SCRIPPS E W CO /DE
Form 10-Q
November 07, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

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

For the quarterly period ended September 30, 2014
OR

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

For the transition period from to
Commission File Number 0-16914
THE E. W. SCRIPPS COMPANY
(Exact name of registrant as specified in its charter)

Ohio (State or other jurisdiction of incorporation or organization)	31-1223339 (IRS 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, former address and former fiscal year, if changed since last report.)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of “large accelerated filer”, “accelerated filer” and “smaller reporting company “in Rule 12b-2 of the Exchange Act.

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No þ
Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. As of September 30, 2014, there were 44,692,345 of the registrant’s Class A Common shares, $.01 par value per share, outstanding and 11,932,722 of the registrant’s Common Voting shares, $.01 par value per share, outstanding.

Index to The E. W. Scripps Company Report
on Form 10-Q for the Quarter Ended September 30, 2014

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PART I

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

Item 1. Financial Statements

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

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

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Item 4. Controls and Procedures

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

PART II

Item 1. Legal Proceedings

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

Members of the Board of Directors of Journal Communications, Inc. ("Journal"), and the parties to the Master Transaction Agreement, including Journal and Scripps, are defendants in a class action lawsuit filed in Circuit Court, Milwaukee County, Wisconsin (Howard Goldfinger v. Journal Communications, Inc., et al.). The plaintiff in this lawsuit alleges that the directors of Journal breached their fiduciary duties to Journal shareholders in connection with the transactions and that the other parties to the lawsuit aided and abetted such alleged breaches of fiduciary duty. The plaintiff alleges that the directors of Journal breached their fiduciary duties by, among other things, (i) agreeing to enter into the Master Transaction Agreement for inadequate consideration, (ii) having certain conflicts of interest, (iii) not negotiating a “collar” mechanism on the share exchange ratio, and (iv) agreeing to certain deal protection provisions, such as a termination fee, a “no-shop” provision, and a “matching rights” provision. The plaintiff also challenges the qualifications of Journal's financial advisor, Methuselah Advisors LLC ("Methuselah"), and asserts that Methuselah has a conflict because the founder and managing partner of Methuselah, who is the lead investment banker at Methuselah for Journal in this transaction, was employed by Lazard Freres & Co. LLC (“Lazard”) prior to 2010 as a managing partner and group co-head, where he had responsibility for Lazard’s relationship with Scripps.
The outcome of this lawsuit is uncertain and cannot be predicted. An adverse judgment for monetary damages could have a material adverse effect on the operations and liquidity of Journal or Scripps. An adverse judgment granting permanent injunctive relief could indefinitely enjoin completion of the transactions. Journal and Scripps believe the

allegations of the plaintiff's complaint are without merit and intend to vigorously defend against the claims alleged in this lawsuit. On August 29, 2014, the defendants filed motions asking the Circuit Court to dismiss this lawsuit. On October 20, 2014, the Circuit Court held a hearing and stated it would issue a ruling on such motions on or about November 11, 2014.

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Item 1A. Risk Factors

There have been no material changes to the risk factors disclosed in Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2013, except that the following risk factor has been added.

Scripps faces cybersecurity and similar risks, which could result in the disclosure of confidential information, disruption of its operations, damage to its brands and reputation, legal exposure and financial losses.

Security breaches, computer malware or other “cyber attacks” could harm Scripps’ business by disrupting its delivery of services, jeopardizing Scripps’ confidential information and that of its vendors and clients, and damaging its reputation. Scripps’ operations are expected to routinely involve receiving, storing, processing and transmitting sensitive information. Although Scripps monitors its security measures regularly and believes it is not in a key target industry, any unauthorized intrusion, malicious software infiltration, theft of data, network disruption, denial of service, or similar act by any party could disrupt the integrity, continuity, and security of Scripps’ systems or the systems of its clients or vendors. These events could create financial liability, regulatory sanction, or a loss of confidence in our ability to protect information, and adversely affect our revenue by causing the loss of current or potential clients.

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

There were no sales of unregistered equity securities during the quarter ended September 30, 2014.
Our board of directors authorized a repurchase program in November 2012 of up to $100 million of our Class A Common shares. We have repurchased a total of $95 million of shares under this authorization. An additional $5 million of shares may be repurchased pursuant to this authorization which expires December 31, 2014.
In May 2014, our board of directors authorized a new repurchase program of up to $100 million of our Class A Common shares through December 2016. No shares have been repurchased under this program as of September 30, 2014.
Based on the terms of the Master Transaction Agreement with Journal Communications, we are precluded from repurchasing shares prior to closing the transactions.

