



THE MCCLATCHY COMPANY

2011 ANNUAL REPORT

The Road Ahead

The McClatchy Company is a leading news and information provider, offering a wide array of print and digital products in each of the markets it serves. As the third largest newspaper company in the country, McClatchy's operations include 30 daily newspapers, community newspapers, websites, mobile news and advertising, niche publications, direct marketing and direct mail services. The company's largest newspapers include *The Miami Herald*, *The Sacramento Bee*, *Fort Worth Star-Telegram*, *The Kansas City Star*, *The Charlotte Observer* and *The News & Observer* in Raleigh, N.C.

McClatchy is listed on the New York Stock Exchange under the symbol MNI.

Financial Highlights

in thousands except per share amounts	2011	2010	% change
For the Year			
Net revenues	\$1,269,640	\$1,375,232	-7.7%
Operating expenses	1,068,325	1,136,349	-6.0%
Income from continuing operations	54,389	33,100	64.3%
Income from continuing operations per share	0.63	0.39	61.5%
Operating cash flow from continuing operations ⁽¹⁾	352,053	382,140	-7.9%
At Year End			
Total assets	\$3,040,059	\$3,146,859	-3.4%
Long-term debt	1,577,476	1,703,339	-7.4%
Stockholders' equity	175,187	215,752	-18.8%
Shares outstanding:			
Class A shares	60,605	60,162	0.7%
Class B shares	24,801	24,801	0.0%

⁽¹⁾ Operating cash flow from continuing operations represents operating income (\$201,315,000 in 2011 and \$238,883,000 in 2010) plus restructuring related severance (\$13,853,000 in 2011 and \$9,853,000 in 2010) plus depreciation and amortization (\$121,528,000 in 2011 and \$133,404,000 in 2010) plus other impairments and unusual costs in 2011 of \$15,357,000. The company believes operating cash flow is commonly used as a measure of performance for newspaper companies, however, it does not purport to represent cash provided by operating activities as shown in the company's statement of cash flows, nor is it meant as a substitute for measures of performance prepared in accordance with generally accepted accounting principles.

Letter to Shareholders

While 2011 started as a disappointing year, it ended positively and productively with a great deal of promise for the future. Much of McClatchy's work over the past few years, in fact, has involved positioning this company for a prosperous future, one where we serve thriving communities with relevant and compelling news and information on a variety of print and digital platforms of our customers' choosing.

Indeed, the road ahead is becoming clear. It is both challenging and exciting, and we're pleased with the progress we made in 2011. A combination of hard work and creativity saw us through economic adversity that characterized the first three quarters and propelled us forward to a strong finish. We were pleased to report earnings growth in 2011. Net income from continuing operations grew to \$54.4 million, or 63 cents per share, compared to \$33.1 million, or 39 cents per share, in 2010.

The year ended with three items of good news that gave a boost to our financial stability and outlook.

THREE HEADLINES FROM 2011

First, our advertising revenue trends began improving in the fourth quarter. Second, our Sunday circulation continued its dramatic improvement and began growing. And third, we received \$31.6 million in dividends from our equity investments.

In the first three quarters of the year, ad revenues were down about 10% led by national advertising. Ad revenue trends improved markedly in the fourth quarter, down only 5.7%, and were down 8.9% for all of 2011. Total revenues were down 5.0% in the fourth quarter and were down 7.7% for all of 2011 compared to a decline of 6.5% in total revenues in 2010.

Specifically, we saw fourth-quarter improvement in retail and national advertising compared to the first nine months of the year, and direct marketing revenue grew sharply throughout 2011. Digital-only revenues continued their impressive growth, up nearly double digits in the fourth quarter.

Another positive development was the growth of our Sunday circulation. While daily circulation made progress in 2011, Sunday circulation improved more quickly and turned positive, up 1.5% in the last half of the year. Steady improvement began at the end of 2009 and continued through the end of 2011.

The Sunday newspaper is of paramount importance. On average, Sunday drives nearly 36% of our advertising revenues. The Sunday paper is highly profitable in addition to being highly valued by our readers and advertisers.

Our third item of good news is our increasingly valuable equity investments, which paid us \$31.6 million in dividends in 2011.

Classified Ventures, which operates two of the nation's premier classifieds websites, Cars.com and Apartments.com, paid us a dividend of \$17.4 million. This comes on top of its first-ever dividend payment to McClatchy in 2010 of more than \$24 million. McClatchy owns 25.6% of Classified Ventures.

CareerBuilder, which operates the country's leading jobs website, paid us a dividend of \$7.5 million in December. McClatchy owns 15% of CareerBuilder.

These internet companies are important partners in our digital success. They provide leading digital products used every day at each of our newspapers and their earnings contribute significantly to our bottom line and to our liquidity.

And while Classified Ventures and CareerBuilder contributed the majority of our 2011 dividend payments, McClatchy's other equity investments also paid us \$6.8 million in 2011 dividends.

