

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

**FORM 8-K/A
CURRENT REPORT**

Pursuant to Section 13 or 15(d) of The Securities Exchange Act of 1934

Date of Report (Date of earliest event reported) May 1, 2019

THE E.W. SCRIPPS COMPANY

(Exact name of registrant as specified in its charter)

Ohio
(State or other jurisdiction of
incorporation)

0-16914
(Commission
File Number)

31-1223339
(I.R.S. Employer
Identification Number)

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

45202
(Zip Code)

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

Not Applicable
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Class A Common Stock, par value \$0.01 per share	SSP	NASDAQ Global Select Market

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (17 CFR § 230.405) or Rule 12b-2 of the Securities Exchange Act of 1934 (17 CFR § 240.12b-2).

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.

THE E.W. SCRIPPS COMPANY
INDEX TO CURRENT REPORT ON FORM 8-K/A

<u>Item No.</u>		<u>Page</u>
9.01	Financial Statements and Exhibits	3

Explanatory Note

On May 3, 2019, The E. W. Scripps Company ("Scripps") filed a current report on Form 8-K (the "Original Filing") in connection with the acquisition of 15 television stations from Cordillera Communications, LLC ("Cordillera"). This Current Report on Form 8-K/A is being filed to amend and supplement the Original Filing to include the required Item 9.01(a) Financial Statements of Businesses Acquired and the required Item 9.01(b) Pro Forma Financial Information.

Cordillera is a wholly-owned subsidiary of EPI Preferred, LLC ("EPI"). The 15 television stations Scripps acquired from Cordillera comprised substantially all of the key operating assets included in the EPI financial statements. The financial statements of EPI are presented in order to provide investors with the complete and comprehensive financial history of the acquired businesses. The elimination of specified assets and liabilities not acquired or assumed by Scripps in the transaction with Cordillera is depicted in the pro forma financial statements presenting the effects of the acquisition. No other modifications to the Original Filing are being made by this Form 8-K/A. This Form 8-K/A should be read in connection with the Original Filing.

Item 9.01 Financial Statements and Exhibits

(a) Financial Statements of Businesses Acquired

The audited consolidated financial statements of EPI Preferred, LLC as of and for each of the years in the two-year period ended September 30, 2018, including the notes thereto, are filed herewith as Exhibit 99.1.

The unaudited condensed consolidated financial statements of EPI Preferred, LLC as of March 31, 2019 and September 30, 2018 and for the six months ended March 31, 2019 and 2018, including the notes thereto, are filed herewith as Exhibit 99.2.

(b) Pro Forma Financial Information

The unaudited pro forma combined financial statements of Scripps and the acquired Cordillera stations as of and for the three months ended March 31, 2019 and for the year ended December 31, 2018, are filed herewith as Exhibit 99.3.

(c) Exhibits

Exhibit Number	Description of Item
2.1	Purchase agreement dated as of October 27, 2018, among Cordillera Communications, LLC and Scripps Media, Inc. with respect to the acquisition of certain subsidiaries of Cordillera Communications, LLC (1)
23.1	Consent of Independent Auditors
99.1	Audited consolidated financial statements of EPI Preferred, LLC as of and for each of the years in the two-year period ended September 30, 2018, including the notes thereto.
99.2	Unaudited condensed consolidated financial statements of EPI Preferred, LLC as of March 31, 2019 and September 30, 2018 and for the six months ended March 31, 2019 and 2018, including the notes thereto.
99.3	Unaudited pro forma combined balance sheet as of March 31, 2019 and unaudited pro forma combined results of operations for the year ended December 31, 2018 and the three months ended March 31, 2019.

(1) Incorporated by reference to The E.W. Scripps Company Current Report on Form 8-K dated October 27, 2018.

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 hereunto duly authorized.

THE E.W. SCRIPPS COMPANY

BY: /s/ Douglas F. Lyons
Douglas F. Lyons
Senior Vice President, Controller and Treasurer
(Principal Accounting Officer)

Dated: July 17, 2019

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (No. 333-27621, 333-89824, 333-125302, 333-27623, 333-40767, 333-120185, 333-151963, 333-167089 and 333-207857) of The E.W. Scripps Company of our report dated January 14, 2019, except for the change in the manner in which EPI Preferred, LLC accounts for goodwill discussed in Note 1 to the consolidated financial statements, as to which the date is July 16, 2019 relating to the financial statements of EPI Preferred, LLC, which appears in this Current Report on Form 8-K.

/s/ PricewaterhouseCoopers LLP
Spartanburg, South Carolina
July 16, 2019

EPI Preferred, LLC
Consolidated Financial Statements
September 30, 2018 and 2017
and for each of the years then ended

EPI Preferred, LLC

Index

	Page(s)
Report of Independent Auditors	1
Consolidated Financial Statements	
Balance Sheets	2
Statements of Operations	3
Statements of Members' Equity	4
Statements of Cash Flows	5
Notes to the Financial Statements	6-16

Report of Independent Auditors

To the Board of Directors of EPI Preferred, LLC

We have audited the accompanying consolidated financial statements of EPI Preferred, LLC and its subsidiaries, which comprise the consolidated balance sheets as of September 30, 2018 and 2017, and the related consolidated statements of operations, members' equity, and cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of EPI Preferred, LLC and its subsidiaries as of September 30, 2018 and 2017, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the consolidated financial statements, the Company changed the manner in which it accounts for goodwill in 2019. Our opinion is not modified with respect to this matter.

/s/ PricewaterhouseCoopers LLP
Spartanburg, South Carolina

January 14, 2019, except for the change in the manner in which the Company accounts for goodwill discussed in Note 1 to the consolidated financial statements, as to which the date is July 16, 2019

EPI Preferred, LLC
Consolidated Balance Sheets
September 30, 2018 and 2017

(in thousands of dollars)

	2018	2017
Assets		
Current Assets		
Cash	\$ 7,749	\$ 11,159
Accounts receivable, less allowance for doubtful accounts of \$891 and \$685, respectively	30,478	30,249
Program contract rights	2,721	3,196
Prepaid expenses	1,557	1,969
Total current assets	42,505	46,573
Property, plant and equipment, net	37,920	38,881
Goodwill	52,534	52,534
Other intangible assets, net	87,789	87,814
Other assets	24	24
Total assets	\$ 220,772	\$ 225,826
Liabilities and Members' Equity		
Current Liabilities		
Program contracts payable	\$ 2,716	\$ 3,155
Accounts payable	2,551	2,164
Income tax payable	2,969	5,242
Due to affiliate	7,191	1,874
Accrued expenses	13,467	12,388
Current portion of long-term debt	3,542	4,562
Total current liabilities	32,436	29,385
Long-term debt	56,582	46,225
Deferred tax liabilities	19,527	29,948
Total liabilities	108,545	105,558
Members' equity		
EPI Preferred Members' equity	41,251	78,046
Noncontrolling interest	70,976	42,222
Total equity	112,227	120,268
Total liabilities and members' equity	\$ 220,772	\$ 225,826

The accompanying notes are an integral part of the consolidated financial statements.

EPI Preferred, LLC
Consolidated Statements of Operations
Years Ended September 30, 2018 and 2017

(in thousands of dollars)

	2018	2017
Operating revenues		
Broadcasting, net	\$ 181,560	\$ 174,462
Total operating revenues	<u>181,560</u>	<u>174,462</u>
Operating costs and expenses		
Operating expenses	73,412	66,587
Selling expenses	24,035	25,847
General and administrative expenses	31,765	29,451
Total operating costs and expenses	<u>129,212</u>	<u>121,885</u>
Depreciation and amortization	6,133	6,645
Operating income	<u>46,215</u>	<u>45,932</u>
Other income (expense)		
Interest income	1,435	1,351
Interest expense	(1,850)	(1,702)
Other, net	(1,813)	(1,813)
Total other expense	<u>(2,228)</u>	<u>(2,164)</u>
Income before income taxes	43,987	43,768
Income tax benefit (expense)	7,443	(4,395)
Net income	<u>51,430</u>	<u>39,373</u>
Less: Net income attributable to noncontrolling interest	40,541	27,278
Net income attributable to EPI Preferred	<u>\$ 10,889</u>	<u>\$ 12,095</u>

The accompanying notes are an integral part of the consolidated financial statements.

EPI Preferred, LLC
Consolidated Statements of Members' Equity
Years Ended September 30, 2018 and 2017

<i>(in thousands of dollars)</i>	EPI Preferred	Noncontrolling Interest	Total Members' Equity
Balances at September 30, 2016	\$ 95,965	\$ 26,286	\$ 122,251
Net income	12,095	27,278	39,373
Discretionary distributions	(24,000)	-	(24,000)
Tax distributions	(6,014)	(11,342)	(17,356)
Balances at September 30, 2017	<u>78,046</u>	<u>42,222</u>	<u>120,268</u>
Net income	10,889	40,541	51,430
Discretionary distributions	(43,000)	-	(43,000)
Tax distributions	(4,684)	(11,787)	(16,471)
Balances at September 30, 2018	<u>\$ 41,251</u>	<u>\$ 70,976</u>	<u>\$ 112,227</u>

The accompanying notes are an integral part of the consolidated financial statements.

EPI Preferred, LLC
Consolidated Statements of Cash Flows
Years Ended September 30, 2018 and 2017

<i>(in thousands of dollars)</i>	2018	2017
Cash flows from operating activities		
Net Income	\$ 51,430	\$ 39,373
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	6,133	6,645
Amortization of program contract rights	2,983	2,831
Bad debt expense	575	266
Deferred income tax	(10,422)	(174)
(Gain)/loss on disposal of property and equipment	(92)	118
Changes in operating assets and liabilities		
Accounts and other receivables	(803)	479
Prepaid expenses	410	(434)
Accounts payable, accrued expenses and deferred revenue	1,776	454
Due to affiliate	5,317	142
Payments on program contract obligations	(2,947)	(2,885)
Income taxes payable	(2,273)	745
Net cash provided by operating activities	<u>52,087</u>	<u>47,560</u>
Cash flows from investing activities		
Additions to property, plant, equipment and intangible assets	(5,237)	(4,942)
Proceeds from sale of equipment	182	76
Net cash (used in) investing activities	<u>(5,055)</u>	<u>(4,866)</u>
Cash flows from financing activities		
Payments on long-term debt	(5,396)	(3,375)
Borrowings on long-term debt	14,425	5,000
Distributions made to noncontrolling interest	(11,787)	(11,342)
Distributions made to EPI, Inc.	(47,684)	(30,014)
Net cash used in financing activities	<u>(50,442)</u>	<u>(39,731)</u>
Net increase (decrease) in cash and cash equivalents	(3,410)	2,963
Cash		
Beginning of year	11,159	8,196
End of year	<u>\$ 7,749</u>	<u>\$ 11,159</u>
Supplemental cash flow information		
Cash paid during the year for		
Interest	\$ 1,850	\$ 1,727

The accompanying notes are an integral part of the consolidated financial statements.