Item 3. Defaults Upon Senior Securities
There were no defaults upon senior securities during the quarter ended September 30, 2014.

Item 4. Mine Safety Disclosures
None.

Item 5. Other Information
None.

Item 6. Exhibits
The information required by this item is filed as part of this Form 10-Q. See Index to Exhibits at page E-1 of this Form 10-Q.

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Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

	THE E. W. SCRIPPS COMPANY
Dated: November 7, 2014	By: /s/ Douglas F. Lyons Douglas F. Lyons Vice President and Controller (Principal Accounting Officer)

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

(in thousands, except share data)	As of September 30, 2014	As of December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	$124,369	$221,255
Restricted cash	6,810	8,210
Accounts and notes receivable (less allowances - $1,806 and $2,027)	125,096	139,703
Inventory	7,495	6,543
Deferred income taxes	11,510	17,861
Income taxes receivable	6,200	436
Miscellaneous	8,400	8,046
Total current assets	289,880	402,054
Investments	16,765	16,567
Property, plant and equipment	348,979	353,797
Goodwill	106,423	27,966
Other intangible assets	192,172	137,862
Deferred income taxes	7,890	8,733
Miscellaneous	16,334	19,151
Total Assets	$978,443	$966,130
Liabilities and Equity		
Current liabilities:		
Accounts payable	$16,719	$16,529
Customer deposits and unearned revenue	34,058	28,633
Current portion of long-term debt	2,000	2,000
Accrued liabilities:		
Employee compensation and benefits	36,802	26,986
Miscellaneous	33,908	28,930
Other current liabilities	13,173	10,043
Total current liabilities	136,660	113,121
Long-term debt (less current portion)	196,500	198,000
Other liabilities (less current portion)	108,432	107,272
Equity:		
Preferred stock, $.01 par — authorized: 25,000,000 shares; none outstanding	—	—
Common stock, $.01 par:		
Class A — authorized: 240,000,000 shares; issued and outstanding: 44,692,345 and 44,094,501 shares	447	441
Voting — authorized: 60,000,000 shares; issued and outstanding: 11,932,722 and 11,932,722 shares	119	119
Total	566	560
Additional paid-in capital	511,064	509,243
Retained earnings	102,976	116,893
Accumulated other comprehensive loss, net of income taxes:		
Unrealized loss on derivatives	(541)	(718)
Pension liability adjustments	(78,876)	(80,205)

Total The E.W. Scripps Company shareholders' equity	535,189	545,773
Noncontrolling interest	1,662	1,964
Total equity	536,851	547,737
Total Liabilities and Equity	$978,443	$966,130

See notes to condensed consolidated financial statements.

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

(in thousands, except per share data)	Three Months Ended September 30, 2014	2013	Nine Months Ended September 30, 2014	2013
Operating Revenues:				
Advertising	$154,030	$141,139	$458,055	$446,391
Subscriptions	28,738	28,184	90,736	86,751
Retransmission	15,235	10,403	40,409	31,345
Other	9,597	9,809	34,140	31,554
Total operating revenues	207,600	189,535	623,340	596,041
Costs and Expenses:				
Employee compensation and benefits	103,425	95,581	308,242	292,409
Programs and program licenses	16,181	14,318	42,951	40,332
Newsprint, press supplies and other printing costs	10,122	10,614	33,206	34,965
Newspaper distribution	11,492	11,623	35,046	35,837
Other expenses	46,760	49,502	150,727	149,629
Defined benefit pension plan expense	1,670	2,490	8,525	7,028
Acquisition and related integration costs	5,049	—	9,408	—
Separation and restructuring costs	—	1,290	—	3,691
Total costs and expenses	194,699	185,418	588,105	563,891
Depreciation, Amortization, and (Gains) Losses:				
Depreciation	10,925	10,360	30,431	30,497
Amortization of intangible assets	2,270	1,736	6,088	5,187
(Gains) losses, net on disposal of property, plant and equipment	(2,951)	177	(2,861)	140
Net depreciation, amortization, and (gains) losses	10,244	12,273	33,658	35,824
Operating income (loss)	2,657	(8,156)	1,577	(3,674)
Interest expense	(2,050)	(2,655)	(6,347)	(7,924)
Miscellaneous, net	(216)	(1,087)	(1,061)	(4,025)
Income (loss) from operations before income taxes	391	(11,898)	(5,831)	(15,623)
Provision (benefit) for income taxes	1,835	(3,047)	(341)	(7,286)
Net loss	(1,444)	(8,851)	(5,490)	(8,337)
Net loss attributable to noncontrolling interests	(103)	—	(302)	—
Net loss attributable to the shareholders of The E.W. Scripps Company	$(1,341)	$(8,851)	$(5,188)	$(8,337)
Net loss per basic share of common stock attributable to the shareholders of The E.W. Scripps Company	$(0.02)	$(0.16)	$(0.09)	$(0.15)
Net loss per diluted share of common stock attributable to the shareholders of The E.W. Scripps Company	$(0.02)	$(0.16)	$(0.09)	$(0.15)

See notes to condensed consolidated financial statements.

