

**UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK**

-----	X	
<i>In re</i>	:	Chapter 11
	:	
THE McCLATCHY COMPANY, et al.,	:	Case No. 20-10418 (MEW)
	:	
Debtors.¹	:	(Jointly Administered)
	:	
-----	X	

DECLARATION OF SEAN M. HARDING IN SUPPORT OF DEBTORS’ MOTION FOR ENTRY OF AN ORDER APPROVING CONTINUATION OF AND PAYMENT OF PREPETITION OBLIGATIONS UNDER THE CORPORATE INCENTIVE PLAN

1. My name is Sean M. Harding. I am a Senior Managing Director with FTI Consulting, Inc. (together with its wholly owned subsidiaries, agents, independent contractors, and employees, “**FTI**”) a financial advisory services firm with an office located at 3 Times Square, New York, New York, 10036, and the Chief Restructuring Officer of the above-captioned debtors (the “**Debtors**”).

2. Except as otherwise indicated, all facts set forth in this declaration (this “**Declaration**”) are based upon my personal knowledge of the Debtors’ operations and finances, information learned from my review of relevant documents and information supplied to me by members of the Debtors’ management and the Debtors’ advisors. I am authorized to submit this Declaration in support of the *Debtors’ Motion for Entry of Interim and Final Orders Authorizing Debtors To Pay Prepetition Wages, Compensation, and Employee Benefits* (Docket No. 15)

¹ The last four digits of Debtor The McClatchy Company’s tax identification number are 0478. Due to the large number of debtor entities in these jointly administered chapter 11 cases, a complete list of the debtor entities and the last four digits of their federal tax identification numbers is not provided herein. A complete list of such information may be obtained on the website of the Debtors’ claims and noticing agent at <http://www.kcellc.net/McClatchy>. The location of the Debtors’ service address for purposes of these chapter 11 cases is: 2100 Q Street, Sacramento, California 95816.



(“**Motion**”), by which the Debtors seek authorization to, among other things, maintain and administer the Company’s historical non-executive corporate incentive plan (the “**Corporate Incentive Plan**”) in the ordinary course of business and to pay all amounts due thereunder in the ordinary course.² If called to testify, I would testify competently to the facts set forth herein.

THE DEBTORS’ SENIOR MANAGEMENT TEAM

3. As the Debtors’ Chief Restructuring Officer, I was appointed by The McClatchy Company’s Board of Directors (the “**Board**”) and directly report to the Board. The Chief Executive Officer was also appointed by and reports directly to the Board. The Vice President – Finance/Chief Financial Officer, Vice President – Customer and Product, the Vice President – News, and the Vice President – Legal and People comprise the Debtors’ senior management team who report directly to the Chief Executive Officer (the “**Senior Management Team**”). Only myself and the Senior Management Team were appointed by the Board. In addition, other than myself, the Chief Executive Officer and the individuals that comprise the Senior Management Team are the only employees in the Company that: (i) directly report to the Board in the ordinary course; (ii) have authority to make Company-wide strategic decisions; (iii) dictate corporate strategy and policy; and/or (iv) have discretionary control over material budgetary amounts.

I. Ordinary Course Corporate Incentive Plan

(a) Plan Design

4. For at least the past 20 years, the Debtors have had a corporate incentive program in place that incentivizes employees to hit certain challenging financial and personal targets.

² Capitalized terms used, but not defined, in this Declaration shall have the meaning ascribed to such term in the Motion.

Historically, the targets have been weighted as follows: 75% of the payout was related to hitting targets for the Company's financial performance and 25% of the payout was related to hitting an individual's personal strategic goals.³

5. In light of the Company's financial situation and the impending chapter 11 restructuring, the Company determined that for fiscal year 2020, it would significantly reduce costs associated with its Corporate Incentive Plan. To that end, the number of participants were reduced from 150 participants in 2019 to 37⁴ participants in 2020 and the total costs associated with the program was reduced from a total actual payout of \$2.5 million for the fiscal year 2019 to a maximum potential payout of \$532,512.30 for fiscal year 2020. In addition, the plan was restructured so that participants' targets were set at approximately 20% of the potential payout available to them in 2019 and would only be paid out if the participants achieved their personal goals. Accordingly, most participants will see an 80% reduction in their potential payouts under the Corporate Incentive Plan for 2020 compared to 2019. Although certain members of the People team had input into the design of the Corporate Incentive Plan, the design of the Corporate Incentive Plan was ultimately subject to the approval by the Chief Executive Officer and the Senior Management Team.

