provisions of the 2022 Notes Indenture. Upon the satisfaction and discharge of the 2022 Notes Indenture on July 16, 2018, all of the liens on the collateral securing the 2022 Notes were released, and we and the guarantors were discharged from our respective obligations under the 2022 Notes and the guarantees thereof.

On July 16, 2018, the 2022 Notes Trustee, at our direction, delivered a notice of redemption to holders of all $344.1 million in aggregate principal amount of outstanding 2022 Notes. The redemption to the holders was completed on August 15, 2018.

ABL Credit Agreement

On July 16, 2018, we entered into a credit agreement, 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"). The 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 30, 2018, under the ABL Credit Agreement we had $44.9 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 30, 2018, we had a $3.0 million standby letter of credit secured under the LOC Facility. Also, see discussion of our Issuance and Reimbursement Agreement ("LC Agreement") with Bank of America, N.A., below for additional standby letters of credit outstanding.

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.

In connection with entering into the ABL Credit Agreement and the refinancing of our 2022 Notes as described above, we terminated our Third Amended and Restated Credit Agreement, which had a maturity date of December 18, 2019 and had no borrowings outstanding as of July 16, 2018, the date of termination.

Separately we are party to the LC Agreement, under which we may request letters of credit be issued on our behalf in an aggregate face amount not to exceed $35.0 million. We had standby letters of credit totaling $26.7 million outstanding under the LC Agreement as of September 30, 2018. We are required to provide cash collateral equal to 101% of the aggregate undrawn stated amount of each outstanding letter of credit. We expect that this LC Agreement will remain in place as we transition our letters of credit to the ABL Credit Agreement. As of October 12, 2018, we have transferred all but $1.0 million of our outstanding letters of credit to our LOC Facility. Cash collateral associated with the LOC Facility and the LC Agreement are classified in our condensed consolidated balance sheets in other assets.

2026 Senior Secured Notes and Indenture

As discussed above, on July 16, 2018, we entered into the 2026 Notes Indenture and issued $310.0 million aggregate principal amount of the 2026 Notes in a private placement to qualified institutional buyers in the United States in reliance on Rule 144A under the Securities Act of 1933, as amended (“Securities Act”), and outside the United States to non-U.S. persons in reliance on Regulation S under the Securities Act.

The 2026 Notes mature on July 15, 2026, and bear interest at a rate of 9.000% per annum. Interest on the 2026 Notes is payable semi-annually on January 15 and July 15 of each year, commencing on January 15, 2019.

We may redeem the 2026 Notes, in whole or in part, at any time on or after July 15, 2022, at specified redemption prices and may also redeem up to 40% of the aggregate principal amount of the 2026 Notes using the proceeds of certain equity offerings completed before July 15, 2021, at specified redemption prices, in each case, as set forth in the 2026 Notes Indenture. Prior to July 15, 2022, we may also redeem some or all of the 2026 Notes at a redemption price equal to 100% of the principal amount thereof, plus accrued and unpaid interest, if any, up to, but excluding, the redemption date and a “make-whole” premium.

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).

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:

Table of Contents

- 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.

Fifth Supplemental Indenture

On July 13, 2018, in connection with our outstanding Debentures, we entered into a Fifth Supplemental Indenture ("Supplemental Indenture") with The Bank of New York Mellon Trust Company, N.A., as trustee ("Debentures Trustee"), supplementing the original Indenture which proceeded the issuance of the Debentures in 1997.

The Supplemental Indenture was entered into in connection with our refinancing of existing indebtedness to amend the Debentures Indenture to eliminate certain restrictive covenants.

Junior Lien Term Loan Agreement

On July 16, 2018, we entered into a Junior Lien Term Loan Credit Agreement, among the Company, the guarantors party thereto, the lenders party thereto and The Bank of New York Mellon, as administrative agent and collateral agent ("Junior Term Loan Agreement"). The Junior Term Loan Agreement provides for a $157.1 million secured term loan ("Tranche A Junior Term Loans") and a $193.5 million term loan ("Tranche B Junior Term Loans" and together with the Tranche A Junior Term Loans, "Junior Term Loans"). The Tranche A Junior Term Loans mature on July 15, 2030 and the Tranche B Junior Term Loans mature on July 15, 2031. Our obligations under the Junior Term Loan

Agreement are guaranteed by our subsidiaries that guarantee the 2026 Notes. Under the terms of the Junior Term Loan Agreement, affiliates of Chatham Asset Management, LLC may 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.

The $82.1 million in aggregate principal amount of 2027 Debentures and $193.5 million in aggregate principal amount of 2029 Debentures were exchanged for the Junior Term Loans. The cash proceeds from the exchange were used to redeem a portion of the 2022 Notes, and to pay fees, costs, and expenses in connection with our debt refinancing. As discussed above, we determined that the instruments held by the single lender, when combined, had substantially different cash flows from one another and therefore we accounted for the exchange as a debt extinguishment.

We have the right to prepay loans under the Junior Term Loan Agreement, in whole or in part, at any time, at (i) specified prices that decline over time, plus accrued and unpaid interest, if any, in the case of Tranche A Junior Term Loans, and (ii) a price equal to 100% of the principal amount thereof, plus a “make-whole” premium and accrued and unpaid interest, if any, in the case of the Tranche B Junior Term Loans. Amounts prepaid may not be reborrowed.

Tranche A Junior Term Loans bear interest at a rate per annum equal to 7.795% and Tranche B Junior Term Loans bear interest at a rate per annum equal to 6.875%. Interest on the loans is payable semi-annually in arrears on January 15 and July 15 of each year, commencing on January 15, 2019.

Table of Contents

The Junior Term Loan 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 Junior Term Loan Agreement contains 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 Junior Term Loan Agreement, we have $7.1 million aggregate principal amount of 2027 Debentures and $82.8 million aggregate principal amount of 2029 Debentures outstanding as of September 30, 2018.