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The E. W. Scripps Company
Condensed Consolidated Statements of Comprehensive Loss (Unaudited)

(in thousands)	Three Months Ended September 30, 2014	2013	Nine Months Ended September 30, 2014	2013
Net loss	$(1,444)	$(8,851)	$(5,490)	$(8,337)
Changes in fair value of derivative, net of tax of $37, $(107), $111 and $299	59	(177)	177	494
Changes in defined benefit pension plans, net of tax of $364, $460, $924 and $1,759	441	1,179	1,329	3,135
Total comprehensive loss	(944)	(7,849)	(3,984)	(4,708)
Less comprehensive loss attributable to noncontrolling interest	(103)	—	(302)	—
Total comprehensive loss attributable to the shareholders of The E.W. Scripps Company	$(841)	$(7,849)	$(3,682)	$(4,708)

See notes to condensed consolidated financial statements.

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The E. W. Scripps Company
Condensed Consolidated Statements of Cash Flows (Unaudited)

(in thousands)	Nine Months Ended September 30, 2014	2013
Cash Flows from Operating Activities:		
Net loss	$(5,490)	$(8,337)
Adjustments to reconcile net loss to net cash flows from operating activities:		
Depreciation and amortization	36,519	35,684
(Gains) losses on sale of property, plant and equipment	(2,861)	140
Deferred income taxes	4,934	(1,770)
Stock and deferred compensation plans	4,608	6,092
Pension expense, net of payments	3,639	4,294
Liability for withdrawal from GCIU employer retirement fund	4,100	—
Other changes in certain working capital accounts, net	27,034	(13,486)
Miscellaneous, net	(1,449)	3,318
Net cash provided by operating activities	71,034	25,935
Cash Flows from Investing Activities:		
Acquisitions	(149,334)	—
Proceeds from sale of property, plant and equipment	6,453	300
Additions to property, plant and equipment	(13,437)	(15,531)
Purchase of investments	(2,003)	(1,425)
Change in restricted cash	1,400	1,800
Miscellaneous, net	453	39
Net cash used in investing activities	(156,468)	(14,817)
Cash Flows from Financing Activities:		
Payments on long-term debt	(1,500)	(11,925)
Repurchase of Class A Common shares	(21,237)	(69,313)
Proceeds from employee stock options	13,175	40,229
Tax payments related to shares withheld for RSU vesting	(4,035)	(6,157)
Miscellaneous, net	2,145	(4,458)
Net cash used in financing activities	(11,452)	(51,624)
Decrease in cash and cash equivalents	(96,886)	(40,506)
Cash and cash equivalents:		
Beginning of year	221,255	242,642
End of period	$124,369	$202,136
Supplemental Cash Flow Disclosures		
Interest paid	$5,511	$6,077
Income taxes paid	$397	$290

See notes to condensed consolidated financial statements.

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

(in thousands, except share data)	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Noncontrolling Interests	Total Equity
As of December 31, 2012	$555	$517,688	$136,293	$(116,840)	$ 2,214	$539,910
Net income	—	—	(8,337)	—	—	(8,337)
Changes in defined benefit pension plans	—	—	—	3,135	—	3,135
Changes in fair value of derivative	—	—	—	494	—	494
Repurchase 4,816,228 Class A Common shares	(48)	(52,501)	(16,764)	—	—	(69,313)
Compensation plans: 4,980,097 net shares issued *	50	39,298	—	—	—	39,348
As of September 30, 2013	$557	$504,485	$111,192	$(113,211)	$ 2,214	$505,237
As of December 31, 2013	$560	$509,243	$116,893	$(80,923)	$ 1,964	$547,737
Net loss	—	—	(5,188)	—	(302)	(5,490)
Changes in defined benefit pension plans	—	—	—	1,329	—	1,329
Changes in fair value of derivative	—	—	—	177	—	177
Repurchase 1,181,560 Class A Common shares	(12)	(12,496)	(8,729)	—	—	(21,237)
Compensation plans: 1,779,404 net shares issued *	18	14,317	—	—	—	14,335
As of September 30, 2014	$566	$511,064	$102,976	$(79,417)	$ 1,662	$536,851

* Net of tax payments related to shares withheld for vested stock and RSUs of $4,035 in 2014 and $6,157 in 2013.
See notes to condensed consolidated financial statements.