6. Personal goals have historically been and for the 2020 plan year were set in a collaborative manner with participants providing input to their direct manager. However, the target for personal goals are ultimately determined by the participant's direct manager. In the

³ The Corporate Incentive Plan has been designed in this manner with a maximum of 75% of the target weighted toward achieving financial goals and 25% of the target weighted toward achieving personal goals since 2016.

⁴ At the beginning of 2020, the 2020 Corporate Incentive Plan included 40 participants. However, three employees who were participants were terminated prior to the end of the first measurement period for 2020 and are therefore no longer eligible to participate.

ordinary course, a manager may adjust a participant's personal goals to align with changing business circumstances and objectives.

7. The personal goals are in place to incentivize the Corporate Incentive Plan participants to achieve more than just financial goals for the betterment of the Company's operations. These goals generally include project objectives, key metric improvements and leadership. In my opinion, the personal goals are reasonably designed to incentivize the Corporate Incentive Plan participants to implement strategic initiatives, improve projects, reduce costs, and promote efficiency across the organization. I believe that the Corporate Incentive Plan aligns the Corporate Incentive Plan participants with Senior Management in executing strategic objectives and maximizes the value of the Debtors' estates. The personal goals and related criteria are consistent with the approach of the historic corporate incentive program that has been in place for the past 20 years, and the current formulation is consistent with goals and related criteria that have been used in the ordinary course over the past 4 years. The personal goals of each of the 2020 Corporate Incentive Plan Participants have been served on the DIP Lender, the Prepetition Secured Creditors, the United States Trustee, and the Creditors' Committee.

(b) Corporate Incentive Plan Participants

8. Currently, there are 37 Corporate Incentive Plan participants, none of whom are members of the Senior Management Team, but each of whom plays a role in running certain business units or performing certain corporate functions that are essential to the Company's ability to achieve its long-term business plans and, therefore, maximizing the value of the estates. Accordingly, in my opinion, it is imperative that the Corporate Incentive Plan participants are appropriately incentivized to elevate their performance levels (and that of their respective

business units or corporate functions). This is especially the case now that each of them has been asked to assume certain additional responsibilities of operating in chapter 11.

9. None of the Corporate Incentive Plan participants is an “insider” of the Company. Based on my experience with the 37 Corporate Incentive Plan employees and my understanding of their respective roles within the Company, the Corporate Incentive Plan participants each (i) perform day-to-day tasks within their specific functions, subject to the direction and supervision of more senior employees, and (ii) must seek authority before taking any significant action relating to company-wide strategic decision-making, corporate policy, or disbursement of substantial funds. In fact, ultimately, the Company’s Chief Executive Officer, Chief Financial Officer, and Vice President -- Legal and People make final decisions regarding development of the budget and company policy, at times with the input and approval of the Board.

10. Of the 37 Corporate Incentive Plan participants, only one reports directly to the Chief Executive Officer.⁵ A chart illustrating the hierarchy of the Corporate Incentive Plan Participants is annexed hereto as **Exhibit A**. The Corporate Incentive Plan Participants’ titles are not indicative of their relative level of authority and control, nor do such titles reflect to whom such employees report or their overall placement in the organization’s management structure.

11. Below is description of the 27 participants who report directly to the Chief Executive Officer or directly to another member of Senior Management, each falling into one of the below-referenced categories. In each case, these Corporate Incentive Plan participants conduct their duties under the supervision and direction of members of the Senior Management

⁵ The McClatchy Group Publisher previously reported to the Regional Publisher West Region who, in turn, reported to the VP, Operations. However the VP, Operations position was eliminated in October 2019 and the West and East Regional Publishers’ positions were eliminated in April 2020 in connection with the restructuring and the impact of COVID-19. Accordingly, since then, the McClatchy Group Publisher has taken on many of the former responsibilities of both the East and West Regional Publishers and reports to the Chief Executive Officer.

Team. All other participants report directly to a party who reports to Senior Management, and are therefore, further removed from the Chief Executive Officer and Senior Management Team and decision-making related to corporate policy, the corporate budget, and the design of incentive compensation plans.

