

E.W. SCRIPPS Co
Form 10-Q
November 04, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

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

For the quarterly period ended September 30, 2016

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 0-16914

THE E.W. SCRIPPS COMPANY

(Exact name of registrant as specified in its charter)

Ohio 31-1223339
(State or other jurisdiction of (IRS Employer
incorporation or organization) Identification Number)

312 Walnut Street 45202
Cincinnati, Ohio (Zip Code)
(Address of principal executive offices)

Registrant's telephone number, including area code: (513)
977-3000

Not applicable
(Former name, former address and former fiscal year, if changed
since last report.)

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
 (Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. As of September 30, 2016, there were 70,965,458 of the registrant's Class A Common shares, \$.01 par value per share, outstanding and 11,932,722 of the registrant's Common Voting shares, \$.01 par value per share, outstanding.

Index to The E.W. Scripps Company Quarterly Report
on Form 10-Q for the Quarter Ended September 30, 2016

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PART I

As used in this Quarterly Report on Form 10-Q, the terms “Scripps,” “Company,” “we,” “our,” or “us” may, depending on the context, refer to The E.W. Scripps Company, to one or more of its consolidated subsidiary companies, or to all of them taken as a whole.

Item 1. Financial Statements

The information required by this item is filed as part of this Form 10-Q. See Index to Financial Information at page F-1 of this Form 10-Q.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The information required by this item is filed as part of this Form 10-Q. See Index to Financial Information at page F-1 of this Form 10-Q.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The information required by this item is filed as part of this Form 10-Q. See Index to Financial Information at page F-1 of this Form 10-Q.

Item 4. Controls and Procedures

The information required by this item is filed as part of this Form 10-Q. See Index to Financial Information at page F-1 of this Form 10-Q.

PART II

Item 1. Legal Proceedings

We are involved in litigation arising in the ordinary course of business, such as defamation actions, and governmental proceedings primarily relating to renewal of broadcast licenses, none of which is expected to result in material loss.

Item 1A. Risk Factors

There have been no material changes to the risk factors disclosed in Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2015.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

There were no sales of unregistered equity securities during the quarter ended September 30, 2016.

The following table provides information about Company purchases of Class A Common shares during the quarter ended September 30, 2016 and the remaining amount that may still be purchased under the program.

Period	Total number of shares purchased	Average price paid per share	Total market value of shares purchased	Maximum value that may yet be purchased under the
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				plans or programs
7/1/16 - 7/31/16	194,617	\$ 16.94	\$3,297,598	\$61,794,564
8/1/16 - 8/31/16	236,012	16.67	3,933,947	\$57,860,617
9/1/16 - 9/30/16	231,195	16.24	3,755,548	\$54,105,069
Total	661,824	\$ 16.60	\$10,987,093	

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In May 2014, our Board of Directors authorized a repurchase program of up to \$100 million of our Class A Common shares through December 2016. At September 30, 2016, \$54.1 million remained under the authorization.

Item 3. Defaults Upon Senior Securities

There were no defaults upon senior securities during the quarter ended September 30, 2016.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

Item 6. Exhibits

The information required by this item is filed as part of this Form 10-Q. See Index to Exhibits at page E-1 of this Form 10-Q.

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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 E.W. SCRIPPS COMPANY

Dated: November 4, 2016 By: /s/ Douglas F. Lyons
Douglas F. Lyons
Vice President, Controller and Treasurer
(Principal Accounting Officer)

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The E.W. Scripps Company
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Table of ContentsThe E.W. Scripps Company
Condensed Consolidated Balance Sheets (Unaudited)

(in thousands, except share data)	As of September 30, 2016	As of December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	\$88,378	\$108,061
Restricted cash	5,460	6,560
Accounts and notes receivable (less allowances — \$1,511 and \$1,610)	184,487	171,901
Income taxes receivable	1,189	4,626
Miscellaneous	12,700	11,482
Total current assets	292,214	302,630
Investments	14,344	13,856
Property and equipment	262,870	271,047
Goodwill	616,780	585,787
Other intangible assets	473,589	479,187
Deferred income taxes	10,533	13,640
Miscellaneous	14,544	14,713
Total Assets	\$1,684,874	\$1,680,860
Liabilities and Equity		
Current liabilities:		
Accounts payable	\$27,573	\$31,606
Customer deposits and unearned revenue	14,608	8,508
Current portion of long-term debt	9,312	6,656
Accrued liabilities:		
Employee compensation and benefits	22,751	33,669
Miscellaneous	20,917	25,392
Other current liabilities	11,743	13,992
Total current liabilities	106,904	119,823
Long-term debt (less current portion)	387,339	392,487
Other liabilities (less current portion)	264,158	267,567
Equity:		
Preferred stock, \$.01 par — authorized: 25,000,000 shares; none outstanding	—	—
Common stock, \$.01 par:		
Class A — authorized: 240,000,000 shares; issued and outstanding: 70,965,458 and 71,886,969 shares	710	719
Voting — authorized: 60,000,000 shares; issued and outstanding: 11,932,722 and 11,932,722 shares	119	119
Total	829	838
Additional paid-in capital	1,145,688	1,163,985
Accumulated deficit	(132,386)	(174,038)
Accumulated other comprehensive loss, net of income taxes	(87,658)	(89,802)
Total equity	926,473	900,983
Total Liabilities and Equity	\$1,684,874	\$1,680,860

See notes to condensed consolidated financial statements.