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

1. Summary of Significant Accounting Policies
As used in the Condensed Notes to Consolidated Financial Statements, the terms “Scripps,” “Company,” “we,” “our,” or “us” may, depending on the context, refer to The E. W. Scripps Company, to one or more of its consolidated subsidiary companies or to all of them taken as a whole.
Basis of Presentation — The condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. The interim financial statements should be read in conjunction with the audited consolidated financial statements, including the notes thereto included in our 2013 Annual Report on Form 10-K. In management's opinion, all adjustments (consisting of normal recurring accruals) necessary for a fair presentation of the interim periods have been made.
Results of operations are not necessarily indicative of the results that may be expected for future interim periods or for the full year.
Nature of Operations — We are a diverse media enterprise with a portfolio of television, print and digital media brands. All of our media businesses provide content and advertising services via digital platforms, including the Internet, smartphones and tablets. Our media businesses are organized into the following reportable business segments: television, newspapers and syndication and other. Additional information for our business segments is presented in the Condensed Notes to Consolidated Financial Statements.
Use of Estimates — Preparing financial statements in accordance with accounting principles generally accepted in the United States of America requires us to make a variety of decisions that affect the reported amounts and the related disclosures. Such decisions include the selection of accounting principles that reflect the economic substance of the underlying transactions and the assumptions on which to base accounting estimates. In reaching such decisions, we apply judgment based on our understanding and analysis of the relevant circumstances, including our historical experience, actuarial studies and other assumptions.
Our financial statements include estimates and assumptions used in accounting for our defined benefit pension plans; the periods over which long-lived assets are depreciated or amortized; the fair value of long-lived assets, goodwill and indefinite lived assets; the liability for uncertain tax positions and valuation allowances against deferred income tax assets; and self-insured risks.
While we re-evaluate our estimates and assumptions on an ongoing basis, actual results could differ from those estimated at the time of preparation of the financial statements.
Revenue Recognition — We recognize revenue when persuasive evidence of a sales arrangement exists, delivery occurs or services are rendered, the sales price is fixed or determinable and collectability is reasonably assured. When a sales arrangement contains multiple elements, such as the sale of advertising and other services, we allocate revenue to each element based upon its relative fair value. We report revenue net of sales and other taxes collected from our customers.
Our primary sources of revenue are from the sale of print, broadcast and digital advertising, retransmission fees received from cable operators and satellite carriers and newspaper subscription fees.
The revenue recognition policies for each source of revenue are described in our 2013 Annual Report on Form 10-K.
Share-Based Compensation — We have a Long-Term Incentive Plan (the “Plan”) which is described more fully in our Annual Report on Form 10-K for the year ended December 31, 2013. The Plan provides for the award of incentive and nonqualified stock options, stock appreciation rights, restricted stock units (RSUs), unrestricted Class A Common shares and performance units to key employees and non-employee directors.
Share-based compensation costs totaled $0.2 million and $1.1 million for the third quarter of 2014 and 2013, respectively. Year-to-date share-based compensation costs totaled $4.9 million and $5.0 million in 2014 and 2013, respectively.

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Earnings Per Share ("EPS") — Unvested awards of share-based payments with rights to receive dividends or dividend equivalents, such as our RSUs, are considered participating securities for purposes of calculating EPS. Under the two-class method, we allocate a portion of net income to these participating securities and therefore exclude that income from the calculation of EPS for common stock. We do not allocate losses to the participating securities.
The following table presents information about basic and diluted weighted-average shares outstanding:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	2014	2013	2014	2013
Numerator (for basic and diluted earnings per share)				
Net loss attributable to the shareholders of The E.W. Scripps Company	$(1,341)	$(8,851)	$(5,188)	$(8,337)
Less income allocated to RSUs	—	—	—	—
Numerator for basic and diluted earnings per share	$(1,341)	$(8,851)	$(5,188)	$(8,337)
Denominator				
Basic weighted-average shares outstanding	56,469	56,177	56,200	56,696
Effect of dilutive securities:				
Stock options held by employees and directors	—	—	—	—
Diluted weighted-average shares outstanding	56,469	56,177	56,200	56,696
Anti-dilutive securities [1]	3,313	5,551	3,313	5,551

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

For the quarter and nine months ended September 30, 2014 and 2013, we incurred a net loss and the inclusion of RSUs and stock options held by employees and directors would have been anti-dilutive, and accordingly the diluted EPS calculation for the period excludes those common share equivalents.