6. EMPLOYEE BENEFITS

Pension Plan

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

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

The elements of retirement benefit expense are as follows:

	Quarters Ended	Nine Months Ended

(in thousands)	September 30, 2018	September 24, 2017	September 30, 2018	September 24, 2017
Pension plans:				
Interest Cost	$ 19,788	$ 21,367	$ 59,365	$ 64,101
Expected return on plan assets	(22,624)	(22,392)	(67,872)	(67,177)
Actuarial loss	6,295	5,084	18,886	15,252
Net pension expense	3,459	4,059	10,379	12,176
Net post-retirement benefit credit	(681)	(731)	(2,044)	(2,193)
Net retirement benefit expenses	$ 2,778	$ 3,328	$ 8,335	$ 9,983

In May 2018, the Pension Plan sold the Lexington real property 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.

401(k) Plan

We have a deferred compensation plan (“401(k) plan”), which enables eligible employees to defer compensation. During the fourth quarter of 2017, we announced the reinstatement of a company matching contribution program beginning with the first pay check paid in 2018. Our matching contributions in the quarter and nine months ended September 30, 2018, were $0.6 million and $1.9 million, respectively, and are recorded in our compensation line item of our condensed consolidated statement of operations. Also during the fourth quarter of 2017, we terminated the 401(k) plan supplemental contribution that was tied to our financial performance.

Table of Contents

7. 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, we were 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 has been scheduled to begin on March 25, 2019.

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 and the case is currently on appeal.

We continue to defend these actions vigorously and expect that we ultimately will 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 30, 2018, we had $26.7 million of standby letters of credit secured under the LC Agreement and we had a $3.0 million standby letter of credit secured under the LOC Facility.

Table of Contents

8. STOCK PLANS

Stock Plans Activity

The following table summarizes the restricted stock units ("RSUs") activity during the nine months ended September 30, 2018:

	RSUs	Weighted Average Grant Date Fair Value
Nonvested — December 31, 2017	245,794	$ 11.55
Granted	268,080	$ 8.95
Vested	(164,442)	$ 11.41
Forfeited	(4,530)	$ 10.75
Nonvested — September 30, 2018	344,902	$ 9.60

The total fair value of the RSUs that vested during the nine months ended September 30, 2018, was $1.5 million.

The following table summarizes the stock appreciation rights ("SARs") activity during the nine months ended September 30, 2018:

	SARs	Weighted Average Exercise Price	Aggregate Intrinsic Value (in thousands)
Outstanding December 31, 2017	156,175	$ 32.12	$ —
Expired	(31,225)	$ 36.87	
Outstanding September 30, 2018	124,950	$ 30.93	$ —

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 30, 2018, we had two stock-based compensation plans. Stock-based compensation expenses are reported in the compensation line item in the condensed consolidated statements of operations. Total stock-based compensation expense for the periods presented in this report, are as follows:

	Quarters Ended		Nine Months Ended	
(in thousands)	September 30, 2018	September 24, 2017	September 30, 2018	September 24, 2017
Stock-based compensation expense	$ 758	$ 325	$ 1,819	$ 1,786

22

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. A detailed discussion of these and other risks and uncertainties that could cause actual results and events to differ materially from such forward-looking statements is included in the section entitled "Risk Factors" in Part I, Item 1A of our 2017 Annual Report on Form 10-K as well as our other filings with the Securities and Exchange Commission, including our disclosures herein. We undertake no obligation to revise or update any forward-looking statements except as required under applicable law.

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to help the reader understand our results of operations and financial condition. This MD&A should be read in conjunction with our unaudited condensed consolidated financial statements and accompanying notes to the financial statements ("Notes") as of and for the quarter and nine months ended September 30, 2018, 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 2017 Annual Report filed on Form 10-K with the Securities and Exchange Commission on March 12, 2018. All period references are to our fiscal periods unless otherwise indicated.

Overview

We operate 30 media companies in 14 states, providing each of its 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 30, 2018	September 24, 2017	September 30, 2018	September 24, 2017
Revenues:				
Advertising	49.8 %	54.2 %	50.8 %	54.7 %
Audience	44.0 %	41.0 %	42.9 %	40.7 %
Other	6.2 %	4.8 %	6.3 %	4.6 %
Total revenues	100.0 %	100.0 %	100.0 %	100.0 %

Our primary sources of revenues are digital and print advertising and audience subscriptions. All categories (retail, national and classified) of advertising discussed below include both digital and print advertising. Advertising revenues include advertising delivered digitally, advertising carried 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, among others, commercial printing and distribution revenues.

Table of Contents

See "Results of Operations" below for a discussion of our revenue performance and contribution by category for the quarter and nine months ended September 30, 2018, and September 24, 2017.

Recent Developments

Debt Repurchases, Redemptions and Refinancing

On July 16, 2018, we closed on our previously announced offering of $310.0 million aggregate principal amount of our 2026 Notes. The 2026 Notes are guaranteed by certain of our subsidiaries. The 2026 Notes and the guarantees are secured by a first-priority lien on certain of our subsidiary guarantors' assets and by second-priority-liens on certain of our subsidiary guarantor's other assets.

On July 16, 2018, the Notes Trustee, at our direction, delivered a notice of full redemption to the trustee of the $344.1 million aggregate principal amount of our outstanding 2022 Notes. The 2022 Notes were redeemed on August 15, 2018, at a premium, together with accrued and unpaid interest.

On July 16, 2018, we entered into a Junior Term Loan Agreement, which provides for a $157.1 million Tranche A Junior Term Loans and a $193.5 million Tranche B Junior Term Loans. The Tranche A Junior Term Loans are due on July 15, 2030 and the Tranche B Junior Term Loans are due on July 15, 2031. Our obligations under the Junior Term Loan Agreement are guaranteed by our subsidiaries that guarantee the 2026 Notes.

The Junior Term Loans were exchanged for $82.1 million in aggregate principal amount of 2027 Debentures and $193.5 million in aggregate principal amount of 2029 Debentures. The cash proceeds from the exchange, were used to redeem a portion of the 2022 Notes, and to pay fees, costs and expenses in connection with the debt refinancing.