EPI Preferred, LLC

Notes to Consolidated Financial Statements

1. Nature of Operations and Summary of Significant Accounting Policies

Financial Statement Preparation

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”).

Nature of Operations

EPI Preferred, LLC (the “Company”) was formed in July 2014 to own 100% of the preferred membership interest and 100% of the voting rights of Cordillera Communications (“Cordillera”) and its subsidiaries. The Company is a direct, wholly-owned subsidiary of Evening Post Industries, Inc. (“EPI, Inc.”) and an indirect, wholly-owned subsidiary of EPI Group, LLC.

Cordillera holds broadcast television operations and related activities. Cordillera’s ownership consists of two equity classes, preferred membership interests owned by the Company and common interests 100% owned by EPI Global, LLC. Cordillera’s preferred membership return is payable out of net income and if not paid, the return will accumulate and carry a priority at liquidation. As a wholly owned subsidiary of EPI, Inc., the preferred membership return is ultimately subject to corporate taxation. The common interests are subordinate to the preferred membership interest and will participate in any residual equity.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company, subsidiaries in which we hold controlling financial interests, and variable interest entities (“VIE”) for which we are the primary beneficiary. In determining the primary beneficiary for financial reporting purposes, we consider whether the Company has the power to direct the activities that most significantly impact the economic performance of the VIE and whether we have the obligation to absorb losses or the right to receive returns that would be significant to the VIE. All significant intercompany accounts and transactions have been eliminated in consolidation.

Based on the characteristics of a VIE as described above, Cordillera falls into the VIE model for determining consolidation. The Company through voting rights and equity interest demonstrates power and control to direct activities at Cordillera. The Company also holds the majority of the economic benefits and risk substantiated by the variability in the preferred return, liquidation preference, and the Company’s debt which is collateralized by its preferred interest in Cordillera (Note 4). Based upon the structure and nature of economic activities discussed above, the Company is the primary beneficiary of Cordillera and as a result has consolidated the financial results of Cordillera and its subsidiaries. Throughout these financial statements the Cordillera common interest owned by EPI Group, LLC is referred to as noncontrolling interest.

The Company’s consolidated financial statements also include the non-owned entity SagamoreHill of Corpus Christi, LLC, which is consolidated under ASC 805-10-55. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

The primary estimates made by management include those relating to the allowance for doubtful accounts, and projections associated with the Company’s evaluation of the recoverability of certain tangible and intangible assets, including program contract rights, and identifiable intangible assets. Actual results could differ from those estimates.

EPI Preferred, LLC

Notes to Consolidated Financial Statements

Revenue Recognition

Television advertising revenue is recognized when advertisements are aired or when related advertising services are rendered. Agency commissions related to broadcast advertising are recorded as a reduction of revenue. Retransmission revenues from cable and satellite systems are recognized based on average monthly subscriber counts and contractual rates.

Accounts Receivable

Accounts receivable consist primarily of amounts receivable from customers for advertising and retransmission fees reduced for estimated doubtful accounts. The majority of these customers are located in the areas where the Company conducts business: Arizona, California, Colorado, Kentucky, Louisiana, Montana, and Texas.

Program Contract Assets and Liabilities

Program contract assets are recorded upon availability of programming for telecasting. Exhibition rights under license agreements are generally limited to a contract period or specific number of showings. Program contract assets are stated at the lower of unamortized cost or net realizable value and are amortized principally on the straight-line method over the contract period or specified number of showings. Program contract assets expected to be amortized within one year are classified as current assets.

Program contract liabilities are recorded upon availability of programming and are classified as current or noncurrent in accordance with the payment terms of the contracts.

Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation. Gains and losses on routine dispositions are reflected in other income and expenses. Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets.

Impairment of Long-Lived Assets

ASC 360 *Property, Plant and Equipment*, require the Company to determine whether such assets are impaired when events or changes in circumstances indicate the carrying value of the assets may not be recoverable. Management reviews long-lived assets for impairment based on estimated future undiscounted cash flows attributable to the assets in accordance with ASC 360. In the event such cash flows are not expected to be sufficient to recover the carrying value of the assets, the assets are written down to their estimated fair values. Based on a reviews performed in 2017 and 2018, no impairment charges were recognized.

Intangible Assets and Goodwill

ASC 350 *Intangibles – Goodwill and Other*, require the Company to determine whether such assets are impaired when events or changes in circumstances indicate the carrying value of the assets may not be recoverable. Intangible assets represent identifiable intangible assets, including network affiliation agreements, customer lists, broadcast licenses, and computer software. Network affiliation agreements and broadcast licenses are not amortized in accordance with ASC 350 due to the ability to renew the licenses indefinitely. Amortization for computer software is computed using the straight-line method based on the estimated useful lives of three years. Based on a reviews performed in 2017 and 2018, no impairment charge was recognized. Considerable judgment is necessary to estimate the fair value of these assets; accordingly, actual results may vary significantly from such estimates. Assets to be disposed of are carried at the lower of their financial statement carrying amount or fair value.

Goodwill represents the excess of cost over net assets acquired by the Company. To conform with public company standards, in July 2019, the Company retrospectively adjusted the method for which it accounts for goodwill and no longer amortizes goodwill. The Company evaluates goodwill for impairment at the

EPI Preferred, LLC

Notes to Consolidated Financial Statements

reporting unit level annually or more frequently if the Company believes indicators of impairment exist. These indicators would include a significant change in macroeconomic conditions, operating performance, the business climate, legal factors, competition, or a planned sale or disposition of a significant portion of business, among other factors.

The Company is permitted to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount, then a two-step goodwill impairment test is performed. If the two-step goodwill impairment test is required, first, the fair value of the reporting unit is compared with its carrying amount (including goodwill). If the fair value of the reporting unit is less than its carrying amount, an indication of goodwill impairment exists for the reporting unit and the entity must perform step two of the impairment test. Under step two, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the implied fair value of that goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation. The residual fair value after this allocation is the implied fair value of the reporting unit goodwill. Fair value of the reporting unit is determined using a discounted cash flow analysis. If the fair value of the reporting unit exceeds its carrying amount, step two does not need to be performed.

The Company did not identify any indicators of impairment, and correspondingly, did not record any impairment related to goodwill for the years then ended September 30, 2018 and 2017.

Income Taxes

Certain subsidiaries of the Company are not subject to U.S. federal or state income taxes as the tax effects of these activities are reported directly by the members on their respective income tax returns. EPI Preferred, LLC, is taxable because it is a wholly owned subsidiary of Evening Post Industries, Inc. a corporation operating in the U.S. Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Cash payments for tax purposes are made by Evening Post Industries, Inc. on behalf of the Company and equity distributions are made from the company to Evening Post Industries, Inc. for taxes, which can be seen on the Consolidated Statement of Members' Equity.

Cash

The Company maintains its cash in bank deposit accounts, which at times may exceed federally insured limits. The Company has not experienced any losses in such accounts. The Company believes it is not exposed to any significant credit risk on cash.

Comprehensive Income

Comprehensive income includes net income and certain items that are excluded from net income and recorded as a separate component of Members' Equity. During the years ended September 30, 2018 and 2017, the Company had no items of other comprehensive income and, therefore, comprehensive income does not differ from reported net income.

Recent Accounting Pronouncements

In August 2016, the FASB issued ASU No. 2016-15, "Classification of Certain Cash Receipts and Cash Payments". This new standard requires changes to the classification of certain cash receipts and cash payments within the statement of cash flows. The guidance identifies eight specific cash flow items and the sections where they must be presented within the statement of cash flows. This ASU applies to all entities and is effective for annual periods beginning after December 15, 2017. The Company will adopt the new guidance as of October 1, 2018 and identified no impact on its financial statements.

EPI Preferred, LLC

Notes to Consolidated Financial Statements

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers". This new standard provides a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes the revenue recognition requirements in ASC Topic 605, "Revenue Recognition," and most industry-specific guidance. The core principle of the new guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services, which could potentially result in changes in the amount and timing of revenue recognition for certain transactions. The new guidance allows for either a "full retrospective" or a "modified retrospective" method of application and also requires significantly expanded disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in those judgments regarding the amount and timing of revenue recognition. This ASU applies to all entities and is effective for the Company for annual periods beginning after December 15, 2018. Management is currently evaluating the impact of this new guidance on our financial statements.

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)." This new topic, which supersedes Topic 840, "Leases," applies to all entities that enter into a contract that is or contains a lease, with some specified scope exemptions. This new standard requires lessees to evaluate whether a lease is a finance lease using criteria similar to those a lessee uses under current accounting guidance to determine whether it has a capital lease. Leases that do not meet the criteria for classification as finance leases by a lessee are to be classified as operating leases. Under the new standard, for each lease classified as an operating lease, lessees are required to recognize on the balance sheet: (i) a right-of-use ("ROU") asset representing the right to use the underlying asset for the lease term and (ii) a lease liability for the obligation to make lease payments over the lease term. Lessees can make an accounting policy election, by class of underlying asset, to not recognize ROU assets and lease liabilities for leases with a lease term of 12 months or less as long as the leases do not include options to purchase the underlying assets that the lessee is reasonably certain to exercise. The recognition, measurement and presentation of expenses and cash flows arising from a lease by a lessee and the accounting for leases by lessors have not significantly changed from current accounting guidance. This standard also requires an entity to disclose key information (both qualitative and quantitative) about the entity's leasing arrangements. For the Company, this new standard is effective for fiscal years beginning after December 15, 2019, with early adoption permitted. Upon adoption, entities are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach, which includes a number of optional practical expedients that entities may elect to apply. Management is currently evaluating the impact of this new guidance on its consolidated financial statements.