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

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

2. Recently Adopted Standards and Issued Accounting Standards

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

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In August 2014, the FASB issued new guidance related to the disclosures around going concern. The new standard provides guidance around management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. Early adoption is permitted. The adoption of this standard is not expected to have a material impact on our consolidated financial statements.

3. Acquisitions

On June 16, 2014, we closed our acquisition of two television stations owned by Granite Broadcasting Corporation — the Detroit MyNetworkTV affiliate WMYD-TV and the Buffalo, N.Y. ABC affiliate WKBW-TV ("Acquired Granite Stations") — for $110 million in cash. The acquisition of WMYD-TV creates a duopoly with our Detroit ABC affiliate WXYZ-TV.

Pending the finalization of third-party valuations and other items, the following table summarizes the preliminary fair value of the assets acquired as of June 16, 2014:

(in thousands)	
Assets:	
Property, plant and equipment	$12,025
Intangible assets	53,500
Goodwill	44,475
Net purchase price	$110,000

Of the $54 million allocated to intangible assets, $34.4 million was for FCC licenses which we have determined to have an indefinite life and therefore will not be amortized. The remaining balance of $19.1 million will be allocated to television network affiliation relationships and advertiser relationships with estimated amortization periods of 10 to 20 years.

The goodwill of $44.5 million arising from the transaction consists largely of synergies and economies of scale and other benefits of a larger broadcast footprint, as well as synergies from being able to create a duopoly in our Detroit market. We have allocated the goodwill to our television segment. We will treat the transaction as an asset acquisition for income tax purposes resulting in a step-up in the assets acquired. The goodwill is deductible for income tax purposes.

Pro forma results of operations, assuming the transaction had taken place at the beginning of 2013, are included in the following table. The pro forma information includes the historical results of operations of Scripps and the Acquired Granite Stations and adjustments for additional depreciation and amortization of the assets acquired. The pro forma information does not include efficiencies, cost reductions or synergies expected to result from the acquisition. The unaudited pro forma financial information is not necessarily indicative of the results that actually would have occurred had the acquisition been completed at the beginning of the period. Reported results for the three months ended September 30, 2014 include the impact of the Acquired Granite Stations and therefore are not presented as pro forma results.

	Three Months Ended September 30,	Nine Months Ended September 30,	
(in thousands, except per share data) (unaudited)	2013	2014	2013
Operating revenues	$197,460	$637,579	$619,521

Loss from operations attributable to the shareholders of The E.W. Scripps Company	(7,974)	(3,655)	(5,129)
Loss per share from operations attributable to the shareholders of The E.W. Scripps Company:			
Basic	(0.14)	(0.07)	(0.09)
Diluted	(0.14)	(0.07)	(0.09)

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On January 1, 2014 we completed our acquisition of Media Convergence Group, Inc., which operates as Newsy, a digital video news provider, for $35 million in cash, plus a working capital adjustment of $0.2 million.

Pending the finalization of third-party valuations and other items, the following table summarizes the preliminary fair value of the assets acquired and the liabilities assumed as of January 1, 2014:
(in thousands)

Assets:	
Accounts receivable	$640
Other assets	74
Equipment and software	631
Intangible assets	5,900
Goodwill	28,938
Total assets acquired	36,183
Current liabilities	116
Long-term deferred liability	845
Net purchase price	$35,222

Of the $5.9 million allocated to intangible assets, $4.1 million was allocated to customer relationships with an estimated amortization period of 5 years and the balance of $1.8 million was allocated to various other intangible assets.

The goodwill of $28.9 million arising from the transaction consists largely of the benefit we will derive from being able to enter the digital video market with an established business. We have allocated the goodwill to our syndication and other segment. We will treat the transaction as a purchase of stock for income tax purposes with no step-up in the assets acquired. The goodwill will not be deductible for income tax purposes. We are not presenting any pro forma results of operations since the impact of the acquisition is not material to prior year results of operations.

On September 16, 2014, we completed our acquisition of Geoterrestrial, Inc. ("WeatherSphere") for $4.1 million. WeatherSphere is a provider of weather-related mobile apps. The stock purchase agreement includes an earnout provision, whereby up to an additional $2.5 million in purchase price can be payable over a three year period, which we have estimated to have a fair value of $1.6 million. The purchase price allocation is preliminary as of September 30, 2014. We are not presenting any pro forma results of operations since the impact of the acquisition is not material to prior periods results of operations.