On July 16, 2018, we entered into an ABL Credit Agreement, which provides for a $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. The commitments under the ABL Credit Agreement expire July 16, 2023.

We used the net proceeds of the 2026 Notes offering, together with cash available under the ABL Credit Agreement, junior lien term loan financing and cash on hand, to fund our refinancing transaction and related expenses and the satisfaction and discharge and redemption of all of our outstanding 2022 Notes.

In January 2018, pursuant to the terms of the 2022 Notes Indenture, we redeemed $75.0 million aggregate principal amount of our 2022 Notes at a premium. In February 2018, we repurchased $20.0 million of our 2022 Notes and as discussed below, in May 2018, we redeemed $0.5 million of our 2022 Notes.

Extinguishment of Debt

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. 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 5 for further discussion.

Asset sales and leasebacks

In the nine months ended September 30, 2018, we recognized a net gain of $2.8 million related to the sale of land and buildings in several of our markets. We also have various sales agreements or letters of intent to sell other properties that may close in 2018 or early 2019.

Table of Contents

On April 23, 2018, we closed a sale and leaseback of real property in Columbia, South Carolina. The transaction resulted in net proceeds of $15.7 million. We are leasing back the Columbia property under a 15-year lease with initial annual payments totaling approximately $1.6 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 lease, and we continue to depreciate the carrying value of the property in our financial statements. No gain or loss will be recognized on the sale and leaseback of the property until we no longer have a continuing involvement in the property.

Under the 2022 Notes Indenture we were required to use the net after tax proceeds of $13.0 million from the Columbia transaction to reinvest in the Company within 365 days from the date of the sale or to make an offer to the holders of the 2022 Notes to purchase their notes at 100% of the principal amount plus accrued and unpaid interest. On April 25, 2018, we announced an offer to purchase $13.0 million of the 2022 Notes using the net after tax proceeds from the Columbia transaction at par plus accrued and unpaid interest. The offer expired on May 22, 2018, and $0.5 million principal amount of the 2022 Notes were tendered in the offer and redeemed by us at par.

Sale of interest in CareerBuilder

On September 13, 2018, we sold our remaining 3.0% ownership interest in CareerBuilder and received gross proceeds of $5.3 million. Under the 2026 Notes Indenture we are required to use the net cash proceeds of $5.3 million from the sale of CareerBuilder to redeem our 2026 Notes. On October 9, 2018, we notified noteholders of our intent to redeem these notes on November 9, 2018 at par plus accrued and unpaid interest.

Results of Operations

The following table reflects our financial results on a consolidated basis for the quarter and nine months ended September 30, 2018, and September 24, 2017:

	Quarters Ended		Nine Months Ended	
(in thousands, except per share amounts)	September 30, 2018	September 24, 2017	September 30, 2018	September 24, 2017
Net income (loss)	$ 7,038	$ (260,476)	$ (52,268)	$ (393,497)
Net income (loss) per diluted common share	$ 0.90	$ (34.11)	$ (6.74)	$ (51.67)

The increase in net income in the quarter and the decrease in net loss in the nine months ended September 30, 2018, compared to the same periods in 2017, was primarily due to pre-tax impairment charges of $171.0 million (see Note 4) recorded in the nine months ended September 24, 2017, and a non-cash deferred tax valuation allowance impairment charge of $245.4 million recorded in the quarter and nine months ended September 24, 2017. This was partially offset by charges of $21.6 million related to the current year impact of the valuation allowance on deferred taxes during the nine months ended September 30, 2018 and a $30.9 million gain on the extinguishment of debt recorded in the nine months ended September 30, 2018. In addition, advertising revenues were lower during the quarter and nine months ended September 30, 2018, but the decrease in revenues was partially offset by a decrease in expenses excluding other asset write-downs, as described in greater detail below.

Revenues

During the quarter and nine months ended September 30, 2018, total revenues decreased 10.1% and 9.8%, respectively, compared to the same periods in 2017 primarily due to the continued decline in demand for print advertising. The decline in print advertising was primarily a result of large retail advertisers continuing to reduce preprinted insert advertising and in-newspaper ROP advertising. The decline in print advertising revenues is the result of the desire of advertisers to reach online customers directly, and the secular shift in advertising demand from print to digital products. We expect these trends to continue for the foreseeable future.

25

Table of Contents

The following table summarizes our revenues by category:

(in thousands)	Quarters Ended September 30, 2018	September 24, 2017	$ Change	% Change	Nine Months Ended September 30, 2018	September 24, 2017	$ Change	% Change
Advertising:								
Retail	$ 42,663	$ 53,367	$ (10,704)	(20.1)	$ 134,477	$ 168,295	$ (33,818)	(20.1)
National	10,335	9,967	368	3.7	31,789	28,693	3,096	10.8
Classified	24,691	29,137	(4,446)	(15.3)	79,420	91,769	(12,349)	(13.5)
Direct marketing and other	17,413	22,860	(5,447)	(23.8)	56,256	71,702	(15,446)	(21.5)
Total advertising	95,102	115,331	(20,229)	(17.5)	301,942	360,459	(58,517)	(16.2)
Audience	84,040	87,142	(3,102)	(3.6)	255,143	268,473	(13,330)	(5.0)
Other	11,923	10,131	1,792	17.7	37,186	30,004	7,182	23.9
Total revenues	$ 191,065	$ 212,604	$ (21,539)	(10.1)	$ 594,271	$ 658,936	$ (64,665)	(9.8)

Advertising Revenues

Total advertising revenues decreased 17.5% and 16.2% during the quarter and nine months ended September 30, 2018, respectively, compared to the same periods in 2017. While we experienced declines in all of our advertising revenue categories, except national, the total decrease was primarily related to declines in print retail and classified advertising revenues. The decreases in print advertising revenues were partially offset by increases in our national and classified advertising digital 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 30, 2018		September 24, 2017		Nine Months Ended September 30, 2018		September 24, 2017	
Advertising:								
Retail	44.8	%	46.3	%	44.6	%	46.7	%
National	10.9	%	8.6	%	10.5	%	8.0	%
Classified	26.0	%	25.3	%	26.3	%	25.4	%
Direct marketing and other	18.3	%	19.8	%	18.6	%	19.9	%
Total advertising	100.0	%	100.0	%	100.0	%	100.0	%