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Table of ContentsThe E.W. Scripps Company
Condensed Consolidated Statements of Operations (Unaudited)

(in thousands, except per share data)	Three Months Ended		Nine Months Ended	
	September 30, 2016	2015	September 30, 2016	2015
Operating Revenues:				
Advertising	\$170,169	\$144,983	\$479,932	\$389,088
Retransmission	53,134	36,287	160,181	100,700
Other	9,737	8,421	30,242	21,060
Total operating revenues	233,040	189,691	670,355	510,848
Costs and Expenses:				
Employee compensation and benefits	91,568	88,296	279,916	247,776
Programs and program licenses	45,833	36,318	129,904	88,837
Other expenses	49,791	42,166	145,822	115,037
Defined benefit pension plan expense	3,605	2,976	10,504	9,782
Acquisition and related integration costs	—	4,206	578	36,953
Total costs and expenses	190,797	173,962	566,724	498,385
Depreciation, Amortization, and (Gains) Losses:				
Depreciation	8,407	11,092	25,991	25,883
Amortization of intangible assets	6,485	5,181	18,098	12,051
Impairment of goodwill and intangibles	—	24,613	—	24,613
Losses, net on disposal of property and equipment	26	200	44	579
Net depreciation, amortization, and (gains) losses	14,918	41,086	44,133	63,126
Operating income (loss)	27,325	(25,357)	59,498	(50,663)
Interest expense	(4,592)	(4,246)	(13,603)	(10,523)
Miscellaneous, net	(596)	1,061	(1,245)	12
Income (loss) from continuing operations before income taxes	22,137	(28,542)	44,650	(61,174)
Provision (benefit) for income taxes	9,615	(4,099)	15,752	(15,661)
Income (loss) from continuing operations	12,522	(24,443)	28,898	(45,513)
Loss from discontinued operations, net of tax	—	—	—	(15,432)
Net income (loss)	\$12,522	\$(24,443)	\$28,898	\$(60,945)
Net income (loss) per basic share of common stock:				
Income (loss) from continuing operations	\$0.15	\$(0.29)	\$0.34	\$(0.61)
Loss from discontinued operations	—	—	—	(0.21)
Net income (loss) per basic share of common stock	\$0.15	\$(0.29)	\$0.34	\$(0.82)
Net income (loss) per diluted share of common stock:				
Income (loss) from continuing operations	\$0.15	\$(0.29)	\$0.34	\$(0.61)
Loss from discontinued operations	—	—	—	(0.21)
Net income (loss) per diluted share of common stock	\$0.15	\$(0.29)	\$0.34	\$(0.82)
See notes to condensed consolidated financial statements.				

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The E.W. Scripps Company

Condensed Consolidated Statements of Comprehensive Income (Loss) (Unaudited)

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net income (loss)	\$12,522	\$(24,443)	\$28,898	\$(60,945)
Changes in fair value of derivative, net of tax of \$37, \$37, \$111 and \$110	59	59	177	178
Changes in defined benefit pension plans, net of tax of \$440, \$471, \$1,241 and \$(740)	706	762	1,988	(1,197)
Other	(7)	—	(21)	84
Total comprehensive income (loss)	\$13,280	\$(23,622)	\$31,042	\$(61,880)
See notes to condensed consolidated financial statements.				

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Condensed Consolidated Statements of Cash Flows (Unaudited)

(in thousands)	Nine Months Ended September 30,	
	2016	2015
Cash Flows from Operating Activities:		
Net income (loss)	\$28,898	\$(60,945)
Loss from discontinued operations	—	15,432
Income (loss) from continuing operations	28,898	(45,513)
Adjustments to reconcile income (loss) from continuing operations to net cash flows from operating activities:		
Depreciation and amortization	44,089	37,934
Impairment of goodwill and intangibles	—	24,613
Losses on sale of property and equipment	44	579
Deferred income taxes	16,517	(14,410)
Stock and deferred compensation plans	9,120	8,393
Pension expense, net of payments	2,046	10,065
Other changes in certain working capital accounts, net	(21,612)	(46,091)
Miscellaneous, net	1,886	2,788
Net cash provided by (used in) continuing operating activities	80,988	(21,642)
Net cash provided by discontinued operating activities	—	6,861
Net operating activities	80,988	(14,781)
Cash Flows from Investing Activities:		
Acquisitions, net of cash acquired	(43,500)	(46,838)
Additions to property and equipment	(21,590)	(15,244)
Purchase of investments	(1,728)	(7,087)
Change in restricted cash	1,100	250
Proceeds from sale of property and equipment	216	15
Net cash used in continuing investing activities	(65,502)	(68,904)
Net cash used in discontinued investing activities	—	(1,561)
Net investing activities	(65,502)	(70,465)
Cash Flows from Financing Activities:		
Proceeds from issuance of long-term debt	—	200,000
Payments on long-term debt	(3,000)	(121,269)
Payments of financing costs	—	(2,592)
Dividends paid	—	(59,523)
Repurchase of Class A Common shares	(29,673)	(10,901)
Proceeds from exercise of employee stock options	4,641	6,041
Tax payments related to shares withheld for RSU vesting	(2,652)	(5,126)
Miscellaneous, net	(4,485)	1,499
Net cash (used in) provided by continuing financing activities	(35,169)	8,129
Decrease in cash and cash equivalents	(19,683)	(77,117)
Cash and cash equivalents:		
Beginning of year	108,061	158,459
End of period	\$88,378	\$81,342

Supplemental Cash Flow Disclosures

Interest paid	\$12,092	\$9,353
Income taxes paid	\$393	\$14,709

See notes to condensed consolidated financial statements.