4. Income Taxes

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

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

The effective income tax rate for the nine months ended September 30, 2014 and 2013 was 5.8% and 46.6%, respectively. The primary reason for the difference between these rates and the U.S. federal statutory rate of 35% is the impact of state taxes, non-deductible expenses and adjustments to reserves for uncertain tax positions (including interest). We recognized $2.4 million of previously unrecognized tax benefits in the first nine months of 2013 upon settlement of audits or when the statute of limitations lapsed in certain tax jurisdictions.

The impact of small changes in our estimated pretax income for the 2013 year significantly impacted our estimated effective tax rate for the year. Differences between pretax book and taxable earnings, such as non-deductible expenses and state income taxes, on the effective income tax rate varies significantly as income before income taxes changes. Accordingly, for the

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nine months ended September 30, 2013, we did not believe we could reasonably estimate our full year effective income tax rate, and as permitted by US GAAP, we determined our tax benefit for 2013 based upon year-to-date pretax loss and the effect of differences between book and taxable loss.

Deferred tax assets totaled $19.4 million at September 30, 2014. Management believes that it is more likely than not that we will realize the benefits of our federal deferred tax assets and therefore has not recorded a valuation allowance for our federal deferred tax assets. If economic conditions worsen, future estimates of taxable income could be lower than our current estimates which may require valuation allowances to be recorded in future reporting periods.

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

During the periods ended September 30, 2014 and 2013, deferred tax assets relating to employee share-based compensation from the vesting of RSU's and the exercise of stock options have not been recognized since we are in a net tax loss position for both periods. The additional tax benefits will be reflected as net operating loss carryforwards when we file our tax returns, but the additional tax benefits are not recorded under GAAP until the tax deduction reduces taxes payable. When the benefit is recognized, it will be recorded as additional paid-in capital. The amount of unrecognized tax deductions for the nine months ended September 30, 2014 and 2013 was approximately $31 million and $33 million, respectively.

5. Other Charges and Credits

Income (loss) from operations was affected by the following:

Acquisition and related integration costs of $5.0 million for the third quarter of 2014 and $9.4 million for the nine months ended September 30, 2014 include costs associated with the acquisition of two television stations from Granite Broadcasting as well as costs for spinning off our newspaper operations and the merger of Journal's broadcast business.

During the third quarter of 2014, we recorded a $3.0 million gain from the sale of excess land in our newspaper business.

Restructuring costs, primarily at our newspaper operations, totaled $1.3 million for the third quarter of 2013 and $3.7 million for the first nine months of 2013. Restructuring costs primarily include costs associated with efforts to simplify and standardize advertising and circulation systems and other processes in our newspaper division. In 2014, we are in the final stages of these system implementations and any remaining costs are now included in segment operating results.

6. Restricted Cash

At September 30, 2014 and December 31, 2013, we had $6.8 million and $8.2 million, respectively, in a restricted cash account on deposit with our insurance carrier. This account serves as collateral, in place of an irrevocable stand-by letter of credit, to provide financial assurance that we will fulfill our obligations with respect to cash requirements associated with our workers compensation self-insurance. This cash is to remain on deposit with the carrier until all claims have been paid or we provide a letter of credit in lieu of the cash deposit.

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7. Goodwill and Other Intangible Assets

Goodwill by business segment was as follows:

(in thousands)	Television	Newspapers	Syndication and other	Total
Gross balance as of December 31, 2013	$243,380	$778,900	$—	$1,022,280
Accumulated impairment losses	(215,414)	(778,900)	—	(994,314)
Net balance as of December 31, 2013	27,966	—	—	27,966
2014 Newsy acquisition	—	—	28,938	28,938
2014 Granite Stations acquisitions	44,475	—	—	44,475
2014 WeatherSphere acquisition	—	—	5,044	5,044
Balance as of September 30, 2014	$72,441	$—	$33,982	$106,423
Gross balance as of September 30, 2014	$287,855	$778,900	$33,982	$1,100,737
Accumulated impairment losses	(215,414)	(778,900)	—	(994,314)
Net balance as of September 30, 2014	$72,441	$—	$33,982	$106,423

Other intangible assets consisted of the following:

(in thousands)	As of September 30, 2014	As of December 31, 2013
Amortizable intangible assets:		
Carrying amount:		
Television network affiliation relationships	$93,944	$78,844
Customer lists and advertiser relationships	30,404	22,304
Other	6,361	3,561
Total carrying amount	130,709	104,709
Accumulated amortization:		
Television network affiliation relationships	(12,855)	(9,691)
Customer lists and advertiser relationships	(15,746)	(13,138)
Other	(2,151)	(1,833)
Total accumulated amortization	(30,752)	(24,662)
Net amortizable intangible assets	99,957	80,047
Other indefinite-lived intangible assets — FCC licenses	92,215	57,815
Total other intangible assets	$192,172	$137,862

Estimated amortization expense of intangible assets for each of the next five years is $2.3 million for the remainder of 2014, $9.0 million in 2015, $8.9 million in 2016, $6.5 million in 2017, $6.4 million in 2018, $5.5 million in 2019, and $61.4 million in later years.