Retail:

During the quarter and nine months ended September 30, 2018, retail advertising revenues decreased 20.1% compared to the same periods in 2017. In the third quarter, the decrease in retail advertising revenues was due to a decrease of 27.3% in print ROP advertising revenues, 35.0% in preprint advertising revenues, and 3.7% in digital retail advertising compared to the same period in 2017. In the first nine months of 2018, the decrease in retail advertising revenues was primarily due to decreases of 26.6% in print ROP advertising revenues and 37.0% in preprint advertising revenues, compared to the same period in 2017. The overall decreases in retail advertising revenues for the quarter and nine months ended September 30, 2018, were spread among various ROP and preprint categories.

National:

National advertising revenues increased 3.7% and 10.8% during the quarter and nine months ended September 30, 2018, respectively, compared to the same periods in 2017. We experienced an increase of 6.7% and 19.8% in digital national advertising during the quarter and nine months ended September 30, 2018, respectively. The increases in digital national advertising revenues were partially offset by a 4.2% and 8.4% decrease in print national advertising during the quarter and nine months ended September 30, 2018, respectively, compared to the same periods in 2017. Overall, the increase in

Table of Contents

digital national advertising revenues during the first nine months of 2018 was largely led by programmatic digital advertising, including mobile and video revenues.

Classified:

During the quarter and nine months ended September 30, 2018, total classified advertising revenues decreased 15.3% and 13.5%, respectively, compared to the same periods in 2017. Automotive, employment and real estate advertising combined for 49.2% and 50.1% of our classified advertising revenues during the quarter and nine months ended September 30, 2018, respectively, compared to 55.5% and 55.4% in the quarter and nine months ended September 24, 2017, respectively. Other classified advertising revenue includes legal, remembrance and celebration notices and miscellaneous classified advertising. During the third quarter of 2018 compared to the same period in 2017, we experienced a 7.1% increase in digital classified advertising led by other classified advertising and a 33.3% decrease in print classified advertising. During the first nine months of 2018, compared to the same period in 2017, we experienced an increase in digital classified advertising of 8.9% and a decrease in print classified advertising of 31.4% for the same reasons discussed for the third quarter of 2018.

During the first quarter of 2018, we revisited the sales activity in remembrance/obituary sales noting that digital advertising has, over time, become the predominate source of obituary sales. As a result, we revised the classification of such sales, which allocates a greater amount of obituary sales from print/digital bundled advertising to digital-only advertising. See definition of digital-only below. Additionally, we continued to see a shift from other print classified advertising to digital platforms.

Digital:

Digital advertising revenues, which are included in each of the advertising categories discussed above, constituted 44.9% and 43.8% of total advertising revenues in the quarter and nine months ended September 30, 2018, respectively, compared to 36.5% and 34.7% for the same periods in 2017, respectively. Total digital advertising includes digital-only advertising and digital advertising bundled with print with the shift reflecting the longer term secular shift from print to digital advertising. In the third quarter of 2018, total digital advertising revenues increased 1.4% to $42.7 million compared to the same period in 2017 partially reflecting the change in allocation from print/digital bundled sales to digital-only sales as discussed above in classified advertising. In the first nine months of 2018, total digital advertising revenues increased 5.7% to $132.1 million compared to the same period in 2017 also partially reflecting the change in allocation discussed above.

Digital-only advertising is defined as digital advertising sold on a stand-alone basis or as the primary advertising buy with print sold as an “up-sell.” Digital-only advertising revenues increased 8.9% to $36.3 million in the third quarter of 2018 compared to the same period in 2017. Digital-only advertising revenues increased 16.7% to $112.0 million in the first nine months of 2018 compared to the same period in 2017.

Digital advertising revenues bundled with print products declined 27.2% and 30.8%, in the quarter and nine months of 2018, respectively, compared to the same periods in 2017 as a result of fewer print advertising 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 grown, we expect to continue to face intense competition in the digital advertising space.

Direct Marketing and Other:

Direct marketing and other advertising revenues decreased 23.8% and 21.5% during the quarter and nine months ended September 30, 2018, respectively, compared to the same periods in 2017. The decrease was largely due to declines in preprint advertising by large retail customers as described above and, to a lesser extent, to decreases in our niche products.

Table of Contents

Audience Revenues

Audience revenues decreased 3.6% and 5.0% during quarter and nine months ended September 30, 2018, respectively, compared to the same periods in 2017. Overall, digital audience revenues increased 4.4% and 2.5% during the quarter and first nine months of 2018, respectively. Digital-only audience revenues increased 52.8% and 29.9% in the quarter and first nine months of 2018, respectively. The increase in digital-only audience revenues during the first nine months of 2018 was a result of a 47.6% increase in our digital-only subscribers to 137,000 as of the end of the third quarter of 2018 compared to 92,800 as of the end of the third quarter in 2017.

Print audience revenues decreased 6.6% and 7.8% in the quarter and first nine months of 2018, respectively, compared to the same periods in 2017, 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 1.0% and decreased 5.0% in the quarter and nine months ended September 30, 2018, respectively, compared to the same periods in 2017. The increase during the third quarter of 2018 was primarily due to changes in other operating expenses and other asset write-downs as compared to the same period in 2017, as discussed below. In the first nine months of 2018, the decrease was primarily due to decreases in compensation and newsprint, supplements and printing expenses compared to the same periods in 2017, as discussed below. Our total operating expenses reflect our continued effort to reduce costs through streamlining processes to gain efficiencies.