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Table of ContentsThe E.W. Scripps Company
Condensed Consolidated Statements of Equity (Unaudited)

(in thousands, except share data)	Common Stock	Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Loss	Noncontrolling Interests	Total Equity
As of December 31, 2014	\$ 570	\$525,456	\$ 118,693	\$ (126,443)	\$ 1,657	\$519,933
Net loss	—	—	(60,945)	—	—	(60,945)
Changes in defined benefit pension plans	—	—	—	(1,197)	—	(1,197)
Changes in fair value of derivative	—	—	—	178	—	178
Cash dividends: declared and paid — \$1.03 per share	—	—	(59,523)	—	—	(59,523)
Shares issued for acquisition: 26,350,993 shares issued	263	635,737	—	—	—	636,000
Spin-off of Newspapers	—	—	(141,231)	2,326	(1,657)	(140,562)
Repurchase 561,019 Class A Common shares	(6)	(5,932)	(4,963)	—	—	(10,901)
Compensation plans: 1,084,647 net shares issued *	11	9,376	—	—	—	9,387
Other	—	—	—	84	—	84
As of September 30, 2015	\$ 838	\$1,164,637	\$ (147,969)	\$ (125,052)	\$ —	\$892,454
As of December 31, 2015, as originally reported	\$ 838	\$1,163,985	\$ (174,038)	\$ (89,802)	\$ —	\$900,983
Adoption of new accounting guidance	—	(58)	14,808	—	—	14,750
As of January 1, 2016, as adjusted	838	1,163,927	(159,230)	(89,802)	—	915,733
Net income	—	—	28,898	—	—	28,898
Changes in defined benefit pension plans	—	—	—	1,988	—	1,988
Changes in fair value of derivative	—	—	—	177	—	177
Repurchase 1,769,824 Class A Common shares	(18)	(27,601)	(2,054)	—	—	(29,673)
Compensation plans: 848,313 net shares issued *	9	9,362	—	—	—	9,371
Other	—	—	—	(21)	—	(21)
As of September 30, 2016	\$ 829	\$1,145,688	\$ (132,386)	\$ (87,658)	\$ —	\$926,473

* Net of tax payments related to shares withheld for vested stock and RSUs of \$2,652 in 2016 and \$5,126 in 2015.

See notes to condensed consolidated financial statements.

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The E.W. Scripps Company
Condensed Notes to Consolidated Financial Statements (Unaudited)

1. Summary of Significant Accounting Policies

As used in the Condensed Notes to Consolidated Financial Statements, the terms “Scripps,” “Company,” “we,” “our,” or “us” may, depending on the context, refer to The E.W. Scripps Company, to one or more of its consolidated subsidiary companies or to all of them taken as a whole.

Basis of Presentation — The condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. The interim financial statements should be read in conjunction with the audited consolidated financial statements, including the notes thereto included in our 2015 Annual Report on Form 10-K. In management's opinion, all adjustments (consisting of normal recurring accruals) necessary for a fair presentation of the interim periods have been made.

Results of operations are not necessarily indicative of the results that may be expected for future interim periods or for the full year.

Certain amounts in prior periods have been reclassified to conform to the current period's presentation.

Nature of Operations — We are a diverse media enterprise with a portfolio of television, radio and digital media brands. All of our media businesses provide content and advertising services via digital platforms, including the Internet, smartphones and tablets. Our media businesses are organized into the following reportable business segments: television, radio, digital, and syndication and other. Additional information for our business segments is presented in the Condensed Notes to Consolidated Financial Statements.

On April 1, 2015, we distributed our newspaper business to our shareholders in a tax-free spin-off. See Note 17 for information on the spin-off.

Use of Estimates — Preparing financial statements in accordance with accounting principles generally accepted in the United States of America requires us to make a variety of decisions that affect the reported amounts and the related disclosures. Such decisions include the selection of accounting principles that reflect the economic substance of the underlying transactions and the assumptions on which to base accounting estimates. In reaching such decisions, we apply judgment based on our understanding and analysis of the relevant circumstances, including our historical experience, actuarial studies and other assumptions.

Our financial statements include estimates and assumptions used in accounting for our defined benefit pension plans; the periods over which long-lived assets are depreciated or amortized; the fair value of long-lived assets, goodwill and indefinite lived assets; the liability for uncertain tax positions and valuation allowances against deferred income tax assets; the fair value of assets acquired and liabilities assumed in business combinations; and self-insured risks.

While we re-evaluate our estimates and assumptions on an ongoing basis, actual results could differ from those estimated at the time of preparation of the financial statements.

Revenue Recognition — We recognize revenue when persuasive evidence of a sales arrangement exists, delivery occurs or services are rendered, the sales price is fixed or determinable and collectability is reasonably assured. When a sales arrangement contains multiple elements, such as the sale of advertising and other services, we allocate revenue to each element based upon its relative fair value. We report revenue net of sales and other taxes collected from our customers.