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8. Long-Term Debt

Long-term debt consisted of the following:

(in thousands)	As of September 30, 2014	As of December 31, 2013
Variable rate credit facility	$—	$—
Term loan	198,500	200,000
Long-term debt	198,500	200,000
Current portion of long-term debt	2,000	2,000
Long-term debt (less current portion)	$196,500	$198,000
Fair value of long-term debt *	$198,500	$200,000

* Fair value of the term loan was estimated based on quoted private market transactions and is classified as Level 1 in the fair value hierarchy.

We have a $275 million revolving credit and term loan agreement ("Financing Agreement"). The Financing Agreement includes a $200 million term loan B maturing in November 2020 and a $75 million revolving credit facility maturing in November 2018.

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

Interest is payable on the term loan B at rates based on LIBOR with a 0.75% floor, plus a fixed margin of 2.50%. Interest is payable on the revolving credit facility at rates based on LIBOR plus a margin based on our leverage ratio ranging from 2.25% to 2.75%. As of September 30, 2014 and December 31, 2013, the interest rate was 3.25% on the term loan B. The Financing Agreement also includes a provision that in certain circumstances we must use a portion of excess cash flow to repay debt. As of September 30, 2014, we were not required to make additional principal payments based on excess cash flow. The weighted-average interest rate on borrowings was 3.25% and 3.70% for the nine months ended September 30, 2014 and 2013, respectively.

Scheduled principal payments on long-term debt at September 30, 2014 are: $0.5 million for the remainder of 2014, $2.0 million in 2015, $2.0 million in 2016, $2.0 million in 2017, $2.0 million in 2018, $2.0 million in 2019 and $188 million thereafter.

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

The Financing Agreement allows us to make restricted payments (dividends and share repurchases) up to $50 million plus additional amounts based on our financial results and condition. We can also make additional stock repurchases equal to the amount of proceeds that we receive from the exercise of stock options held by our employees. Additionally, we can make acquisitions as long as the pro forma net leverage ratio is less than 4.5 to 1.0.

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

As of September 30, 2014 and December 31, 2013, we had outstanding letters of credit totaling $0.2 million.

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9. Financial Instruments

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

We may utilize interest rate swaps to manage our interest expense exposure by fixing our interest rate on portions of our floating rate term loan. We have entered into a $75 million notional value interest rate swap expiring in December 2016 which provides for a fixed interest rate of 1.08%. We did not provide or receive any collateral for this contract. The fair value of this financial derivative, which was designated as and qualified as a cash flow hedge through November 2013, is determined using the market standard methodology of netting the discounted future fixed cash receipts (or payments) and the discounted expected variable cash payments (or receipts). The variable cash payments (or receipts) are based on the expectation of future interest rates (forward curves) derived from observed market interest rate curves and implied volatilities. In addition, credit valuation adjustments, which consider the impact of any credit enhancements to the contracts, are incorporated in the fair values to account for potential nonperformance risk.

Fair Value of Derivative Instruments

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

	As of September 30, 2014			As of December 31, 2013		
(in thousands)	Notional amount	Fair value Asset	Liability (1)	Notional amount	Fair value Asset	Liability (1)
Undesignated derivatives:						
Interest rate swap	$75,000	$—	$423	$75,000	$—	$723

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

Through November 2013, the above derivative instrument was designated as and qualified as a cash flow hedge and the effective portion of the unrealized gains and losses on the derivative was reported as a component of accumulated other comprehensive loss and reclassified into earnings in the periods during which the hedged transactions affected earnings. Upon refinancing our term loan in November 2013, this hedge no longer qualified as a cash flow hedge and gains and losses on the derivative are recorded in current period earnings. The balance in accumulated other comprehensive loss at the date of discontinuance of hedge accounting is being amortized into earnings on a straight-line basis through December 2016. For the year-to-date period ended September 30, 2014, approximately $0.3 million was amortized into earnings from accumulated other comprehensive loss and is included in the table below as amounts reclassified from accumulated OCL, gain/(loss).