The following table summarizes operating expenses:

	Quarters Ended				Nine Months Ended			
	September 30,	September 24,	$	%	September 30,	September 24,	$	%
(in thousands)	2018	2017	Change	Change	2018	2017	Change	Change
	$ 73,501	$ 80,652	$ (7,151)	(8.9)	$ 230,650	$ 258,883	$ (28,233)	(10.9)

Compensation expenses								
Newsprint, supplements and printing expenses	12,913	15,075	(2,162)	(14.3)	40,333	49,379	(9,046)	(18.3)
Depreciation and amortization expenses	19,041	19,588	(547)	(2.8)	57,496	59,016	(1,520)	(2.6)
Other operating expenses	90,527	83,963	6,564	7.8	271,993	268,784	3,209	1.2
Other asset write-downs	14,148	8,715	5,433	62.3	14,207	10,672	3,535	33.1
	$ 210,130	$ 207,993	$ 2,137	1.0	$ 614,679	$ 646,734	$ (32,055)	(5.0)

Compensation expenses, which included both payroll and fringe benefit costs, decreased 8.9% and 10.9% in the quarter and nine months ended September 30, 2018, respectively, compared to the same periods in 2017. Payroll expenses declined 11.5% and 12.3% during the quarter and first nine months of 2018, respectively, compared to the same periods in 2017. Average full-time equivalent employees declined 14.4% and 14.8% in the quarter and first nine months of 2018, respectively, compared to the same periods in 2017. Fringe benefit costs increased 9.1% in the third quarter of 2018 compared to the same period in 2017. These increases were primarily related to enlarged health and workers' compensation costs as a result of higher claims on our self insured plans, as well as the implementation of the 401(k) plan match in 2018. Fringe benefit costs decreased 2.3% in the first nine months of 2018 compared to the same periods in 2017. These decreases were primarily due to decreases in health benefit costs and other fringe benefit costs, such as the employer portion of taxes, due to the reduction of headcount. These decreases were partially offset by the 2018 implementation of a 401(k) employer match resulting in costs of $1.9 million in the first nine months of 2018 with no comparable expense in the same period in 2017.

Newsprint, supplements and printing expenses decreased 14.3% and 18.3% in the quarter and nine months ended September 30, 2018, respectively, compared to the same periods in 2017. Newsprint expense declined 7.9% and 16.2% during the quarter and first nine months of 2018, respectively, compared to the same periods in 2017. The newsprint

Table of Contents

expense declines reflect a decrease in newsprint tonnage used of 23.8% during both the quarter and first nine months of 2018, offset by an increase in newsprint prices of 21.1% and 10.6% during the quarter and first nine months of 2018, respectively, compared to the same periods in 2017. During these same periods, printing expenses, which are primarily outsourced printing costs, decreased 22.0% and 22.3%, respectively.

Depreciation and amortization expenses decreased 2.8% and 2.6% in the quarter and nine months ended September 30, 2018, respectively, compared to the same periods in 2017. Depreciation expense decreased $0.3 million and $1.1 million in the quarter and first nine months of 2018, respectively, compared to the same periods in 2017, as a result of assets becoming fully depreciated in previous periods. Amortization expense decreased 1.6% and 1.1% in the quarter and first nine months of 2018, respectively, compared to the same periods in 2017.

Other operating expenses increased 7.8% and 1.2% in the quarter and nine months ended September 30, 2018, respectively, compared to the same periods in 2017. The increase in other operating expenses in the quarter was primarily due to a $6.6 million gain on the disposal of property and equipment recorded in the third quarter of 2017, which reduced operating expenses in 2017 with no similar transactions in the third quarter of 2018. In the first nine months of 2018, operating expenses included a $2.8 million gain on the disposal of property and equipment compared to $10.3 million in the first nine months of 2017. This change in the gain was partially offset by cost savings initiatives and other efforts to reduce operational costs. We have had decreases in various categories, such as travel, bad debt, postage, circulation delivery costs and other miscellaneous expenses that were partially offset by increases for software for various enterprise-wide information technology related projects.

Other asset write-downs includes an impairment charge of $14.1 million related to intangible newspaper mastheads during the quarter and nine months ended September 30, 2018, and a write down of $0.1 million related to classifying certain land and buildings as assets held for sale during the first quarter of 2018. Other asset write-downs includes an impairment charge of $8.7 million related to intangible newspaper mastheads during the quarter and nine months ended September 24, 2017, and a write down of $2.0 million of non-newsprint inventory during the first quarter of 2017.

Non-Operating Expenses

Interest Expense:

Total interest expense increased 17.9% and decreased 0.6% in the quarter and nine months ended September 30, 2018, respectively, compared to the same periods in 2017. In the third quarter of 2018, interest expense related to debt balances increased by $2.1 million primarily related to the amortization of debt issuance costs resulting from the refinancing and an extra month of interest expense we paid on our 2022 Notes while the funds were being held by the trustee until the redemption date of August 15, 2018. In the first nine months of 2018, interest expense related to debt decreased by $4.1 million. The activity described in the third quarter of 2018 partially offsets the first six months of 2018, in which we had lower overall debt balances due to repurchases of debt made during early 2018 and throughout fiscal year 2017.

In the quarter and first nine months of 2018, the increase in total interest expense was also due to increase in our non-cash imputed interest of $1.7 million and $4.5 million, respectively, related to our financing obligations due to the sales and leasebacks of our Columbia, SC real property in the second quarter of 2018 and our Sacramento, CA real property in the third quarter of 2017.

Equity Income (Loss) in Unconsolidated Companies, Net:

During the quarter ended September 30, 2018, we recorded equity losses in unconsolidated companies of $0.5 million compared to losses of $0.6 million in the same period in 2017. During the nine months ended September 30, 2018, we recorded equity income of $0.6 million compared to losses of $0.7 million in the same period in 2017. Our positive income in the first nine months of 2018 resulted from distributions of earnings from our investment in CareerBuilder.

Table of Contents

Impairments Related to Investments in Unconsolidated Companies, Net:

As described more fully in Note 4, during the quarter and nine months ended September 24, 2017, we recorded $1.9 million and $171.0 million, respectively, in pre-tax impairment charges primarily related to our equity investment in CareerBuilder. We had no impairment charges related to equity investments during the quarter and nine months ended September 30, 2018.