12. **Operations.** The McClatchy Group Publisher, who was, at the commencement of the Chapter 11 Cases, the Publisher of the Wichita Eagle reports to the Chief Executive Officer. The McClatchy Group Publisher directs strategy with respect to local community relations and strategic business initiatives in the various regions in which McClatchy conducts business.

13. **Legal.** Two Corporate Incentive Plan participants report to the Vice President – Legal and People and serve as legal counsel for real estate partnerships, strategic business operations, contracts, and oversee outside counsel relationships.

14. **Human Resources/People.** One Corporate Incentive Plan participant reports to the Vice President – Legal and People, who also serves as the Senior Management Team oversight role for the People department. VP Head of People is responsible for managing the People team budget, shared HR services, and overseeing relationships with business partners to the People team.

15. Three additional Corporate Incentive Plan participants also report to the Vice President – Legal and People. These include the Director of Communications and Public Relations, who is responsible for internal and external corporate communications and manages media relations, the Director of Strategic Business Operations, who negotiates vendor contracts and implements process related to Company contracts and the Director of Privacy and Compliance, who oversees the company's data privacy and compliance programs.

16. **Customer and Product.** Six Corporate Incentive Plan participants report to the VP, Customer and Product. The Senior Director of Business Strategy and Operations manages strategic digital revenue partnerships and oversees support for strategic initiatives with existing platform partnerships. The Senior Director Strategy helps in the development for overall strategy for customer and product division, oversees implementation of the budget for the customer and product division, and oversees strategy related to analytics and data science. The Senior Director of SRM Technology oversees engineering and development for the Company and is responsible for application management. The Senior Director of Audience Development manages the print subscription business and implements strategy related to print revenue. The Senior Director, Design helps in developing and overseeing product management strategy and manages digital design and oversees the customer experience division. Sr. Director of Infrastructure oversees the Company's IT infrastructure, manages the Company's data centers, and manages network, storage and end user support.

17. **Finance.** Four Corporate Incentive Plan employees report directly to the Chief Financial Officer. The Director of Finance and Corporate Strategy is responsible for corporate financial analysis and assists in financial planning functions. The General Manager of the Shared Services Center manages the Company's Shared Services Center, oversees strategic sourcing, and oversees accounts payable and accounts receivable functions. The Treasurer, Corporate Controller, and Chief Accounting Officer is responsible for overseeing the treasury function and investor relations, and provides accounting support to the Company. The Director of Production manages employees in the Production division, oversees the sale or lease of buildings, and oversees enterprise-wide cost reduction initiatives.

18. **News.** Ten Corporate Incentive Plan participants report directly to the VP, News. The Vice President, Editorial Page sets content strategy for the news opinion strategy, oversees the national opinion team, and administers the newsroom budget. The Head of Audience Growth is responsible for overseeing the audience growth and loyalty team and helps develop strategy related to audience acquisition. The Senior Director, News Analytics helps oversee news data analytics, including developing goals for news reporter/editor page views and is responsible for coordinating with other divisions on alignment of strategy. The Managing Editor is responsible for developing strategy related to real time news and editorial growth and retention, and oversees training and coaching in newsrooms. The Senior Director, News Publishing is responsible for developing strategy for editorial e-editions and oversees the publishing center. The Senior Director of Video and Audio is responsible for assisting in the development of strategy related to audio and video content and oversees the video/audio department. The Midwest Regional Editor and President of the Kansas City Star is responsible for managing news operations in the Central region, sets news content strategy for the region and administers that region's budgets. The Director of Community Funding Initiatives, Sac Bee President and West Region Editor manages news operations for the West region and sets news content strategy for the West region. The SE Regional Editor and President of Raleigh N&O manages news operations for the East region and sets news content strategy for the East region. The Publisher of the Miami Herald, Florida Regional Editor oversees publishing of the *Miami Herald* and *El Nuevo Herald* and coordinates grant funding for the news.

WHEREFORE, pursuant to 28 U.S.C. § 1746, I declare under penalty of perjury that the foregoing statements are true and correct to the best of my knowledge, information, and belief.

Dated: New York, New York
August 12, 2020

/s/ Sean M. Harding _____
Sean M. Harding
Senior Managing Director
FTI Consulting, Inc.
*Chief Restructuring Officer and
Financial Advisor to the Debtors and Debtors-in-
Possession*

EXHIBIT A

ORGANIZATION CHART OF CORPORATE INCENTIVE PLAN PARTICIPANTS