Our primary sources of revenue are from the sale of broadcast and digital advertising, as well as retransmission fees received from cable operators and satellite carriers.

The revenue recognition policies for each source of revenue are described in our 2015 Annual Report on Form 10-K.

Share-Based Compensation — We have a Long-Term Incentive Plan (the “Plan”) which is described more fully in our Annual Report on Form 10-K for the year ended December 31, 2015. The Plan provides for the award of incentive and nonqualified stock options, stock appreciation rights, restricted stock units (RSUs), unrestricted Class A Common

shares and performance units to key employees and non-employee directors.

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Share-based compensation costs totaled \$(0.5) million and \$1.4 million for the third quarter of 2016 and 2015, respectively. Year-to-date share-based compensation costs totaled \$6.7 million and \$8.5 million in 2016 and 2015, respectively, of which \$1.1 million for 2015 is included in discontinued operations. The credit balance for the third quarter of 2016 is due to an adjustment of our performance based share expense due to changes in our estimate of the number of shares that will vest.

Earnings Per Share (“EPS”) — Unvested awards of share-based payments with rights to receive dividends or dividend equivalents, such as our RSUs, are considered participating securities for purposes of calculating EPS. Under the two-class method, we allocate a portion of net income to these participating securities and therefore exclude that income from the calculation of EPS for common stock. We do not allocate losses to the participating securities.

The following table presents information about basic and diluted weighted-average shares outstanding:

(in thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Numerator (for basic and diluted earnings per share)				
Income (loss) from continuing operations	\$12,522	\$(24,443)	\$28,898	\$(45,513)
Less income allocated to RSUs	(174)	—	(373)	—
Numerator for basic and diluted earnings per share from continuing operations	\$12,348	\$(24,443)	\$28,525	\$(45,513)
Denominator				
Basic weighted-average shares outstanding	83,230	84,107	83,654	75,213
Effect of dilutive securities:				
Stock options held by employees and directors	288	—	306	—
Diluted weighted-average shares outstanding	83,518	84,107	83,960	75,213
Anti-dilutive securities ⁽¹⁾	—	2,148	—	2,148

⁽¹⁾ Amount outstanding at balance sheet date, before application of the treasury stock method and not weighted for period outstanding.

For the quarter and nine month periods ended September 30, 2015, we incurred a loss and the inclusion of RSUs and stock options held by employees and directors would have been anti-dilutive, and accordingly the diluted EPS calculation for the period excludes those common share equivalents.

Derivative Financial Instruments — It is our policy that derivative transactions are executed only to manage exposures arising in the normal course of business and not for the purpose of creating speculative positions or trading. Derivative financial instruments are utilized to manage interest rate risks. We do not hold derivative financial instruments for trading purposes. All derivatives must be recorded on the balance sheet at fair value. Each derivative is designated as a cash flow hedge or remains undesignated. Changes in the fair value of derivatives that are designated and effective as cash flow hedges are recorded in other comprehensive income and reclassified into earnings in the same period or periods during which the hedged transactions affected earnings. These changes are offset in earnings to the extent the hedge was effective by fair value changes related to the risk being hedged on the hedged item. Changes in the fair value of undesignated hedges are recognized currently in earnings. All ineffective changes in derivative fair values are recognized currently in earnings.

All designated hedges are formally documented as to the relationship with the hedged item as well as the risk-management strategy. Both at inception and on an ongoing basis, the hedging instrument is assessed as to its effectiveness, when applicable. If and when a derivative is determined not to be highly effective as a hedge, the underlying hedged transaction is no longer likely to occur, the hedge designation is removed, or the derivative is terminated, the hedge accounting discussed above is discontinued.

2. Recently Adopted and Issued Accounting Standards

Recently Adopted Accounting Standards — In March 2016, the Financial Accounting Standards Board (FASB) issued new guidance which simplifies the accounting for share-based compensation arrangements, including the income tax consequences and classification on the statement of cash flows. Under the new guidance, excess tax benefits and tax deficiencies are recognized as a discrete component of the income tax provision in the period they occur and not as an adjustment to additional

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paid-in capital. Also, a company's payments for tax withholdings should be classified in the statement of cash flows as a financing activity. It also requires excess tax benefits to be recorded on the exercise or vesting of share-based awards at the time they are deductible for income taxes and not when they reduce cash taxes. In addition, a company can now elect to record forfeitures of share-based awards as they occur or record estimated forfeitures with a true-up at the end of the vesting period. We have elected to early adopt this guidance effective January 1, 2016. The adoption used the modified retrospective transition method which had no impact on prior years. The impact of adopting this guidance was to record \$14.7 million of previously unrecognized tax benefits, increasing deferred tax assets and opening retained earnings. We have elected to adopt a policy of recording actual forfeitures, the impact of which is immaterial to current or prior periods.

In August 2014, the FASB issued new guidance related to the disclosures around consideration of going concern. The new standard provides guidance around management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. The new standard was effective for us January 1, 2016. The adoption of this standard did not have a material impact on our consolidated financial statements.

Recently Issued Accounting Standards — In August 2016, the FASB issued new guidance related to classification of certain cash receipts and payments in the statement of cash flows. This new guidance was issued with the objective of reducing diversity in practice around eight specific types of cash flows. The new guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017, with early adoption permitted. We are currently evaluating the impact of this guidance on our consolidated financial statements.