Gains Related to Investments in Unconsolidated Companies:

As described more fully in Note 4, 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 24, 2017.

Extinguishment of Debt:

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. 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 Recent Developments above and Note 5 for further discussion.

Income Taxes:

In the quarter and nine months ended September 30, 2018, we recorded an income tax benefit of $14.4 million and $2.9 million, respectively. As discussed more fully in Note 1 under Income Taxes, during the quarter and nine months ended September 30, 2018, we recorded a benefit of $2.8 million and a charge of $21.6 million, respectively, related to the current period impact of the valuation allowance on deferred taxes. The remaining income tax benefit differed from the expected federal tax amounts primarily due to the inclusion of state income taxes and certain permanently non-deductible expenses.

Liquidity and Capital Resources

Sources and Uses of Liquidity and Capital Resources:

Our cash and cash equivalents were $4.5 million as of September 30, 2018, compared to $84.0 million and $99.4 million as of September 24, 2017, and December 31, 2017, respectively.

For the foreseeable future, we expect that most of our cash and cash equivalents, and our cash generated from operations will be used to (i) repay debt, (ii) pay income taxes, (iii) fund our capital expenditures, (iv) invest in new revenue initiatives, digital investments and enterprise-wide operating systems, (v) make required contributions to the Pension Plan, and (vi) for other corporate uses as determined by management and our Board of Directors. As of September 30, 2018, we had approximately $750.4 million in total aggregate principal amount of debt outstanding, consisting of $310.0 million of our 2026 Notes, $89.9 million of our Debentures, and $350.5 million of our Tranche A and B Junior Term Loans. As of September 30, 2018, we were not permitted to incur additional pari passu obligations under the limitation on indebtedness incurrence test as defined in the 2026 Notes Indenture. See Note 5 and Recent Developments above, regarding the transactions we entered into in July 2018 related to the restructuring and refinancing of certain of our debt.

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

Table of Contents

excess cash flow (as defined in the 2026 Notes Indenture).We believe that our cash from operations is sufficient to satisfy our liquidity needs over the next 12 months, while maintaining adequate cash and cash equivalents to fund our operations.

The following table summarizes our cash flows:

(in thousands)	Nine Months Ended September 30, 2018	September 24, 2017
Cash flows provided by (used in)		
Operating activities	$ 7,878	$ 20,459
Investing activities	(2,210)	86,550
Financing activities	(100,593)	(26,240)
Increase (decrease) in cash, cash equivalents and restricted cash	$ (94,925)	$ 80,769

Operating Activities:

We generated $7.9 million of cash from operating activities in the nine months ended September 30, 2018, compared to $20.5 million in the nine months ended September 24, 2017. The decrease in operating cash flows primarily reflects a $4.4 million change in our inventory balances in the first nine months of 2018 compared to the same period in 2017. The remaining changes in operating activities related to miscellaneous timing differences in various payments and receipts.

Pension Plan Matters

We made no cash contributions to the Pension Plan during the first nine months of 2018 or 2017. After applying credits, which resulted from contributing more than the Pension Plan’s minimum required contribution amounts in prior years, we did not have a required cash contribution for 2017 and we do not expect to have a required pension contribution under the Employee Retirement Income Security Act in fiscal year 2018. However, we expect to have material contributions in the future.

Investing Activities:

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 property, plant and equipment (“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. We expect total capital expenditures for the full year of 2018 to be approximately $12.0 million.

We generated $86.6 million of cash from investing activities in the nine months ended September 24, 2017. We received proceeds from the sale of PP&E for $22.7 million, proceeds from the sale of our equity interest in CareerBuilder for $66.7 million, and $7.3 million in distributions from our equity investments that exceeded the cumulative earnings from the investee and was considered a return of investment. These amounts were offset by the purchase of PP&E for $7.4 million and contributions to equity investments of $2.7 million.

Financing Activities:

We used $100.6 million of cash for financing activities in the nine months ended September 30, 2018, compared to using $26.2 million in the nine months ended September 24, 2017. During the nine months ended September 30, 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 (which represents the excess from the exchange of debt, as more fully described in Note 5). 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, as described in Recent Developments previously.

Table of Contents

During the first nine months of 2017, we retired $16.9 million principal amount of our debt that matured on September 1, 2017, and we repurchased or redeemed $51.7 million principal amount of our 2022 Notes for $70.6 million in cash. These repurchases were partially offset by a $44.0 million increase in our financing obligations as a result of the sale and leaseback of one of our real properties in Sacramento, California in the third quarter of 2017.

Contractual Obligations:

As of September 30, 2018, there have been no significant changes to our “Contractual Obligations” table in Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included in our 2017 Annual Report on Form 10-K, other than those resulting from the changes in the principal and interest payments on outstanding debt as described in Note 5. As of September 30, 2018, future principal and interest payments on outstanding debt were as follows:

	Payments Due By Period				
		Less than	1-3	3-5	More than
(in thousands)	Total	1 Year	Years	Years	5 Years
Long-term debt principal	$ 750,418	$ —	$ —	$ —	$ 750,418
Interest on long-term debt	607,469	59,495	119,287	119,287	309,400
Total	$ 1,357,887	$ 59,495	$ 119,287	$ 119,287	$ 1,059,818

Off-Balance-Sheet Arrangements

As of September 30, 2018, 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 2017 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 2017 Annual Report on Form 10-K, other than the adoption of Topic 606 (see Note 1 under the “Recently Adopted Accounting Pronouncements” subheader).

Table of Contents

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Part II, Item 7A, "Quantitative and Qualitative Disclosures About Market Risk", included in our 2017 Annual Report on Form 10-K contains certain disclosures about our exposure to market risk for changes in discount rates on our qualified defined benefit pension plan obligations. Notwithstanding the refinancing discussed in Note 5, there have been no material changes to the information provided which would require additional disclosures as of the date of this filing.