2. Property, Plant and Equipment

Property, plant and equipment consist of the following at September 30, 2018 and 2017:

	Estimated Useful Lives	2018	2017
Land		\$ 6,988,000	\$ 6,968,000
Buildings	15–45 years	27,231,000	26,323,000
Machinery, equipment, furniture and fixtures	3–15 years	109,688,000	106,039,000
		<u>143,907,000</u>	<u>139,330,000</u>
Less: Accumulated depreciation		<u>(105,987,000)</u>	<u>(100,449,000)</u>
		<u>\$ 37,920,000</u>	<u>\$ 38,881,000</u>

Depreciation expense for the years ended September 30, 2018 and 2017 were \$5,978,000 and \$6,362,000, respectively.

EPI Preferred, LLC

Notes to Consolidated Financial Statements

3. Intangible Assets and Goodwill

Other intangible assets and goodwill consist of the following as of September 30, 2018 and 2017:

	Estimated Useful Lives	2018	2017
Goodwill and Intangible assets not subject to amortization			
Broadcast licenses and network affiliation agreements		\$ 87,605,000	\$ 87,605,000
Goodwill		52,534,000	52,534,000
Intangible assets subject to amortization			
Computer software	3 years	4,836,000	4,664,000
Other	7–15 years	746,000	746,000
		5,582,000	5,410,000
Accumulated amortization other intangibles		(5,398,000)	(5,201,000)
		184,000	209,000
		<u>\$ 140,323,000</u>	<u>\$ 140,348,000</u>

Amortization expense for the years ended September 30, 2018 and 2017 were \$155,000 and \$285,000, respectively.

Amortization expense for subsequent years is:

2019	\$ 95,000
2020	69,000
2021	20,000
2022	—
2023 and thereafter	—
	<u>\$ 184,000</u>

4. Long-Term Debt

In June 2018, the Company, entered into an amended credit agreement with a syndicate of lenders which provided the Company with a \$50 million term loan and \$30 million revolving credit facility with a Letter of Credit obligations subfacility not to exceed \$5 million. At closing the Company

borrowed \$50 million from the term loan to repay debt and provide additional working capital. The principal amount of the term loan shall be repaid in consecutive quarterly installments beginning with \$1,666,667 due in June 2018. The quarterly installments remain the same for three consecutive quarters and then decrease to \$625,000 per quarter beginning in March 2019, and remain at that amount for five consecutive quarters. This cycle remains in place for the term of the loan, which better aligns principal payments with the increased cash flow anticipated from the political advertising cycle.

The credit facility matures on April 30, 2023 and bears interest at LIBOR plus a margin ranging from 1.25% to 2.25% depending on the Covenant Funded Debt Ratio as defined in the amended loan agreement. The revolving credit facility is subject to a commitment fee ranging between 0.125% and 0.325% (depending on the Covenant Funded Debt Ratio) on the unused portion of the revolving credit facility. The credit agreement is guaranteed by Cordillera Communications, LLC, and is guaranteed by liens on the preferred stock interest in Cordillera and the membership interest of the Company. The agreement requires the Company, Cordillera Communications, LLC and its subsidiaries to maintain a maximum Covenant Funded Debt Ratio of not more than 3.25 to 1.00 decreasing to 3.00 to 1.00 beginning on June 30, 2020 and contains restrictions on certain transactions including the incurrence of additional debt, capital leases, investments, asset sales and restricted payments as defined in the agreement.

EPI Preferred, LLC

Notes to Consolidated Financial Statements

Principal repayments of the revolving line of credit may be made, in whole or in part, without premium or penalty. Any such repayments must be in an amount exceeding \$200,000. Repaid amounts may be borrowed subject to the terms of the credit agreement. The Company had \$46,666,667 and \$40,000,000 outstanding on the term loan and \$13,456,648 and \$10,600,000 outstanding on the revolving line of credit, as of September 30, 2018 and 2017 respectively. In accordance with the debt agreement, the debt will be repaid if the Company sells Cordillera, LLC, as further discussed in note 11.

The new debt arrangement involving the extension and increase of the term loan is considered a debt extinguishment for accounting purposes, as the present value of the cash flows of the new debt instrument varies more than 10% of the old debt instrument. As such, the Company expensed the costs to third parties related to the new debt arrangement in the current year. The new debt arrangement involving the revolving credit facility results in an overall reduction in the total borrowing capacity, accordingly, the Company capitalized the costs incurred related to the new revolving credit arrangement and will amortize these costs over the life of the agreement. There was no gain or loss recognized on the debt extinguishment.

The following table presents the approximate annual maturities of debt for the years after 2018:

2019	\$	3,542,000
2020		4,583,000
2021		3,542,000
2022		4,583,000
2023		43,874,000
	\$	<u>60,124,000</u>

5. Distributions

Distributions to members totaled \$59,471,000 during fiscal year 2018. Tax and discretionary distributions of \$47,684,000 were made from the Company to EPI, Inc. Tax distributions were made from Cordillera Communications, LLC to noncontrolling interest of \$11,787,000.

6. Income Taxes

The components of income tax (benefit) expense as of September 30, 2018 and 2017 are as follows:

	2018	2017
Current		
Federal	\$ 2,443,000	3,995,000
State	534,000	575,000
	<u>2,977,000</u>	<u>4,570,000</u>
Deferred		
Federal	(10,081,000)	(169,000)
State	(339,000)	(6,000)
	<u>(10,420,000)</u>	<u>(175,000)</u>
Income tax (benefit) expense	<u>\$ (7,443,000)</u>	<u>\$ 4,395,000</u>

Deferred income taxes are provided for the temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities.

In November 2015, the FASB issued ASU No. 2015-17, "Balance Sheet Classification of Deferred Taxes" ("ASU2015-17"), which will allow entities to present all deferred tax assets ("DTAs") and deferred

EPI Preferred, LLC

Notes to Consolidated Financial Statements

tax liabilities (“DTLs”) as non-current on the balance sheet. This guidance is effective for non-public companies for fiscal years beginning after December 15, 2017, and interim periods within fiscal years beginning after December 15, 2018. Early adoption is permitted, and entities may choose whether to adopt this update prospectively or retrospectively. This ASU is effective for annual periods beginning after December 15, 2017 and interim periods beginning after December 15, 2018. The Company opted to early adopt ASU 2015-17 for the period ending September 30, 2017. The adoption of ASU 2015-17 will not have a material impact on the Company’s consolidated financial statements.

The more significant temporary differences that give rise to deferred tax assets (and liabilities) as of September 30, 2018 and 2017 are as follows:

	2018	2017
Deferred tax assets		
Various Accruals	\$ 3,000	\$ 4,000
Total deferred tax asset	<u>3,000</u>	<u>4,000</u>
Deferred tax liabilities:		
Investment in Cordillera Communications, LLC	(19,530,000)	(29,952,000)
Total deferred tax liability	<u>(19,530,000)</u>	<u>(29,952,000)</u>
Net deferred tax liability	<u>\$ (19,527,000)</u>	<u>\$ (29,948,000)</u>

On December 22, 2017, H.R. 1 the Tax Cuts and Jobs Act of 2017 (the Tax Act) was signed into law making significant changes to the Internal Revenue Code. Changes include, but are not limited to, a U.S. federal corporate tax rate decrease from 35% to 21% for tax years beginning after December 31, 2017. As a result of the new law, the Company has a statutory tax rate of 24.5% for the year ending September 30, 2018.

Income tax expense differed from the amounts computed by applying the U.S. Federal income tax rate of 24.5% to income from operations before income taxes due to permanent differences, state taxes, and the re-rate of deferred taxes due to the Tax Cut and Jobs Act of 2017.

As a result of the Tax Act, the Company's deferred tax assets and liabilities were remeasured based on the rates at which they are expected to reverse in the future. The amount related to the remeasurement of deferred tax assets and liabilities was a benefit of \$10,422,000.

The Company’s effective tax rate varies from the U.S. federal income tax rate for the year ended September 30, 2017 as follows:

	2018		2017	
	Amount	Percentage of Pretax Income	Amount	Percentage of Pretax Income
U.S. statutory tax rate, applied to income before income taxes	\$ 11,246,000	24.5 %	\$ 15,395,000	35.0%
Increase (decrease) in taxes resulting from:				
Nonincluded partnership income	(8,578,000)	(18.7)	(11,162,000)	(25.4)
State income taxes, net of federal income tax benefit	400,000	0.9	364,000	0.9
Change in rates	(10,422,000)	(22.7)	(117,000)	(0.3)
Other, including nondeductible expenses	(89,000)	(0.2)	(85,000)	(0.2)
	<u>\$ (7,443,000)</u>	<u>(16.2)%</u>	<u>\$ 4,395,000</u>	<u>10.0%</u>

EPI Preferred, LLC

Notes to Consolidated Financial Statements

The Company and certain of its subsidiaries are partnerships operating in U.S. As such, the activities generated by or allocable to the partnerships are not subject to U.S. federal or state income taxes as the tax effects of the activities are reported directly by the members on their respective income tax returns.

As of September 30, 2018 and 2017, the Company had \$0 of total gross unrecognized tax benefits including interest.

The Company's continuing practice is to recognize interest and penalties related to income tax matters in income tax expense. As of September 30, 2018, the Company had \$0 accrued for gross interest.

The Company is subject to U.S. income taxes, as well as various other state and local jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, state and local, income tax examinations by tax authorities for years before 2011, although carry forward attributes that were generated prior to 2011 may still be adjusted upon examination by the taxing authorities if they either have been or will be used in a future period.

7. Retirement Benefits

The Company is a participating employer in the Retirement Plan for the Employees of Evening Post Publishing Company and Affiliates and Evening Post Industries Postretirement Welfare Plan, single employer plans which are sponsored by Evening Post Industries, Inc. The Company is required to make contributions to the plans each year. The required contributions are determined based on a reasonable allocation of the total plan contributions, which are determined by Evening Post Industries and must be at least equal to the IRS minimum requirements but less than the maximum deductible contribution.

In accordance with ASC 715 Compensation-retirement benefits, the Company accounts for its participation in the plans by recognizing expense for its required contributions for the period. A liability is recognized for any contributions due and unpaid as of the end of the fiscal year. The Company contributed \$3,140,000 and \$2,005,000 to the plans, for the years ending September 30, 2018 and 2017. There is no liability at September 30, 2018 or September 30, 2017 for required contributions that were unpaid.