In June 2016, the FASB issued new guidance that changes the impairment model for most financial assets and certain other instruments. For trade and other receivables, held-to-maturity debt securities, loans and other instruments, entities will be required to use a new forward-looking “expected loss” model that will replace today’s “incurred loss” model and generally will result in the earlier recognition of allowances for losses. For available-for-sale debt securities with unrealized losses, entities will measure credit losses in a manner similar to current practice, except that the losses will be recognized as an allowance. The guidance is effective in 2020 with early adoption permitted in 2019. We are currently evaluating the impact of this guidance on our financial statements and the timing of adoption.

In February 2016, the FASB issued new guidance on the accounting for leases. Under this guidance, lessees will be required to recognize a lease liability and a right-of-use asset for all leases (with the exception of short-term leases) at the commencement date. The new guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018. Early adoption is permitted. We are currently evaluating the impact of this guidance on our consolidated financial statements.

In January 2016, the FASB issued new guidance on the recognition and measurement of financial instruments. This guidance primarily affects the accounting for equity method investments, financial liabilities under the fair value option and the presentation and disclosure requirements for financial instruments. The standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. We are currently evaluating the impact of this guidance on our consolidated financial statements.

In May 2014, the FASB issued new guidance on revenue recognition. Under this new standard, an entity shall recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard creates a five-step process that requires entities to exercise judgment when considering the terms of the contract(s) and all relevant facts and circumstances. This standard permits the use of either the retrospective or cumulative effect transition method and will be effective for us beginning in 2018. Early adoption is permitted in 2017. We are currently evaluating the impact this guidance will have on our consolidated financial statements and have not yet determined a

transition method.

3. Acquisitions

Stitcher

On June 6, 2016, we completed the acquisition of Stitcher for a cash purchase price of \$4.5 million. Stitcher is a popular podcast listening service which facilitates discovery and streaming for more than 65,000 podcasts. Stitcher operates as part of Midroll Media, which significantly broadens Midroll's consumer base and technological capabilities. Of the \$4.5 million purchase price, \$2.9 million was allocated to intangible assets, the majority of which was technological software with an estimated amortization period of 3 years. The remainder of the purchase price was allocated to goodwill.

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Cracked

On April 12, 2016, we acquired the multi-platform humor and satire brand Cracked, which informs and entertains millennial audiences with a website, original digital video, social media and a popular podcast. The purchase price was \$39 million in cash.

The final fair values of the assets acquired were \$9.6 million of intangibles and \$29.4 million of goodwill. Of the \$9.6 million allocated to intangible assets, \$7.6 million was for trade names with an estimated amortization period of 20 years. The remaining balance of \$2.0 million was allocated to content library with an estimated amortization period of 3 years.

The goodwill of \$29 million arising from the transaction consists largely of the benefit we derive from being able to expand our presence and digital brands on the web, in over-the-top video and audio and on other emerging platforms. We allocated the goodwill to our digital segment. We treated the transaction as an asset acquisition for income tax purposes with a step-up in the assets acquired. The goodwill is deductible for income tax purposes.

From the acquisition date of April 12, 2016 through September 30, 2016, revenues from the acquired Cracked operations were \$2.4 million.

Midroll Media

On July 22, 2015, we acquired Midroll Media, a company that creates original podcasts and operates a network that generates advertising revenue for more than 200 shows. The purchase price was \$50 million in cash, plus a \$10 million earnout payable over three years. We estimated the fair value of the earnout to be \$7 million.

The following table summarizes the final fair values of the assets acquired and the liabilities assumed:
(in thousands)

Assets:	
Cash	\$635
Accounts receivable	2,925
Other assets	482
Intangible assets	10,700
Goodwill	45,586
Total assets acquired	60,328
Current liabilities	3,365
Net purchase price	\$56,963

Of the \$11 million allocated to intangible assets, \$7 million was allocated to advertiser relationships with an estimated amortization period of 5 years and the remaining balance of \$4 million was allocated to various other intangible assets.

The goodwill of \$46 million arising from the transaction consists largely of the benefit we derive from being able to enter the podcast market with an established business. We allocated the goodwill to our digital segment. We treated the transaction as an asset acquisition for income tax purposes with a step-up in the assets acquired. The goodwill is deductible for income tax purposes.

Journal Communications Broadcast Group

On April 1, 2015, we acquired the broadcast group owned by Journal Communications, Inc. ("Journal") as part of the transactions described in Note 17. The businesses acquired included 12 television stations and 34 radio stations. We issued 26.4 million Class A Common shares to the Journal shareholders in exchange for their interest in Journal for a purchase price of \$636 million. The fair value of the shares issued was determined on the basis of the closing market price of our Class A Common shares on April 1, 2015, the acquisition date.

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The following table summarizes the final fair values of the assets acquired and the liabilities assumed:
(in thousands)

Assets:	
Cash	\$2,529
Accounts receivable	47,978
Other current assets	2,236
Property, plant and equipment	123,264
Intangible assets	294,800
Goodwill	456,440
Other long-term assets	6,350
Assets held for sale	14,500
Total assets acquired	948,097
Accounts payable and accrued liabilities	38,107
Employee benefit obligations	85,261
Deferred tax liability	57,112
Long-term debt	126,873
Other long-term liabilities	4,744
Net purchase price	\$636,000

Of the \$295 million allocated to intangible assets, \$112 million was for FCC licenses which we determined to have an indefinite life and, therefore, are not amortized. The remaining balance of \$183 million was allocated to television network affiliation relationships and advertiser relationships with estimated amortization periods of 10 to 20 years.