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 30, 2018, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

See Note 7 included as part of this Quarterly Report on Form 10-Q for a discussion of our legal proceedings.

ITEM 1A. RISK FACTORS.

Except for as set forth below, there have been no material changes in our risk factors from those disclosed in Part I, Item 1A to our Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

We have a substantial amount of indebtedness which could adversely affect our financial position and prevent us from fulfilling our obligations, including under the 2026 Notes.

We have a substantial amount of indebtedness as of September 30, 2018 as discussed in Note 5. As of November 9, 2018, following the redemption of $5.3 million of our 2026 Notes (see Recent Developments above):

- we and the guarantors have approximately $745.1 million of total indebtedness;

- we and the guarantors have approximately $655.2 million of total secured indebtedness, including $304.7 million aggregate principal amount of the 2026 Notes and $350.5 million of loans outstanding under the Junior Lien Loans; and we also have approximately $44.9 million of availability under the ABL Credit Agreement;

- we and the guarantors have approximately $89.9 million of existing unsecured indebtedness under the Debentures that was effectively subordinated to the 2026 Notes and the guarantees to the extent of the value of the collateral for the 2026 Notes and the guarantees; and

- our non-guarantor subsidiaries have no material amounts of indebtedness or other liabilities (excluding intercompany balances and obligations of a type not required to be reflected on a balance sheet prepared in accordance with GAAP), which are structurally senior to the 2026 Notes and the guarantees.

We may also incur significant additional indebtedness in the future. Our substantial indebtedness may:

· make it more difficult for us to make payments on our indebtedness, including the 2026 Notes;

· increase our vulnerability to general economic, industry and competitive conditions, including recessions and periods of significant inflation and financial market volatility;

· require us to dedicate a substantial portion of our cash flow from operations to make payments on our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures and other general corporate purposes;

· limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;

· restrict us from exploiting business opportunities;

· make it more difficult to satisfy our financial obligations, including payments on the 2026 Notes;

· place us at a competitive disadvantage compared to our competitors that have less debt and lease obligations; and

Table of Contents

· limit our ability to borrow additional funds that may be needed for working capital, capital expenditures, acquisitions, debt service requirements, execution of our business strategy or other general corporate purposes on satisfactory terms or at all.

We may not be able to generate sufficient cash to service our debt obligations, including our obligations under the 2026 Notes.

Our and our subsidiaries' ability to make payments on and to refinance our indebtedness, including the 2026 Notes, will depend on our consolidated financial and operating performance, which is subject to prevailing economic and competitive conditions and to certain financial, business and other factors beyond our control. We and our subsidiaries may be unable to maintain a level of cash flows from operating activities sufficient to permit us to pay the principal, premium, if any, and interest on our indebtedness, including the 2026 Notes.

If we and our subsidiaries' cash flows and capital resources are insufficient to fund our debt service obligations, we may be forced to reduce or delay investments and capital expenditures, or to sell assets, seek additional capital or restructure or refinance our indebtedness, including the 2026 Notes. These alternative measures may not be successful and may not permit us to meet our scheduled debt service obligations. We cannot assure you that the Company or the guarantors would be able to implement any of these alternatives on satisfactory terms or at all. In the absence of such operating results and resources, we could face substantial liquidity problems and might be required to dispose of material assets or operations to meet our debt service and other obligations. The indenture governing the 2026 Notes will restrict our and our subsidiaries' ability to, among other things, dispose of assets, use the proceeds from any disposition of assets and refinance indebtedness. We may not be able to consummate those dispositions or to obtain the proceeds that we could realize from them, and these proceeds may not be adequate to meet any debt service obligations then due.

If we are unable to service our debt obligations from cash flows, we may need to refinance all or a portion of our debt obligations prior to maturity. Our ability to refinance or restructure our debt will depend upon the condition of the capital markets and our financial condition at such time. Any refinancing of our debt could be at higher interest rates and may require us to comply with more onerous covenants, which could further restrict our business operations. We may not be able to refinance any of our indebtedness on commercially reasonable terms or at all.

Covenants in the indenture governing the 2026 Notes, the Junior Term Loan Agreement, the ABL Credit Agreement and our other future debt agreements will restrict our business in many ways.

The indenture governing the 2026 Notes, the Junior Term Loan Agreement and the ABL Credit Agreement contain various covenants that limit, subject to certain exceptions, our ability and/or our restricted subsidiaries' ability to, among other things, as applicable:

- incur or assume liens;

- incur additional debt or provide guarantees in respect of obligations of other persons;

- issue redeemable stock and preferred stock;

- pay dividends or make distributions on capital stock, repurchase, redeem or make payments on capital stock or prepay, repurchase, redeem, retire, defease, acquire or cancel certain of our existing notes or debentures prior to the stated maturity thereof;

- make loans, investments or acquisitions;

- create or permit restrictions on the ability of our subsidiaries to pay dividends or make other distributions to us or to guarantee our debt, limit our or any of our subsidiaries' ability to create liens, or make or pay intercompany loans or advances;

- enter into certain transactions with affiliates;

- sell, transfer, license, lease or dispose of our or our subsidiaries’ assets, including the capital stock of our subsidiaries; and

- dissolve, liquidate, consolidate or merge with or into, or sell substantially all the assets of us and our subsidiaries, taken as a whole, to, another person.

The restrictions contained in the ABL Credit Agreement, the Junior Term Loan Agreement and the indenture governing the 2026 Notes could adversely affect our ability to:

- finance our operations;

- make needed capital expenditures;

- make strategic acquisitions or investments or enter into alliances;

- pay dividends or make distributions on capital stock, repurchase, redeem or make payments on capital stock or prepay, repurchase, redeem, retire, defease, acquire or cancel certain of our existing notes or debentures prior to the stated maturity thereof;

- withstand a future downturn in our business or the economy in general;

- refinance our outstanding indebtedness prior to maturity;

- engage in business activities, including future opportunities, that may be in our interest; and

- plan for or react to market conditions or otherwise execute our business strategies.