Other

The Company also has a retirement savings plan under Section 401(k) of the Internal Revenue Code covering all employees meeting eligibility requirements. Plan expenses totaled approximately \$1,364,000 and \$1,031,000 in fiscal 2018 and 2017.

8. Commitments and Contingencies

Lease Obligations

The Company leases various equipment and office space under noncancelable operating lease agreements expiring on various dates through 2023. The Company also has long-term land leases that expire on various dates through 2047.

EPI Preferred, LLC

Notes to Consolidated Financial Statements

Under the terms of the leases, the Company is obligated for approximate annual rentals as follows:

2019	\$	912,000
2020		642,000
2021		469,000
2022		388,000
2023		392,000
2024 and thereafter		5,890,000
	\$	<u>8,693,000</u>

Program Contracts

At September 30, 2018, the Company has executed program contracts that are not available for telecasting. The amounts of these executory contracts are not included in the Company's consolidated financial statements at September 30, 2018 but will become available for showing in future periods as follows:

2019	\$	2,703,000
2020		2,902,000
2021 and thereafter		-
	\$	<u>5,605,000</u>

Other

The Company has various pending legal actions and claims which have arisen through the ordinary course of business; however, the ultimate liabilities, if any, which might result from such legal actions and claims in excess of amounts covered by insurance are not expected to have any material adverse effect on the financial position or results of operations of the Company.

9. Derivative Financial Instruments

As of September 30, 2018, the Company was a party to two interest rate swap agreements with its banks. The Company does not meet the documentation requirements for hedge accounting in accordance with ASC 815 *Derivatives and Hedging*; therefore, unrealized and realized gains and losses associated with hedges of operational risks are reflected as a reduction or increase, respectively, in interest expense. The asset in relation to these derivative instruments is recorded in accounts receivable.

EPI Preferred, LLC

Notes to Consolidated Financial Statements

The terms of the swap instruments are as follows:

	2018		2017	
Swap #1				
Notional amount	\$	18,438,000	\$	20,313,000
Payment rate		1.7088%		1.7088%
Inception date		October 20, 2014		October 20, 2014
Expiration date		October 20, 2021		October 20, 2021
Fair value as of September 30	\$	519,000	\$	(41,000)
Gain (loss) on derivative instruments	\$	560,000	\$	607,000
Swap #2				
Notional amount	\$	18,438,000	\$	20,313,000
Payment rate		1.6745%		1.6745%
Inception date		October 20, 2014		October 20, 2014
Expiration date		October 20, 2021		October 20, 2021
Fair value as of September 30	\$	534,000	\$	(63,000)
Gain (loss) on derivative instruments	\$	597,000	\$	556,000

10. Fair Value Measurements

As discussed in Note 9, the Company periodically enters into interest-rate swap agreements to moderate its exposure to interest-rate changes and to lower its overall cost of borrowing. Fair value measurements for the Company's derivatives are classified under Level 2 in the fair value hierarchy because such measurements are determined using published market prices or estimated based on observable inputs such as interest rates.

The following table summarizes the fair values of financial instruments measured at fair value on a recurring basis at September 30, 2018:

	Items Measured at Fair Value on a Recurring Basis			
	Quoted Price in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of September 30, 2018
Assets				
Derivative financial instruments	\$ —	\$ 1,053,000	\$ —	\$ 1,053,000

The following table summarizes the fair values of financial instruments measured at fair value on a recurring basis at September 30, 2017:

	Items Measured at Fair Value on a Recurring Basis			
	Quoted Price in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of September 30, 2017
Assets				
Derivative financial instruments	\$ —	\$ (104,000)	\$ —	\$ (104,000)

EPI Preferred, LLC

Notes to Consolidated Financial Statements

11. Subsequent Events

The Company evaluated transactions occurring after September 30, 2018 in accordance with ASC 855, *Subsequent events*, through January 14, 2019 which is the date the financial statements were available to be issued.

On October 25, 2018, the Board of Directors (“Board”) of the Company approved entering into a Purchase Agreement between Cordillera Communications, LLC (“Cordillera”) as seller, and Scripps Media, Inc, a Delaware corporation, as buyer for the outstanding equity interest in the following subsidiaries of Cordillera: Sangre de Cristo Communications, LLC (KOAA-TV); KRTV Communications, LLC (KRTV and KTVH-DT); KPAX Communications, LLC (KPAX-TV); KXLF Communications, LLC (KXLF-TV); KCTZ Communications, LLC (KBZK-TV); KTVQ Communications, LLC (KTVQ-TV); KATC Communications, LLC (KATC-TV); WLEX Communications, LLC (WLEX-TV); KRIS Communications, LLC (KRIS-TV); and KSBY Communications, LLC (KSBY-TV). The purchase price for this transaction is \$521,000,000.

At the same time, the Board also approved entering into an Asset Purchase Agreement between KVOA Communications, LLC (KVOA), a wholly-owned subsidiary of Cordillera, as seller, and Quincy Media, Inc., a Delaware limited liability company, as buyer, for the assets owned by KVOA and used primarily with respect to the operations of broadcast television station KVOA, Tucson, Arizona. The purchase price for this transaction is \$70,000,000.

Both transactions are subject to FCC regulatory approvals. The expected close dates are between April 1 and June 30, 2019. The sale represents substantially all assets of the Company.

Events Subsequent to Original Issuance of Financial Statements

In connection with the reissuance of the financial statements, the Company has evaluated subsequent events through July 16, 2019, the date the financial statements were available to be reissued.

The pending sale of Cordillera closed on May 1, 2019. In conjunction with the closing of the sale transactions, the Company’s then outstanding credit facility was repaid in full.

EPI Preferred, LLC
Condensed Consolidated Financial Statements
As of March 31, 2019 and September 30, 2018 and
for the six months ended March 31, 2019 and 2018

EPI Preferred, LLC

Index to the Condensed Consolidated Financial Statements

**As of March 31, 2019 and September 30, 2018 and for the six months ended
March 31, 2019 and 2018**

	Page(s)
Condensed Consolidated Financial Statements	
Balance Sheets	1
Statements of Operations	2
Statements of Members' Equity	3
Statements of Cash Flows	4
Notes to the Condensed Consolidated Financial Statements	5-12

EPI Preferred, LLC

Condensed Consolidated Balance Sheets (Unaudited)

<i>(in thousands of dollars)</i>	As of March 31, 2019	As of September 30, 2018
Assets		
Current Assets		
Cash	\$ 3,687	\$ 7,749
Accounts receivable, less allowance for doubtful accounts of \$521 and \$891, respectively	33,025	30,478
Program contract rights	1,526	2,721
Prepaid expenses	2,937	1,557
Total current assets	41,175	42,505
Property, plant and equipment, net	36,567	37,920
Goodwill	52,534	52,534
Other intangible assets, net	87,756	87,789
Other assets	24	24
Total assets	\$ 218,056	\$ 220,772
Liabilities and Members' Equity		
Current Liabilities		
Program contracts payable	\$ 1,532	\$ 2,716
Accounts payable	2,057	2,551
Income tax payable	3,977	2,969
Due to affiliate	6,720	7,191
Accrued expenses	12,627	13,467
Current portion of long-term debt	2,500	3,542
Total current liabilities	29,413	32,436
Long-term debt	45,332	56,582
Deferred tax liabilities	19,527	19,527
Total liabilities	94,272	108,545
Members' equity		
EPI Preferred Members' equity	29,953	41,251
Noncontrolling interest	93,831	70,976
Total equity	123,784	112,227
Total liabilities and members' equity	\$ 218,056	\$ 220,772

The accompanying notes are an integral part of the consolidated financial statements.

EPI Preferred, LLC

Condensed Consolidated Statements of Operations (Unaudited)

(in thousands of dollars)

	March 31, 2019	March 31, 2018
Operating revenues		
Broadcasting, net	\$ 107,965	\$ 81,107
Total operating revenues	<u>107,965</u>	<u>81,107</u>
Operating costs and expenses		
Operating expenses	40,983	35,940
Selling expenses	12,596	12,100
General and administrative expenses	12,138	13,943
Total operating costs and expenses	<u>65,717</u>	<u>61,983</u>
Depreciation and amortization	3,341	3,066
Operating income	<u>38,907</u>	<u>16,058</u>
Other income (expense)		
Interest expense	(1,421)	(867)
Other, net	(905)	(906)
Total other expense	<u>(2,326)</u>	<u>(1,773)</u>
Income before income taxes	36,581	14,285
Income tax benefit (expense)	(1,020)	3,625
Net income	<u>35,561</u>	<u>17,910</u>
Less: Net income attributable to noncontrolling interest	31,452	12,320
Net income attributable to EPI Preferred	<u>\$ 4,109</u>	<u>\$ 5,590</u>

The accompanying notes are an integral part of the consolidated financial statements.

EPI Preferred, LLC

Condensed Consolidated Statements of Members' Equity (Unaudited)

(in thousands of dollars)

	EPI Preferred	Noncontrolling Interest	Total Members' Equity
Balances at September 30, 2017	\$ 78,046	\$ 42,222	\$ 120,268
Net income	5,590	12,320	17,910
Discretionary distributions	(9,000)	—	(9,000)
Tax distributions	(3,464)	(7,138)	(10,602)
Balances at March 31, 2018	71,172	47,404	118,576
Net income	5,299	28,221	33,520
Discretionary distributions	(34,000)	—	(34,000)
Tax distributions	(1,220)	(4,649)	(5,869)
Balances at September 30, 2018	41,251	70,976	112,227
Net income	4,109	31,452	35,561
Discretionary distributions	(13,000)	—	(13,000)
Tax distributions	(2,407)	(8,597)	(11,004)
Balances at March 31, 2019	<u>\$ 29,953</u>	<u>\$ 93,831</u>	<u>\$ 123,784</u>

The accompanying notes are an integral part of the consolidated financial statements.