The goodwill of \$456 million arising from the transaction consists largely of synergies and economies of scale and other benefits of a larger broadcast footprint. The goodwill was allocated to our television (\$395 million), radio (\$41 million) and digital (\$20 million) segments. We treated the transaction as a stock acquisition for income tax purposes resulting in no step-up in the assets acquired. The goodwill is not deductible for income tax purposes.

Concurrent with the acquisition of the Journal television stations, due to FCC conflict ownership rules, Journal was required to dispose of KNIN, the Fox affiliate located in Boise, ID. The station was placed in a divestiture trust for our benefit and was sold to Raycom Media, Inc. on October 1, 2015 for \$14.5 million. The sale did not result in a gain or loss.

Pro forma results of operations

Pro forma results of operations, assuming the Journal transaction had taken place at the beginning of 2014, are included in the following table. The pro forma results do not include Midroll, Cracked or Stitcher as the impact of these acquisitions are not material to prior year results of operations. The pro forma information includes the historical results of operations of Scripps and Journal and adjustments for additional depreciation and amortization of the assets acquired, additional interest expense related to the financing of the transaction and reflects the transaction costs incurred in 2015 as if they were incurred in the first quarter of 2014. The weighted average shares utilized in calculating the earnings per share assumes that the shares issued to the Journal shareholders were issued on January 1, 2014. The pro forma information does not include efficiencies, cost reductions or synergies expected to result from the acquisition. The unaudited pro forma financial information is not necessarily indicative of the results that actually would have occurred had the acquisition been completed at the beginning of the period.

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	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2015
(in thousands, except per share data) (unaudited)		
Operating revenues	\$ 189,691	\$ 573,310
Loss from continuing operations attributable to the shareholders of The E.W. Scripps Company	(23,606)	(17,028)
Loss per share from operations attributable to the shareholders of The E.W. Scripps Company:		
Basic	\$(0.27)	\$(0.19)
Diluted	(0.27)	(0.19)

4. Income Taxes

We file a consolidated federal income tax return, consolidated unitary tax returns in certain states and other separate state income tax returns for our subsidiary companies.

The income tax provision for interim periods is generally determined based upon the expected effective income tax rate for the full year and the tax rate applicable to certain discrete transactions in the interim period. To determine the annual effective income tax rate, we must estimate both the total income (loss) before income tax for the full year and the jurisdictions in which that income (loss) is subject to tax. The actual effective income tax rate for the full year may differ from these estimates if income (loss) before income tax is greater than or less than what was estimated or if the allocation of income (loss) to jurisdictions in which it is taxed is different from the estimated allocations. We review and adjust our estimated effective income tax rate for the full year each quarter based upon our most recent estimates of income (loss) before income tax for the full year and the jurisdictions in which we expect that income will be taxed.

The effective income tax rate for the nine months ended September 30, 2016 and 2015 was 35% and 26%, respectively. The primary reason for the difference between the year-to-date rates and the U.S. federal statutory rate of 35% is the impact of state taxes, non-deductible expenses (including a portion of transaction expense related to the Journal transactions in 2015), adjustments to reserves for uncertain tax positions (including interest) and excess tax benefits on share-based compensation (\$1.9 million in 2016).

Deferred tax assets totaled \$11 million at September 30, 2016. Management believes that it is more likely than not that we will realize the benefits of our federal deferred tax assets and therefore has not recorded a valuation allowance for our federal deferred tax assets. If economic conditions worsen, future estimates of taxable income could be lower than our current estimates which may require valuation allowances to be recorded in future reporting periods.

We recognize state net operating loss carryforwards as deferred tax assets, subject to valuation allowances. At each balance sheet date, we estimate the amount of carryforwards that are not expected to be used prior to expiration of the carryforward period. The tax effect of the carryforwards that are not expected to be used prior to their expiration is included in the valuation allowance.

During the period ended September 30, 2015, deferred tax assets relating to employee share-based awards from the vesting of RSUs and the exercise of stock options were not recognized since we were in a net tax loss position for the period. The additional tax benefits were reflected as net operating loss carryforwards on our tax returns, but the additional tax benefits were not recorded under GAAP until the tax deductions reduced taxes payable. The amount of

unrecognized tax deductions for the nine months ended September 30, 2015, was approximately \$26 million. Effective January 1, 2016, we adopted new accounting guidance that allows us to recognize the benefits when deductible for tax purposes.

5. Other Charges and Credits

Acquisition and related integration costs of \$0.6 million and \$37.0 million for the nine months ended September 30, 2016 and 2015, respectively, and \$4.2 million for the three months ended September 30, 2015, include costs for spinning off our newspaper operations and costs associated with acquisitions, such as legal and accounting fees, as well as costs to integrate acquired operations.

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In the third quarter of 2015, we recorded a \$24.6 million non-cash charge to reduce the carrying value of our goodwill and certain intangible assets of Newsy and a smaller business. See Note 7 for additional information.