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	2014	2013	2014	2013
Effective portion recognized in accumulated OCL, gain/(loss)	—	(455)	—	290
Amounts reclassified from accumulated OCL, gain/(loss)	96	171	288	504
Gain/(loss) on derivative	362	—	300	—

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10. Fair Value Measurement

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

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

The following tables set forth our assets and liabilities that are measured at fair value on a recurring basis at September 30, 2014 and December 31, 2013:

	As of September 30, 2014			
(in thousands)	Total	Level 1	Level 2	Level 3
Assets/(Liabilities):				
Cash equivalents	$10,000	$10,000	$—	$—
Interest rate swap	(423)	—	(423)	—

	As of December 31, 2013			
(in thousands)	Total	Level 1	Level 2	Level 3
Assets/(Liabilities):				
Cash equivalents	$30,000	$30,000	$—	$—
Interest rate swap	(723)	—	(723)	—

11. Other Liabilities

Other liabilities consisted of the following:

(in thousands)	As of September 30, 2014	As of December 31, 2013
Employee compensation and benefits	$18,578	$19,756
Liability for pension benefits	62,903	62,020
Liabilities for uncertain tax positions	11,078	10,670
Other	15,873	14,826
Other liabilities (less current portion)	$108,432	$107,272

12. Noncontrolling Interests

Individuals and other entities own a 4% noncontrolling interest in the capital stock of the subsidiary company that publishes our Memphis newspaper and a 6% noncontrolling interest in the capital stock of the subsidiary company that publishes our Evansville newspaper. We are not required to redeem the noncontrolling interests in these subsidiary companies.

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13. Supplemental Cash Flow Information

The following table presents additional information about the change in certain working capital accounts:

(in thousands)	Nine Months Ended September 30, 2014	2013
Other changes in certain working capital accounts, net		
Accounts and notes receivable	$15,247	$2,807
Income taxes receivable/payable, net	(5,764)	(2,251)
Accounts payable	79	(6,274)
Accrued employee compensation and benefits	9,811	(5,827)
Other accrued liabilities	4,284	(238)
Other, net	3,377	(1,703)
Total	$27,034	$(13,486)

14. Employee Benefit Plans

We sponsor various noncontributory defined benefit pension plans covering substantially all full-time employees that began employment prior to June 30, 2008. Benefits earned by employees are generally based upon employee compensation and years of service credits. We also have a non-qualified Supplemental Executive Retirement Plan ("SERP"). Effective June 30, 2009, we froze the accrual of benefits under our defined benefit pension plans and our SERP that cover the majority of our employees.

We sponsor a defined contribution plan covering substantially all non-union and certain union employees. We match a portion of employees' voluntary contributions to this plan. In connection with freezing the accrual of service credits under certain of our defined benefit pension plans, we began contributing additional amounts to certain employees' defined contribution retirement accounts in 2011. These transition credits, which will be made through 2015, are determined based upon the employee’s age, compensation and years of service.

Other union-represented employees are covered by defined benefit pension plans jointly sponsored by us and the union, or by union-sponsored multi-employer plans.

The components of the expense consisted of the following:

(in thousands)	Three Months Ended September 30, 2014	2013	Nine Months Ended September 30, 2014	2013
Service cost	$21	$17	$64	$51
Interest cost	6,600	5,976	19,155	17,927
Expected return on plan assets, net of expenses	(5,893)	(5,371)	(17,611)	(16,113)
Amortization of actuarial loss	862	1,060	2,145	3,182
Total for defined benefit plans	1,590	1,682	3,753	5,047
Multi-employer plans	100	95	324	326
Withdrawal from GCIU multi-employer plan	—	—	4,100	—
SERP	80	808	672	1,981
Defined contribution plans	2,419	2,341	8,635	8,627
Net periodic benefit cost	$4,189	$4,926	$17,484	$15,981

We contributed $0.6 million to fund current benefit payments for our SERP during the nine months ended September 30, 2014. We anticipate contributing an additional $0.2 million to fund the SERP’s benefit payments during the remainder of 2014. We contributed $0.1 million to our defined benefit pension plans during the first nine months of 2014.

We participate in multi-employer pension plans that cover certain employees that are members of unions or trade associations that have a collective bargaining agreement with us. In the second quarter of 2014, unions ratified our plan to withdraw from the Graphics Communication International Union (GCIU) Employer Retirement Fund. Upon ratification of the agreement, we estimated the undiscounted liability to be approximately $6.5 million and recorded a liability of $4.1 million for the present value withdrawal liability. Once the final withdrawal liability is determined at the end of this year with the GCIU, we either will pay the liability in a lump sum or make equal monthly installments over 20 years beginning in 2015.