EPI Preferred, LLC

Condensed Consolidated Statements of Cash Flows (Unaudited)

<i>(in thousands of dollars)</i>	For the six months ended	
	March 31, 2019	March 31, 2018
Cash flows from operating activities		
Net Income	\$ 35,561	\$ 17,910
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	3,341	3,066
Amortization of program contract rights	1,457	1,441
Bad debt expense	(370)	95
Deferred income tax	—	(10,420)
(Gain)/loss on disposal of property and equipment	(48)	—
Changes in operating assets and liabilities		
Accounts and other receivables	(2,177)	(64)
Prepaid expenses	(1,380)	(570)
Accounts payable, accrued expenses and deferred revenue	(1,785)	(2,063)
Due to affiliate	(471)	2,371
Payments on program contract obligations	(1,446)	(1,398)
Accrued retirement benefits	450	169
Income taxes payable	1,008	6,795
Net cash provided by operating activities	<u>34,140</u>	<u>17,332</u>
Cash flows from investing activities		
Additions to property, plant, equipment and intangible assets	(2,059)	(2,899)
Proceeds from sale of equipment	153	—
Net cash (used in) investing activities	<u>(1,906)</u>	<u>(2,899)</u>
Cash flows from financing activities		
Payments on long-term debt	(12,292)	(2,000)
Distributions made to noncontrolling interest	(8,597)	(7,138)
Distributions made to EPI, Inc.	(15,407)	(12,464)
Net cash used in financing activities	<u>(36,296)</u>	<u>(21,602)</u>
Net increase (decrease) in cash and cash equivalents	(4,062)	(7,169)
Cash		
Beginning of year	7,749	11,159
End of year	<u>\$ 3,687</u>	<u>\$ 3,990</u>
Supplemental cash flow information		
Cash paid during the year for		
Interest	\$ 1,421	\$ 867

The accompanying notes are an integral part of the consolidated financial statements.

EPI Preferred, LLC

Notes to Condensed Consolidated Financial Statements

1. Nature of Operations and Summary of Significant Accounting Policies

Financial Statement Preparation

The accompanying unaudited condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”) for interim financial information and are unaudited. Accordingly, they do not include all information and disclosures required to be included in annual financial statements. The information contained in the accompanying condensed consolidated financial statements and the notes thereto should be read in conjunction with the consolidated financial statements and notes thereto for the period ended September 30, 2018 (the “Annual Financial statements”). These condensed consolidated financial statements do not repeat disclosures that would substantially duplicate disclosures included in the Annual Financial Statements or details of accounts that have not been changed significantly in amounts or composition. The interim unaudited condensed consolidated financial statements have been prepared on the same basis as the Company’s Annual Financial Statements. In the opinion of management, the accompanying condensed consolidated financial statements reflect all adjustments, which include normal recurring adjustments, necessary for the fair presentation of these condensed consolidated financial statements. The results for the six months ended March 31, 2019 are not necessarily indicative of the results that could be expected for the year ended September 30, 2019.

Nature of Operations

EPI Preferred, LLC (the “Company”) was formed in July 2014 to own 100% of the preferred membership interest and 100% of the voting rights of Cordillera Communications (“Cordillera”) and its subsidiaries. The Company is a direct, wholly-owned subsidiary of Evening Post Industries, Inc. (“EPI, Inc.”) and an indirect, wholly-owned subsidiary of EPI Group, LLC.

Cordillera holds broadcast television operations and related activities. Cordillera’s ownership consists of two equity classes, preferred membership interests owned by the Company and common interests 100% owned by EPI Global, LLC. Cordillera’s preferred membership return is payable out of net income and if not paid, the return will accumulate and carry a priority at liquidation. As a wholly owned subsidiary of EPI, Inc., the preferred membership return is ultimately subject to corporate taxation. The common interests are subordinate to the preferred membership interest and will participate in any residual equity.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company, subsidiaries in which we hold controlling financial interests, and variable interest entities (“VIE”) for which we are the primary beneficiary. In determining the primary beneficiary for financial reporting purposes, we consider whether the Company has the power to direct the activities that most significantly impact the economic performance of the VIE and whether we have the obligation to absorb losses or the right to receive returns that would be significant to the VIE. All significant intercompany accounts and transactions have been eliminated in consolidation.

Based on the characteristics of a VIE as described above, Cordillera falls into the VIE model for determining consolidation. The Company through voting rights and equity interest demonstrates power and control to direct activities at Cordillera. The Company also holds the majority of the economic benefits and risk substantiated by the variability in the preferred return, liquidation preference, and the Company’s debt which is collateralized by its preferred interest in Cordillera (Note 4). Based upon the structure and nature of economic activities discussed above, the Company is the primary beneficiary of Cordillera and as a result has consolidated the financial results of Cordillera and its subsidiaries. Throughout these financial statements the Cordillera common interest owned by EPI Group, LLC is referred to as noncontrolling interest.

The Company’s consolidated financial statements also include the non-owned entity SagamoreHill of Corpus Christi, LLC, which is consolidated under ASC 805-10-55. All significant intercompany accounts and transactions have been eliminated in consolidation.

EPI Preferred, LLC

Notes to Condensed Consolidated Financial Statements

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

The primary estimates made by management include those relating to the allowance for doubtful accounts, and projections associated with the Company's evaluation of the recoverability of certain tangible and intangible assets, including program contract rights, and identifiable intangible assets. Actual results could differ from those estimates.

Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation. Gains and losses on routine dispositions are reflected in other income and expenses. Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets.

Goodwill

Goodwill represents the excess of cost over net assets acquired by the Company. To conform with public company standards, in July 2019, the Company retrospectively adjusted the method for which it accounts for goodwill and no longer amortizes goodwill. The Company evaluates goodwill for impairment at the reporting unit level annually or more frequently if the Company believes indicators of impairment exist. These indicators would include a significant adverse changes in macroeconomic conditions, operating performance, the business climate, legal factors, competition, or a planned sale or disposition of a significant portion of business, among other factors.

The Company did not identify any indicators of impairment, and correspondingly, did not record any impairment related to goodwill for the six months ended March 31, 2019 and 2018.

Income Taxes

Certain subsidiaries of the Company are not subject to U.S. federal or state income taxes as the tax effects of these activities are reported directly by the members on their respective income tax returns. The Company is taxable because it is a wholly owned subsidiary of Evening Post Industries, Inc. a corporation operating in the U.S. Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Cash payments for tax purposes are made by Evening Post Industries, Inc. on behalf of the Company and equity distributions are made from the Company to Evening Post Industries, Inc. for taxes, which can be seen on the Consolidated Statement of Members' Equity.

Comprehensive Income

Comprehensive income includes net income and certain items that are excluded from net income and recorded as a separate component of Members' Equity. During the six month periods ended March 31, 2019 and 2018, the Company had no items of other comprehensive income and, therefore, comprehensive income does not differ from reported net income.

Recent Accounting Pronouncements

In August 2016, the FASB issued ASU No. 2016-15, "Classification of Certain Cash Receipts and Cash Payments". This new standard requires changes to the classification of certain cash receipts and cash payments within the statement of cash flows. The guidance identifies eight specific cash flow items and the sections where they must be presented within the statement of cash flows. This ASU applies to all entities and is effective for annual periods beginning after December 15, 2017. The Company has adopted the new guidance as of October 1, 2018 and identified

EPI Preferred, LLC

Notes to Condensed Consolidated Financial Statements

no impact on its financial statements.

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers". This new standard provides a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes the revenue recognition requirements in ASC Topic 605, "Revenue Recognition," and most industry-specific guidance. The core principle of the new guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services, which could potentially result in changes in the amount and timing of revenue recognition for certain transactions. The new guidance allows for either a "full retrospective" or a "modified retrospective" method of application and also requires significantly expanded disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in those judgments regarding the amount and timing of revenue recognition. This ASU applies to all entities and is effective for the Company for annual periods beginning after December 15, 2018. Management is currently evaluating the impact of this new guidance on our financial statements.

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)." This new topic, which supersedes Topic 840, "Leases," applies to all entities that enter into a contract that is or contains a lease, with some specified scope exemptions. This new standard requires lessees to evaluate whether a lease is a finance lease using criteria similar to those a lessee uses under current accounting guidance to determine whether it has a capital lease. Leases that do not meet the criteria for classification as finance leases by a lessee are to be classified as operating leases.

Under the new standard, for each lease classified as an operating lease, lessees are required to recognize on the balance sheet: (i) a right-of-use ("ROU") asset representing the right to use the underlying asset for the lease term and (ii) a lease liability for the obligation to make lease payments over the lease term. Lessees can make an accounting policy election, by class of underlying asset, to not recognize ROU assets and lease liabilities for leases with a lease term of 12 months or less as long as the leases do not include options to purchase the underlying assets that the lessee is reasonably certain to exercise. The recognition, measurement and presentation of expenses and cash flows arising from a lease by a lessee and the accounting for leases by lessors have not significantly changed from current accounting guidance. This standard also requires an entity to disclose key information (both qualitative and quantitative) about the entity's leasing arrangements. For the Company, this new standard is effective for fiscal years beginning after December 15, 2019, with early adoption permitted. Upon adoption, entities are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach, which includes a number of optional practical expedients that entities may elect to apply. Management is currently evaluating the impact of this new guidance on its consolidated financial statements.

2. Property, Plant and Equipment

Property, plant and equipment consists of the following:

	Estimated Useful Lives	As of March 31, 2019	As of September 30, 2018
Land		\$ 6,988,000	\$ 6,988,000
Buildings	15–45 years	27,200,000	27,231,000
Machinery, equipment, furniture and fixtures	3–15 years	94,495,000	109,688,000
		<u>128,683,000</u>	<u>143,907,000</u>
Less: Accumulated depreciation		(92,116,000)	(105,987,000)
		<u>\$ 36,567,000</u>	<u>\$ 37,920,000</u>

Depreciation expense for the periods ended March 31, 2019 and 2018 was \$3,307,000 and \$2,934,000, respectively.

EPI Preferred, LLC

Notes to Condensed Consolidated Financial Statements

3. Intangible Assets and Goodwill

Other intangible assets and goodwill consist of the following:

	Estimated Useful Lives	As of March 31, 2019	As of September 30, 2018
Goodwill and Intangible assets not subject to amortization			
Broadcast licenses and network affiliation agreements		\$ 87,605,000	\$ 87,605,000
Goodwill		52,534,000	52,534,000
Intangible assets subject to amortization			
Computer software	3 years	2,981,000	4,836,000
Other	7–15 years	746,000	746,000
		3,727,000	5,582,000
Accumulated amortization other intangibles		(3,576,000)	(5,398,000)
		151,000	184,000
		<u>\$ 140,290,000</u>	<u>\$ 140,323,000</u>

Amortization expense for the periods ended March 31, 2019 and 2018 were \$34,000 and \$132,000, respectively.