6. Restricted Cash

At September 30, 2016 and December 31, 2015, we had \$5.5 million and \$6.6 million, respectively, in a restricted cash account on deposit with our insurance carrier. This account serves as collateral, in place of an irrevocable stand-by letter of credit, to provide financial assurance that we will fulfill our obligations with respect to cash requirements associated with our workers compensation self-insurance. This cash is to remain on deposit with the carrier until all claims have been paid or we provide a letter of credit in lieu of the cash deposit.

7. Goodwill and Other Intangible Assets

Goodwill was as follows:

(in thousands)	Television	Radio	Digital	Total
Gross balance as of December 31, 2015	\$681,535	\$41,000	\$101,166	\$823,701
Accumulated impairment losses	(215,414)	—	(22,500)	(237,914)
Net balance as of December 31, 2015	466,121	41,000	78,666	585,787
Cracked acquisition	—	—	29,403	29,403
Stitcher acquisition	—	—	1,590	1,590
Balance as of September 30, 2016	\$466,121	\$41,000	\$109,659	\$616,780
Gross balance as of September 30, 2016	\$681,535	\$41,000	\$132,159	\$854,694
Accumulated impairment losses	(215,414)	—	(22,500)	(237,914)
Net balance as of September 30, 2016	\$466,121	\$41,000	\$109,659	\$616,780

Other intangible assets consisted of the following:

(in thousands)	As of September 30, 2016	As of December 31, 2015
Amortizable intangible assets:		
Carrying amount:		
Television network affiliation relationships	\$248,444	\$248,444
Customer lists and advertiser relationships	56,100	56,100
Other	26,923	14,423
Total carrying amount	331,467	318,967
Accumulated amortization:		
Television network affiliation relationships	(33,911)	(24,590)
Customer lists and advertiser relationships	(22,976)	(17,092)
Other	(4,806)	(1,913)
Total accumulated amortization	(61,693)	(43,595)
Net amortizable intangible assets	269,774	275,372
Other indefinite-lived intangible assets — FCC licenses	203,815	203,815
Total other intangible assets	\$473,589	\$479,187

Estimated amortization expense of intangible assets for each of the next five years is \$5.5 million for the remainder of 2016, \$21.9 million in 2017, \$21.4 million in 2018, \$19.7 million in 2019, \$18.6 million in 2020, \$16.4 million in

2021, and \$166.3 million in later years.

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Goodwill and other indefinite-lived assets are tested for impairment annually and any time events occur or conditions change that would indicate it is more likely than not the fair value of a reporting unit is below its carrying value. Such indicators of impairment include, but are not limited to, changes in business climate or other factors resulting in low cash flow related to such assets. The testing for impairment is a two-step process. The first step is the estimation of the fair value of each of the reporting units, which is then compared to their carrying values. If the fair value is less than the carrying value of the reporting unit then an impairment of goodwill may exist. Step two is then performed to determine the amount of impairment.

During 2015, changes in the market for the distribution of video programming services, including the development of over-the-top distribution platforms such as Apple TV, Comcast Watchable, PlutoTV, Xumo, Roku and Sling, resulted in the need for additional investment in our digital news service, Newsy. The additional investment, combined with the slower development of our original revenue model, created indications of impairment of goodwill as of September 30, 2015.

Under the two-step process required by GAAP, we estimated the fair value of Newsy. Fair values were determined using a combination of an income approach, which estimated fair value based upon future revenues, expenses and cash flows discounted to their present value, and a market approach, which estimated fair value using market multiples of various financial measures compared to a set of comparable public companies. The discounted cash flow approach utilized unobservable factors, such as projected revenues and expenses and a discount rate applied to the estimated cash flows. The determination of the discount rate was based on a cost of capital model, using a risk-free rate, adjusted by a stock-beta adjusted risk premium and a size premium. The inputs to the nonrecurring fair value determination of our reporting units were classified as Level 3 fair value measurements under GAAP.

The valuation methodology and underlying financial information used to determine fair value required significant judgments to be made by management. These judgments included, but were not limited to, long-term projections of future financial performance and the selection of appropriate discount rates used to determine the present value of future cash flows. Changes in such estimates or the application of alternative assumptions could have produced significantly different results.

We concluded that the fair value of Newsy did not exceed its carrying value as of September 30, 2015. As a result, we recorded a \$21 million non-cash charge in the three months ended September 30, 2015 to reduce the carrying value of goodwill and \$2.9 million to reduce the value of intangible assets.

We also recorded a \$1.5 million goodwill impairment charge on a second small business.

8. Long-Term Debt

Long-term debt consisted of the following:

(in thousands)	As of September 30, 2016	As of December 31, 2015
Variable rate credit facility	\$—	\$—
Term loan	391,500	394,500
Debt issuance costs on term loan	(2,817)	(3,325)
Net term loan	388,683	391,175
Unsecured subordinated notes payable	7,968	7,968
Long-term debt	396,651	399,143
Current portion of long-term debt	9,312	6,656

Long-term debt (less current portion)	\$ 387,339	\$ 392,487
Fair value of long-term debt *	\$ 401,043	\$ 396,576

* Fair value of the term loan was estimated based on quoted private market transactions and is classified as Level 1 in the fair value hierarchy. The fair value of the unsecured promissory notes is determined based on a discounted cash flow analysis using current market interest rates of comparable instruments and is classified as Level 2 in the fair value hierarchy.