A breach of any of these covenants could result in a default under the indenture governing the 2026 Notes, the Junior Term Loan Agreement or the ABL Credit Agreement. Further, additional indebtedness that we incur in the future may subject us to further covenants. Our failure to comply with these covenants could result in a default under the agreements governing the relevant indebtedness. If a default under the indenture, the Junior Term Loan Agreement, the ABL Credit Agreement or any such debt agreement is not cured or waived, the default could result in the acceleration of debt under our debt agreements, including the indenture, the Junior Term Loan Agreement, the ABL Credit Agreement or any such debt agreement that contain cross-acceleration or cross-default provisions, which could require us to repurchase or repay debt prior to the date it is otherwise due and that could adversely affect our financial condition.

Our ability to comply with covenants contained in the indenture, the Junior Term Loan Agreement, our ABL Credit Agreement or any other debt agreements to which we may become a party may be affected by events beyond our control, including prevailing economic, financial and industry conditions. Even if we are able to comply with all of the applicable covenants, the restrictions on our ability to manage our business in our sole discretion could adversely affect our business by, among other things, limiting our ability to take advantage of financings, mergers, acquisitions and other corporate opportunities that we believe would be beneficial to us. In addition, our obligations under the 2026 Notes, the Junior Term Loan Agreement and the ABL Credit Agreement will be secured, subject to Permitted Liens, and such security interests could (subject to the intercreditor agreement, dated as of July 16, 2018, by and among the Company, the guarantors, The Bank of New York Mellon Trust Company, N.A., and the Wells Fargo, N.A. ("ABL Intercreditor Agreement")) be enforced in the event of default by the collateral agent for the ABL Credit Agreement. In the event of such an enforcement, we cannot assure you that the proceeds from an enforcement would be sufficient to pay our obligations under the 2026 Notes or at all.

Table of Contents

We will need to repay our existing obligations and meet other obligations and the failure to do so could adversely affect our business.

We may not be able to generate sufficient cash internally to repay all of our indebtedness at maturity. As of November 9, 2018, following the redemption of $5.3 million of our 2026 Notes, we have approximately $745.1 million of total indebtedness outstanding.

Our ability to make payments on and to refinance our indebtedness, including the 2026 Notes, and to fund working capital needs and planned capital expenditures will depend on our ability to generate cash in the future. This, to a certain extent, is subject to general economic, financial, competitive, business, legislative, regulatory and other factors that are beyond our control.

If our business does not generate sufficient cash flow from operations or if future borrowings are not available to us in an amount sufficient to enable us to pay our indebtedness, including the 2026 Notes, or to fund our other liquidity needs, we may need to refinance all or a portion of our indebtedness, including the 2026 Notes, on or before the maturity thereof, reduce or delay capital investments or seek to raise additional capital, any of which could have a material adverse effect on our operations. In addition, we may not be able to effect any of these actions, if necessary, on commercially reasonable terms or at all. Our ability to restructure or refinance our indebtedness, including the 2026 Notes, will depend on the condition of the capital markets and our financial condition at such time. Any refinancing of our debt could be at higher interest rates and may require us to comply with more onerous covenants, which could further restrict our business operations or our ability to refinance our existing debt. The terms of existing or future debt instruments, including the indenture governing the 2026 Notes offered hereby, may limit or prevent us from taking any of these actions. In addition, any failure to make scheduled payments of interest and principal on our outstanding indebtedness would likely result in a reduction of our credit rating, which could harm our ability to incur additional indebtedness on commercially reasonable terms or at all. Our inability to generate sufficient cash flow to satisfy our debt service obligations, or to refinance or restructure our obligations on commercially reasonable terms or at all, would have an adverse effect, which could be material, on our business, financial condition and results of operations, as well as on our ability to satisfy our obligations in respect of the 2026 Notes.

We may not be able to refinance existing obligations or raise any required additional capital or do so on favorable terms following the Refinancing. Borrowing costs related to future capital raising activities may be significantly higher than our current borrowing costs, and we may not be able to raise additional capital on favorable terms, or at all, if unsettled conditions in financial markets continue to exist. We may be forced to cancel or scale back our business activities, and we may be unable to refinance our debt.

Table of Contents

ITEM 6. EXHIBITS

Exhibit		Incorporated by reference herein		
Number	Description	Form	Exhibit	File Date
10.1	Amended and Restated Term Loan Framework Agreement, dated as of June 26, 2018, between the Company and Chatham Asset Management, LLC	10-Q	10.1	July 1, 2018
10.2	Credit Agreement dated July 16, 2018, among the Company, the lenders from time to time party thereto, and Wells Fargo Bank, N.A., as administrative agent	10-Q	10.2	July 1, 2018
10.3	Fifth Supplemental Indenture, dated as of July 13, 2018, between the Company and The Bank of New York Mellon Trust Company, N.A., as trustee for the Notes	10-Q	10.3	July 1, 2018
10.4	Indenture dated July 16, 2018, among the Company, certain subsidiaries of the Company and The Bank of New York Mellon Trust Company, N.A., relating to the 9.000% Senior Secured Notes due 2026	10-Q	10.4	July 1, 2018
10.5	Form of Global 9.000% Senior Secured Notes due 2026 (included in Exhibit 10.4)	10-Q	10.5	July 1, 2018
10.6	Junior Lien Term Loan Agreement dated July 16, 2018, among the Company, the lenders party thereto, the guarantors party thereto, and The Bank of New York Mellon, N.A., as administrative agent, tranche A collateral agent and tranche B collateral agent	10-Q	10.6	July 1, 2018
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			
32.1 **	Certification of the Chief Executive Officer of The McClatchy Company pursuant to 18 U.S.C. Section 1350			
32.2 **	Certification of 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			

** Furnished, not filed

Table of Contents

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 9, 2018	/s/Craig I. Forman
Date	Craig I. Forman
	Chief Executive Officer
November 9, 2018	/s/R. Elaine Lintecum
Date	R. Elaine Lintecum
	Chief Financial Officer