Amortization expense for 2019 and subsequent years is:

Remaining 2019	\$ 62,000
2020	69,000
2021	20,000
2022	—
2023 and thereafter	—
	<u>\$ 151,000</u>

4. Long-Term Debt

In June 2018, the Company, entered into an amended credit agreement with a syndicate of lenders which provided the Company with a \$50 million term loan and \$30 million revolving credit facility with a Letter of Credit obligations subfacility not to exceed \$5 million. At closing the Company borrowed \$50 million from the term loan to repay debt and provide additional working capital. The principal amount of the term loan shall be repaid in consecutive quarterly installments beginning with \$1,666,667 due in June 2018. The quarterly installments remain the same for three consecutive quarters and then decrease to \$625,000 per quarter beginning in March 2019, and remain at that amount for five consecutive quarters. This cycle remains in place for the term of the loan, which better aligns principal payments with the increased cash flow anticipated from the political advertising cycle.

The credit facility matures on April 30, 2023 and bears interest at LIBOR plus a margin ranging from 1.25% to 2.25% depending on the Covenant Funded Debt Ratio as defined in the amended loan agreement. The revolving credit facility is subject to a commitment fee ranging between 0.125% and 0.325% (depending on the Covenant Funded Debt Ratio) on the unused portion of the revolving credit facility. The credit agreement is guaranteed by Cordillera Communications, LLC, and is guaranteed by liens on the preferred stock interest in Cordillera and the membership interest of the Company. The agreement requires the Company, Cordillera Communications, LLC and its subsidiaries to maintain a maximum Covenant Funded Debt Ratio of not more than 3.25 to 1.00 decreasing to 3.00 to 1.00 beginning on June 30, 2020 and contains restrictions on certain transactions including the incurrence of additional debt, capital leases, investments, asset sales and restricted payments as defined in the agreement.

EPI Preferred, LLC

Notes to Condensed Consolidated Financial Statements

Principal repayments of the revolving line of credit may be made, in whole or in part, without premium or penalty. Any such repayments must be in an amount exceeding \$200,000. Repaid amounts may be borrowed subject to the terms of the credit agreement. The Company had \$44,375,000 and \$46,667,000 outstanding on the term loan and \$3,457,000 and \$13,457,000 outstanding on the revolving line of credit, as of March 31, 2019 and September 30, 2018 respectively.

The following table presents the approximate annual maturities of debt for 2019 and subsequent years:

Remaining 2019	\$	1,250,000
2020		4,583,000
2021		3,542,000
2022		4,583,000
2023		33,874,000
	\$	<u>47,832,000</u>

In accordance with the debt agreement, the debt was repaid in full in May 2019 due to the sale of Cordillera, LLC, as further discussed in note 10.

5. Distributions

Distributions to members totaled \$13,000,000 and \$9,000,000 during the period ended March 31, 2019 and 2018. Tax and discretionary distributions of \$2,407,000 and \$3,464,000 were made from the Company to EPI, Inc. Tax distributions were made from Cordillera Communications, LLC to noncontrolling interest of \$8,597,000 and \$7,138,000 for the six months ended March 31, 2019 and 2018 respectively.

6. Income Taxes

The Company files a consolidated federal income tax return, consolidated unitary tax returns in certain states and other separate state income tax returns for its 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, the Company 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. The Company reviews and adjusts its estimated effective income tax rate for the full year each quarter based upon its most recent estimates of income (loss) before income tax for the full year and the jurisdictions in which the Company expects that income will be taxed.

On December 22, 2017, H.R.1 the Tax Cuts and Jobs Act of 2017 (the Tax Act) was signed into law making significant changes to the Internal Revenue Code. Changes include, but are not limited to, a U.S. federal corporate tax rate decrease from 35% to 21% for tax years beginning after December 31, 2017. As a result of the new law, the Company has a statutory tax rate of 28% for the period ended March 31, 2018.

Income tax expense differed from the amounts computed by applying the U.S. Federal income tax rate of 28% to income from operations before income taxes due to permanent differences, state taxes, and the rerate of deferred taxes due to the Tax Cut and Jobs Act of 2017.

As a result of the Tax Act, the Company's deferred tax assets and liabilities were remeasured based on the rates at which they are expected to reverse in the future. The amount related to the remeasurement of deferred tax assets and liabilities was a benefit of \$10,422,000 for the six months ended March 31, 2018.

EPI Preferred, LLC

Notes to Condensed Consolidated Financial Statements

The effective income tax rate for the six months ended March 31, 2019 and 2018 was 2.79% and (25.4)%, respectively. Other differences between the Company's effective income tax rate and the U.S. federal statutory rate are the impact of non-included partnership income, state taxes, non-deductible expenses, changes in reserves for uncertain tax positions and excess tax benefits or expense on share-based compensation.

Deferred tax liabilities totaled \$19.5 million at March 31, 2019 and September 30, 2018, which includes the tax effect of state net operating loss carryforwards. The Company recognizes state net operating loss carryforwards as deferred tax assets, subject to valuation allowances. At each balance sheet date, the Company estimates 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.

7. Retirement Benefits

The Company is a participating employer in the Retirement Plan for the Employees of Evening Post Publishing Company and Affiliates and Evening Post Industries Postretirement Welfare Plan, single employer plans which are sponsored by Evening Post Industries, Inc. The Company is required to make contributions to the plans each year. The required contributions are determined based on a reasonable allocation of the total plan contributions, which are determined by Evening Post Industries and must be at least equal to the IRS minimum requirements but less than the maximum deductible contribution.

In accordance with ASC 715 *Compensation-retirement benefits*, the Company accounts for its participation in the plans by recognizing expense for its required contributions for the period. A liability is recognized for any contributions due and unpaid as of the end of the fiscal year. The Company did not contribute as of March 31, 2019 and 2018. As of March 31, 2019, the Company recorded a liability for \$450,000 associated with anticipated contributions. There was no liability at September 30, 2018.

Other

The Company also has a retirement savings plan under Section 401(k) of the Internal Revenue Code covering all employees meeting eligibility requirements. Plan expenses totaled approximately \$791,000 and \$637,000 in periods ending March 31, 2019 and 2018.

8. Derivative Financial Instruments

As of September 30, 2018, the Company was a party to two interest rate swap agreements with its banks. The Company does not meet the documentation requirements for hedge accounting in accordance with ASC 815 *Derivatives and Hedging*; therefore, unrealized and realized gains and losses associated with hedges of operational risks are reflected as a reduction or increase, respectively, in interest expense. The asset in relation to these derivative instruments is recorded in accounts receivable.

EPI Preferred, LLC

Notes to Condensed Consolidated Financial Statements

The terms of the swap instruments are as follows:

	As of September 30, 2018
Swap #1	
Notional amount	\$ 18,438,000
Payment rate	1.7088%
Inception date	October 20, 2014
Expiration date	October 20, 2021
Fair value as of March 31	\$ 519,000
Gain (loss) on derivative instruments	\$ 560,000
Swap #2	
Notional amount	\$ 18,438,000
Payment rate	1.6745%
Inception date	October 20, 2014
Expiration date	October 20, 2021
Fair value as of March 31	\$ 534,000
Gain (loss) on derivative instruments	\$ 597,000

As of March 31, 2019, the Company had terminated the swap agreements and received a payout of \$560,000 included in Interest Expense, net on the Statement of Operations

9. Fair Value Measurements

As discussed in Note 9, the Company periodically enters into interest-rate swap agreements to moderate its exposure to interest-rate changes and to lower its overall cost of borrowing. Fair value measurements for the Company's derivatives are classified under Level 2 in the fair value hierarchy because such measurements are determined using published market prices or estimated based on observable inputs such as interest rates.

The following table summarizes the fair values of financial instruments measured at fair value on a recurring basis at September 30, 2018:

	Items Measured at Fair Value on a Recurring Basis			
	Quoted Price in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of September 30, 2018
Assets				
Derivative financial instruments	\$ —	\$ 1,053,000	\$ —	\$ 1,053,000

10. Subsequent Events

The Company evaluated transactions occurring after March 31, 2019 in accordance with ASC 855, *Subsequent events*, through July 8, 2019 which is the date the financial statements were available to be issued.

On October 25, 2018, the Board of Directors ("Board") of the Company approved entering into a Purchase Agreement between Cordillera Communications, LLC ("Cordillera") as seller, and Scripps Media, Inc, a Delaware corporation, as buyer for the outstanding equity interest in the following subsidiaries of Cordillera: Sangre de Cristo Communications, LLC (KOAA-TV); KRTV Communications, LLC (KRTV and KTVH-DT); KPAX Communications, LLC (KPAX-TV); KXLF Communications, LLC (KXLF-TV); KCTZ

EPI Preferred, LLC

Notes to Condensed Consolidated Financial Statements

Communications, LLC (KBZK-TV); KTVQ Communications, LLC (KTVQ-TV); KATC Communications, LLC (KATC-TV); WLEX Communications, LLC (WLEX-TV); KRIS Communications, LLC (KRIS-TV); and KSBY Communications, LLC (KSBY-TV). The purchase price for this transaction is \$521,000,000.

At the same time, the Board also approved entering into an Asset Purchase Agreement between KVOA Communications, LLC (KVOA), a wholly-owned subsidiary of Cordillera, as seller, and Quincy Media, Inc., a Delaware limited liability company, as buyer, for the assets owned by KVOA and used primarily with respect to the operations of broadcast television station KVOA, Tucson, Arizona. The purchase price for this transaction is \$70,000,000.

The sale closed on May 1, 2019 and represents substantially all assets of the Company. In conjunction with the closing of the sale transactions, the Company's then outstanding credit facility was repaid in full.

Events Subsequent to Original Issuance of Financial Statements (Unaudited)

In connection with the reissuance of the financial statements, the Company has evaluated subsequent events through July 16, 2019, the date the financial statements were available to be reissued.