Financing Agreement

On April 1, 2015, we entered into a \$500 million second amended revolving credit and term loan agreement ("Second Amended Financing Agreement") to amend the terms of our existing revolving credit and term loan agreement ("Amended Financing Agreement"), to add an incremental \$200 million term loan B borrowing and to increase the line of credit by \$25 million. The \$400 million term loan B matures in November 2020 and the \$100 million revolving credit facility matures in November 2018.

The Second Amended Financing Agreement includes the maintenance of a net leverage ratio if we borrow more than 20% on the revolving credit facility. The term loan B requires that if we borrow additional amounts or make a permitted acquisition that we cannot exceed a stated net leverage ratio on a pro forma basis at the date of the transaction.

The Second Amended Financing Agreement allows us to make restricted payments (dividends and share repurchases) up to \$70 million plus additional amounts based on our financial results and condition. We can also make additional stock repurchases equal to the amount of proceeds that we receive from the exercise of stock options held by our employees. Additionally, we can make acquisitions as long as the pro forma net leverage ratio is less than 4.5 to 1.0 of assets.

The Second Amended Financing Agreement in certain circumstances requires that we must use a portion of excess cash flow, and the proceeds from the sale, to repay debt. As of September 30, 2016, we were not required to make additional principal payments based on excess cash flow. Any proceeds, up to a stipulated amount, that we receive from the upcoming FCC spectrum auction, should we choose to participate and our bid is accepted, will not be required to be used to pay down the term loan.

Under the terms of the Second Amended Financing Agreement, we granted the lenders mortgages on certain of our real property, pledges of our equity interests in our subsidiaries and security interests in substantially all other personal property including cash, accounts receivables, and equipment.

Interest is payable on the term loan B at rates based on LIBOR with a 0.75% floor, plus a fixed margin of 2.75%. Interest is payable on the revolving credit facility at rates based on LIBOR plus a margin based on our leverage ratio ranging from 2.25% to 2.75%. As of September 30, 2016 and December 31, 2015, the interest rate was 3.50% on the term loan B. The weighted-average interest rate on borrowings was 3.50% and 3.42% for the nine months ended September 30, 2016 and 2015, respectively.

Scheduled principal payments on the term loan at September 30, 2016 are: \$1.0 million for the remainder of 2016, \$4.0 million in 2017, \$4.0 million in 2018, \$4.0 million in 2019, and \$378.5 million in 2020.

Commitment fees of 0.30% to 0.50% per annum, based on our leverage ratio, of the total unused commitment are payable under the revolving credit facility.

As of September 30, 2016 and December 31, 2015, we had outstanding letters of credit totaling \$0.8 million.

Unsecured Subordinated Notes Payable

The unsecured subordinated promissory notes bear interest at a rate of 7.25% per annum payable quarterly. The notes are payable in annual installments of \$2.7 million through 2018, with no prepayment right.

9. Financial Instruments

We are exposed to various market risks, including changes in interest rates. To manage risks associated with the volatility of changes in interest rates, we may enter into interest rate management instruments.

We may utilize interest rate swaps to manage our interest expense exposure by fixing our interest rate on portions of our floating rate term loan. We have entered into a \$75 million notional value interest rate swap expiring in December 2016. Under the terms of the swap, we pay a fixed interest rate of 1.08% and receive interest at a variable rate equal to 30 day LIBOR. We did not provide or receive any collateral for this contract.

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Fair Value of Derivative Instruments

The notional amounts and fair values of derivative instruments are shown in the table below:

(in thousands)	As of September 30, 2016		As of December 31, 2015	
	Notional amount	Fair value Liability Asset ⁽¹⁾	Notional amount	Fair value Liability Asset ⁽¹⁾
Undesignated derivatives:				
Interest rate swap	\$75,000	\$— 99	\$75,000	\$— 299

(1) Balance recorded as other liabilities in Condensed Consolidated Balance Sheets

Upon refinancing our term loan B in November 2013, this hedge no longer qualified as a cash flow hedge and gains and losses on the derivative are recorded in current period earnings. The balance in accumulated other comprehensive loss at the date of discontinuance of hedge accounting is being amortized into earnings on a straight-line basis through December 2016.

(in thousands)	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2015	
	2016	2015	2016	2015
Amounts reclassified from accumulated OCL, gain	\$96	\$96	\$288	\$288
Gain (loss) on derivative	136	(15)	200	(125)

10. Fair Value Measurement

We measure certain financial assets and liabilities at fair value on a recurring basis, such as cash equivalents and derivatives. The fair values of these financial assets and liabilities were determined based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value. These levels of input are as follows:

- Level 1 — Quoted prices in active markets for identical assets or liabilities.
- Level 2 — Inputs, other than quoted market prices in active markets, that are observable either directly or indirectly.
- Level 3 — Unobservable inputs based on our own assumptions.

The following tables set forth our assets and liabilities that are measured at fair value on a recurring basis at September 30, 2016 and December 31, 2015:

(in thousands)	As of September 30, 2016			
	Total	Level 1	Level 2	Level 3

Assets/(Liabilities):

Cash equivalents	\$5,000	\$5,000	\$ —	\$ —
Interest rate swap	(99)	—	(99)	—

As of December 31, 2015

(in thousands)	Total	Level 1	Level 2	Level 3
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Assets/(Liabilities):

Cash equivalents	\$5,000	\$5,000		
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