THE E.W. SCRIPPS COMPANY
UNAUDITED PRO FORMA COMBINED FINANCIAL INFORMATION

On May 1, 2019, Scripps acquired 15 television stations from Cordillera Communications, LLC ("Cordillera") pursuant to the purchase agreement dated as of October 27, 2018. Cordillera was a wholly owned subsidiary of EPI Preferred, LLC ("EPI") and comprised substantially all of the key operating assets of EPI. The following unaudited pro forma combined financial statements are based on our historical consolidated financial statements and the acquired stations historical consolidated financial statements as adjusted to give effect to the May 1, 2019 acquisition of the stations. The unaudited pro forma combined balance sheet data as of March 31, 2019, gives effect to the consummation of the transaction as if it had occurred on March 31, 2019. The unaudited pro forma combined results of operations data for the three months ended March 31, 2019 and for the year ended December 31, 2018, give effect to the consummation of the transaction as if it occurred on January 1, 2018.

Scripps and EPI have different fiscal years. Scripps' fiscal year ends on December 31, whereas EPI's fiscal year ended on September 30. The unaudited pro forma combined statement of operations for the year ended December 31, 2018 combines Scripps' year ended December 31, 2018 with EPI's year ended September 30, 2018. The unaudited pro forma combined statement of operations for the year end December 31, 2018 has been prepared utilizing period ends that differ by less than 93 days, as permitted by Rule 11-02 Regulation S-X. The unaudited pro forma combined balance sheet information combines Scripps' unaudited March 31, 2019 balance sheet with EPI's unaudited March 31, 2019 balance sheet. The historical financial information has been adjusted to give effect to matters that are (i) directly attributable to the merger transactions, (ii) factually supportable and (iii) with respect to the statement of operations, expected to have a continuing impact on the operating results of the combined company.

The unaudited pro forma combined statements of operations were prepared using the acquisition method of accounting in accordance with Financial Accounting Standards Board Accounting Standards Codification ("ASC") Topic 805, Business Combinations, with Scripps considered as the accounting acquirer. Accordingly, consideration paid by Scripps to complete the acquisition has been allocated to identifiable assets and liabilities of the acquired Cordillera stations based on estimated fair values as of the closing date of the acquisition. Management made a preliminary allocation of the consideration transferred to the assets acquired and liabilities assumed based on the information available and management's preliminary valuation of the fair value of tangible and intangible assets acquired and liabilities assumed. The finalization of the purchase accounting assessment may result in changes to the valuation of assets acquired and liabilities assumed, which could be material. Accordingly, the pro forma adjustments related to the allocation of consideration transferred are preliminary and have been presented solely for the purpose of providing unaudited pro forma combined financial information in the Current Report on Form 8-K/A. Management expects to finalize the accounting for the business combination as soon as practicable within the measurement period in accordance with ASC 805, but in no event later than one year from May 1, 2019.

The unaudited pro forma combined financial statements do not necessarily reflect what the combined company's financial condition or results of operations would have been had the acquisition occurred on the dates indicated. They also may not be useful in predicting the future financial condition and results of operations of the combined company. The actual financial position and results of operations may differ significantly from the pro forma amounts reflected herein due to a variety of factors.

The E.W. Scripps Company
Unaudited Pro Forma Condensed Combined Balance Sheet
As of March 31, 2019

(In thousands, except per share data)	Scripps Historical (Note 1)	EPI Preferred Historical (Note 1)	Excluded EPI Tucson Station	Pro Forma Adjustments	Pro Forma Combined
Assets					
Current assets:					
Cash and cash equivalents	\$ 14,402	\$ 3,687	\$ (1)	\$ 19,409	4(a) \$ 37,497
Cash restricted for pending acquisition	—	—	—	240,000	4(a) \$ 240,000
Accounts and notes receivable, less allowances	277,528	32,369	(4,565)	(461)	4(b) 304,871
Programming	51,120	1,526	(130)	—	52,516
FCC repack receivable	23,762	656	—	—	24,418
Miscellaneous	30,687	2,937	(221)	(1,005)	4(b) 32,398
Total current assets	397,499	41,175	(4,917)	257,943	691,700
Investments	7,276	—	—	—	7,276
Property and equipment	254,935	36,567	(3,987)	18,222	4(b) 305,737
Operating lease right-of-use asset	43,608	—	—	4,667	4(c) 48,275
Goodwill	852,362	52,534	—	222,143	4(b) 1,127,039
Other intangible assets	495,440	87,756	(107)	112,451	4(b) 695,540
Programming (less current portion)	95,947	—	—	—	95,947
Deferred income taxes	9,857	—	—	—	9,857
Miscellaneous	16,992	24	(5)	—	17,011
Total Assets	\$ 2,173,916	\$ 218,056	\$ (9,016)	\$ 615,426	\$ 2,998,382
Liabilities and Equity					
Current liabilities:					
Accounts payable	\$ 32,230	\$ 2,057	\$ (120)	\$ (532)	4(b) \$ 33,635
Unearned revenue	8,120	—	—	—	8,120
Current portion of long-term debt	3,000	2,500	—	5,150	4(d) 10,650
Accrued liabilities:					
Employee compensation and benefits	22,529	4,722	(594)	(3,593)	4(b) 23,064
Income taxes payable	—	3,977	—	(3,977)	4(b) —
Programming liability	60,043	1,532	(130)	—	61,445
Miscellaneous	42,913	14,625	(1,350)	(7,442)	4(b) 48,746
Other current liabilities	29,081	—	—	280	4(c) 29,361
Total current liabilities	197,916	29,413	(2,194)	(10,114)	215,021
Long-term debt (less current portion)	685,317	45,332	—	757,642	4(d) 1,488,291
Deferred income taxes	22,061	19,527	—	(19,527)	4(b) 22,061
Operating lease liabilities	37,294	—	—	4,387	4(c) 41,681
Other liabilities (less current portion)	313,955	—	—	—	313,955
Total Liabilities	1,256,543	94,272	(2,194)	732,388	2,081,009
Equity:					
Preferred stock					
Common stock:					
Class A	689	—	—	—	689
Voting	119	—	—	—	119
Total common stock	808	—	—	—	808
Additional paid-in capital	1,108,585	—	—	—	1,108,585
Accumulated deficit	(97,083)	—	—	—	(97,083)
Accumulated other comprehensive loss, net	(94,937)	—	—	—	(94,937)
Total equity attributable to E.W. Scripps	917,373	29,953	(6,822)	(23,131)	4(b) 917,373
Noncontrolling interest	—	93,831	—	(93,831)	4(b) —
Total equity	917,373	123,784	(6,822)	(116,962)	4(b) 917,373
Total Liabilities and Equity	\$ 2,173,916	\$ 218,056	\$ (9,016)	\$ 615,426	\$ 2,998,382

The E.W. Scripps Company
Unaudited Pro Forma Combined Statements of Operations
For the Year Ended December 31, 2018

(in thousands, except per share data)	Scripps Historical (Note 1)	EPI Preferred Historical (Note 1)	Excluded EPI Tucson Station	Pro Forma Adjustments	Pro Forma Combined
Operating Revenues:					
Advertising	\$ 836,049	\$ 133,271	\$ (15,543)	\$ —	\$ 953,777
Retransmission and carriage	304,402	46,256	(7,227)	(2,000) 3(a)	341,431
Other	67,974	2,033	(103)	—	69,904
Total operating revenues	<u>1,208,425</u>	<u>181,560</u>	<u>(22,873)</u>	<u>(2,000)</u>	<u>1,365,112</u>
Costs and Expenses:					
Employee compensation and benefits	394,029	69,042	(7,886)	—	455,185
Programming	350,753	30,908	(4,431)	—	377,230
Impairment of programming assets	8,920	—	—	—	8,920
Other expenses	246,487	29,262	(3,257)	—	272,492
Acquisition and related integration costs	4,124	—	—	(1,277) 3(b)	2,847
Restructuring costs	8,911	—	—	—	8,911
Total costs and expenses	<u>1,013,224</u>	<u>129,212</u>	<u>(15,574)</u>	<u>(1,277)</u>	<u>1,125,585</u>
Depreciation, Amortization, and (Gains) Losses:					
Depreciation	34,641	5,978	(534)	2,365 3(c)	42,450
Amortization of intangible assets	29,346	155	(10)	9,515 3(d)	39,006
Losses (gains), net on disposal of property, plant and equipment	1,255	—	—	—	1,255
Net depreciation, amortization, and losses (gains)	<u>65,242</u>	<u>6,133</u>	<u>(544)</u>	<u>11,880</u>	<u>82,711</u>
Operating income	129,959	46,215	(6,755)	(12,603)	156,816
Interest expense	(36,184)	(1,850)	—	(40,750) 3(e)	(78,784)
Defined benefit plan expense	(19,752)	—	—	—	(19,752)
Miscellaneous, net	152	(378)	—	(1,157) 3(f)	(1,383)
Income from continuing operations before income taxes	74,175	43,987	(6,755)	(54,510)	56,897
Provision (benefit) for income taxes	18,098	(7,443)	(1,723)	4,800 3(g)	13,732
Income from continuing operations, net of tax	56,077	51,430	(5,032)	(59,310)	43,165
Loss from discontinued operations, net of tax	(36,328)	—	—	—	(36,328)
Net income (loss) attributable to noncontrolling interest	(632)	40,541	(4,000)	(36,541)	(632)
Net income (loss) attributable to Scripps shareholders	<u>\$ 20,381</u>	<u>\$ 10,889</u>	<u>\$ (1,032)</u>	<u>\$ (22,769)</u>	<u>\$ 7,469</u>
Income from continuing operations per share of common stock:					
Basic	\$ 0.69				\$ 0.54
Diluted	\$ 0.68				\$ 0.53
Weighted average shares outstanding:					
Basic	81,369				81,369
Diluted	81,927				81,927

The E.W. Scripps Company
Unaudited Pro Forma Condensed Combined Statements of Operations
For the Three Months Ended March 31, 2019

(in thousands, except per share data)	Scripps Historical (Note 1)	EPI Preferred Historical (Note 1)	Excluded EPI Tucson Station	Pro Forma Adjustments	Pro Forma Combined
Operating Revenues:					
Advertising	\$ 174,241	\$ 26,558	\$ (3,068)	\$ —	\$ 197,731
Retransmission and carriage	87,283	13,541	(2,038)	(750) 3(a)	98,036
Other	30,639	514	(26)	—	31,127
Total operating revenues	<u>292,163</u>	<u>40,613</u>	<u>(5,132)</u>	<u>(750)</u>	<u>326,894</u>
Costs and Expenses:					
Employee compensation and benefits	110,203	16,559	(1,982)	—	124,780
Programming	97,995	9,317	(1,306)	—	106,006
Other expenses	61,442	6,906	(698)	—	67,650
Acquisition and related integration costs	3,480	—	—	(185) 3(b)	3,295
Restructuring costs	938	—	—	—	938
Total costs and expenses	<u>274,058</u>	<u>32,782</u>	<u>(3,986)</u>	<u>(185)</u>	<u>302,669</u>
Depreciation, Amortization, and (Gains) Losses:					
Depreciation	8,975	1,654	(132)	591 3(c)	11,088
Amortization of intangible assets	8,817	17	(1)	2,399 3(d)	11,232
Losses (gains), net on disposal of property, plant and equipment	173	—	—	—	173
Net depreciation, amortization, and losses (gains)	<u>17,965</u>	<u>1,671</u>	<u>(133)</u>	<u>2,990</u>	<u>22,493</u>
Operating income	140	6,160	(1,013)	(3,555)	1,732
Interest expense	(8,916)	(985)	—	(10,515) 3(e)	(20,416)
Defined benefit plan expense	(1,572)	—	—	—	(1,572)
Miscellaneous, net	(800)	(442)	2	—	(1,240)
Income from continuing operations before income taxes	<u>(11,148)</u>	<u>4,733</u>	<u>(1,011)</u>	<u>(14,070)</u>	<u>(21,496)</u>
Provision (benefit) for income taxes	(4,334)	132	(258)	(2,500) 3(g)	(6,960)
Income from continuing operations, net of tax	<u>(6,814)</u>	<u>4,601</u>	<u>(753)</u>	<u>(11,570)</u>	<u>(14,536)</u>
Net income (loss) attributable to noncontrolling interest	—	4,069	(700)	(3,369)	—
Net income (loss) attributable to Scripps shareholders	<u>\$ (6,814)</u>	<u>\$ 532</u>	<u>\$ (53)</u>	<u>\$ (8,201)</u>	<u>\$ (14,536)</u>
Income from continuing operations per share of common stock:					
Basic	\$ (0.08)				\$ (0.18)
Diluted	\$ (0.08)				\$ (0.18)
Weighted average shares outstanding:					
Basic	80,673				80,673
Diluted	80,673				80,673

The E.W. Scripps Company
Notes to the Unaudited Pro Forma Condensed Combined Financial Statements

Note 1. Basis of Presentation

The unaudited pro forma combined financial statements have been derived from the historical consolidated financial statements of Scripps and the acquired Cordillera television stations (reported within the parent entity, EPI Preferred, LLC). The unaudited pro forma combined balance sheet as of March 31, 2019 gives effect to the acquisition as if it had occurred on March 31, 2019. The unaudited pro forma combined statement of operations for the three months ended March 31, 2019 and for the year ended December 31, 2018 gives effect to the acquisition as if it had occurred on January 1, 2018.

The historical consolidated financial statements have been adjusted in the unaudited pro forma combined statements of operations to give effect to pro forma events that are (1) directly attributable to the business combination, (2) factually supportable, and (3) with respect to the unaudited pro forma combined statements of operations, expected to have a continuing impact on the combined results following the business combination.

Scripps has a different fiscal year end than EPI. Because the difference between Scripps' and EPI's fiscal year end dates is less than 93 days, the unaudited pro forma condensed combined statement of operations for the year ended December 31, 2018 was prepared using Scripps' audited consolidated statement of operations for the year ended December 31, 2018 and EPI's audited consolidated statement of operations for the year ended September 30, 2018, as permitted under Rule 11-02 of Regulation S-X.

The unaudited pro forma combined statement of operations are based on a preliminary purchase price allocation, provided for illustrative purposes only, and do not purport to represent what the combined company's results of operations would have been had the acquisition occurred on the dates indicated. They also may not be useful in predicting the future financial condition and results of operations of the combined company. The actual results of operations may differ significantly from the pro forma amounts reflected herein due to a variety of factors. In addition, the unaudited pro forma combined statement of operations do not reflect any future planned cost savings initiatives following the completion of the business combination.

Certain reclassifications have been made to the presentation of the historical EPI consolidated financial statements to conform to the presentation used in the unaudited pro forma financial information contained herein.

Note 2. Preliminary Purchase Price Allocation

On May 1, 2019, Scripps completed the acquisition of 15 television stations from Cordillera for cash consideration of \$521 million, plus an estimated working capital adjustment of \$26.5 million. The transaction was financed with a \$765 million term loan B, of which \$240 million of the proceeds were segregated for financing a portion of the television stations that are being acquired from Nexstar Media Group, Inc.

The unaudited pro forma combined financial information includes various assumptions, including those related to the preliminary purchase price allocation of the assets acquired and liabilities assumed for the acquired stations based on management's best estimates of fair value. The final purchase price allocation may vary based on final appraisals, valuations and analyses of the fair value of the acquired assets and assumed liabilities.

The following table summarizes the preliminary fair values of the television stations assets acquired and liabilities assumed at the closing date.

Accounts receivable	\$	27,343
Other current assets		3,763
Property and equipment		50,802
Operating lease right-of-use assets		4,667
Other assets		19
Fair value of acquired intangible assets		200,100
Residual goodwill from the transaction		274,677
Accounts payable		(1,405)
Accrued expenses		(7,770)
Other current liabilities		(280)
Operating lease liabilities		(4,387)
Net purchase price	\$	<u>547,529</u>

Note 3. Adjustments to the Unaudited Pro Forma Combined Statements of Operations

- (a) Reflects the adjustments to reduce retransmission revenue, primarily from CW affiliates, under Scripps' retransmission agreements in effect during each period.
- (b) Reflects the adjustments to reverse incurred and non-recurring transaction costs, which were recorded in Scripps' acquisition and related integration costs. These transaction costs totaled \$1.3 million for the year ended 2018 and \$0.2 million for the three months ended March 31, 2019.
- (c) Reflects the depreciation expense adjustment resulting from the fair value adjustments to the acquired Cordillera stations' property and equipment:

	<u>Year Ended</u> <u>December 31, 2018</u>	<u>Three Months Ended</u> <u>March 31, 2019</u>
Depreciation expense for fair value adjustment to property and equipment	\$ 2,365	\$ 591

- (d) Reflects the incremental increase in intangible asset amortization expense resulting from the fair value adjustments to the acquired Cordillera stations' intangible assets:

	<u>Year Ended</u> <u>December 31, 2018</u>	<u>Three Months Ended</u> <u>March 31, 2019</u>
Reversal of EPI's historical intangible asset amortization	\$ (145)	\$ (16)
Amortization of purchased identifiable intangible assets	9,660	2,415
Total intangible assets amortization expense adjustment	<u>\$ 9,515</u>	<u>\$ 2,399</u>

- (e) Reflects the adjustments to reverse interest expense associated with the EPI's debt not assumed and the recognition of interest expense associated with Scripps' new debt financing:

	Year Ended December 31, 2018	Three Months Ended March 31, 2019
Reversal of EPI's historical interest expense	\$ (1,850)	\$ (985)
Interest expense on new debt financing	42,600	11,500
Total interest expense adjustment	<u>\$ 40,750</u>	<u>\$ 10,515</u>

- (f) Reflects the adjustments to reverse the gains and losses recognized from interest rate swaps that were in place on EPI's outstanding debt. EPI's statement of operations included a gain on derivative instruments of \$1.2 million for the year ended 2018.
- (g) Reflects the income tax effect of applying the estimated blended federal and state statutory rate of 25.2% for the year ended December 31, 2018 and the three months ended March 31, 2019 to EPI's pre-tax income and to the pro forma adjustments.

Note 4. Adjustments to the Unaudited Pro Forma Combined Balance Sheet

- (a) Represents adjustments to the combined company cash balance. Estimated transaction and other closing/ financing costs associated with the transaction are not included in the pro forma results of operations as they are non-recurring in nature.

	(in thousands)
Cash consideration for the acquisition of the Cordillera stations	\$ (547,529)
Borrowings from revolving credit facility	70,000
Issuance of new debt, net of issuance discount	761,175
Cash withheld for debt issuance costs	(20,551)
Cash not acquired from EPI	(3,686)
Total cash adjustments	<u>259,409</u>
Less: Cash restricted for pending acquisition	<u>(240,000)</u>
Total cash and cash equivalents adjustments	<u>\$ 19,409</u>

The cash restricted for pending acquisition reflects cash that has been segregated for financing a portion of the television stations being acquired from Nexstar Media Group, Inc.

(b) Reflects the acquisition method of accounting based on the estimated fair value of assets acquired and liabilities assumed at the closing date.

	<u>(in thousands)</u>
Cash not acquired	\$ (3,686)
Accounts receivable not acquired	(461)
Other current assets not acquired	(1,005)
Adjustment of property and equipment to fair value	18,222
Residual goodwill created from acquisition	222,143
Adjustment of identifiable intangible assets to fair value	112,451
Accounts payable amounts not assumed	532
Accrued employee compensation and benefits not assumed	3,593
Income taxes payable not assumed	3,977
Other accrued expenses not assumed	7,442
EPI debt (including current portion) not assumed	47,832
Deferred tax impact of purchase accounting treatment	19,527
Elimination of the acquired Cordillera stations historical equity balances	116,962
Total transaction values	<u>\$ 547,529</u>

(c) Represents the impact of EPI adopting the new lease standard that requires the recognition of right-of-use assets and lease liabilities on the balance sheet.

	<u>(in thousands)</u>
Operating lease right-of-use assets	\$ 4,667
Other current liabilities	280
Operating lease liabilities	4,387

(d) To record the issuance of Scripps' long-term debt and related debt issuance costs and eliminate the EPI historical debt not assumed in the acquisition.

	<u>(in thousands)</u>
EPI debt not assumed	\$ (2,500)
Establish current portion of debt from issuance of Term Loan B	7,650
Total current portion of long-term debt adjustment	<u>\$ 5,150</u>

	<u>(in thousands)</u>
EPI debt not assumed	\$ (45,332)
Borrowings from revolving credit facility	70,000
Additional long-term debt from issuance of Term Loan B, net of issuance discount	753,525
Debt issuance costs on long-term debt	(20,551)
Total long-term debt adjustment	<u>\$ 757,642</u>