GROWING DIGITAL BUSINESS

There were other important developments in 2011 that will help us navigate the road ahead, starting with our digital business.

Digital-only advertising grew 9.1% in 2011. Digital advertising now represents about 20% of our total advertising – almost \$200 million. More than half of all our employment advertising is now digital, more than 45% of automotive and nearly a third of real estate advertising revenues are now digital.

We continue to pursue and develop new digital products and offerings. In August, we completed the launch of dealsaver[®], our proprietary daily deals service, across all of our markets. Unlike competitors such as GroupOn or Living Social, dealsaver[®] benefits from the promotional power of our local papers, their related websites and local sales forces.

Since late last year, McClatchy has been rolling out Find n Save across our markets. Find n Save is a digital shopping portal that provides advertisers with a common platform to reach online audiences with digital circulars, coupons and display advertising.

Find n Save has been well-received by both consumers and advertisers – so much so that McClatchy reached out to several other leading media and publishing companies to join forces and create a new company. This new effort provides Find n Save with significant

scale. Our fellow investors currently include, among others, The Washington Post Company, Gannett Co., and the Hearst Corporation. Find n Save will be in place at an estimated 250 newspaper websites by the end of 2012.

McClatchy continues to move aggressively in the mobile space. Our content is available on all types of mobile platforms and our mobile traffic is up 253% from 2010 and accounts for 11% of our total digital traffic. Mobile is not unlike the web where the audience arrived first and advertising followed. Our mobile audience is growing exponentially and we're actively exploring revenue opportunities.

We continue to experiment with paid content. While most of our online content is free, we're testing several different paid models, including paid mobile apps, eReader subscriptions and niche online publications with deep original content in areas such as sports and politics. This year, we introduced a metered pay wall at our newspaper website in Modesto, Calif.

When it comes to paid content, we're always searching for that sweet spot – trying to capture subscription revenue while not hurting traffic or advertising revenue. So we'll continue to test and experiment and learn from what others are doing.

HIGH-QUALITY JOURNALISM

Despite expense pressures, high-quality journalism remains a hallmark of McClatchy. This quality content plays an important role in our business.

It's vital to retaining and growing our audiences and it distinguishes McClatchy from proliferating new media competitors. This high-quality content is now available on a wide array of print and digital platforms.

McClatchy's commitment to high-quality journalism continues to be recognized by our peers in the news business. This past spring, *The Miami Herald* won the Robert F. Kennedy Journalism Award for coverage of the U.S. prison camps at Guantánamo Bay. The RFK award, one of the most prestigious prizes in all of journalism, salutes outstanding reporting on human rights and social justice. It marks the third consecutive year that a McClatchy paper has won this award and four of the last five years.

McClatchy newspapers have won 52 Pulitzer Prizes over their histories. We didn't add to our Pulitzer total in 2011, but three McClatchy newspapers were named finalists last year by the Pulitzer jurors: the *Lexington Herald-Leader* for editorial cartooning and *The Miami Herald* and our Spanish language *El Nuevo Herald* in the breaking news category for their combined coverage of the earthquake in Haiti.

This kind of recognition is flattering, but more important than any award is the continuation of our mission – producing high-quality, compelling, relevant local content – day in and day out – that residents in our communities just can't find anywhere else. That's what McClatchy journalism is all about, and it is perfectly congruent with our business goals.

AUDIENCE TRENDS

Our compelling journalism has been a major contributor to our growing audience reach. In fact, demand for our content has never been greater.

We reported daily circulation down 3.9% in the most recent Audit Bureau of Circulations report and growth in Sunday circulation. But our reach, of course, extends beyond print circulation, including reaching millions of readers digitally.

While our online growth is solid, it's important to note that not all internet traffic is equal. We get higher ad rates and better results for our advertisers from local audiences. Local unique visitors to our websites were up 6.1% in 2011.

FINANCIAL STABILITY

The road ahead demands financial stability, and we executed several important transactions this year that improved the company's financial position.

We contributed seven properties valued at nearly \$50 million to our pension plan in January. This satisfied virtually all of our required contributions for 2011. It also reduced taxes by \$18 million, preserving cash to pay down debt. It's important to remember that we froze our pension plan in 2009. So while we are responsible for existing pension obligations, we're no longer accruing benefits.

We also sold real estate in Miami for \$236 million in 2011, contributing \$163 million in proceeds to our pension plan, which helped us save about \$60 million in taxes. These pension payments will have lasting benefits. They will reduce our near-term required pension contributions by about \$45 million annually.

We remain steadfast in reducing debt and cut our debt by \$140 million in 2011.

Since the end of 2006, we have paid off more than \$1.7 billion in debt, from \$3.3 billion to \$1.6 billion – all of this progress accomplished during a brutal recession. Importantly, we've done this while still funding our pension plans and making investments for the future.

And our debt maturities are manageable. Our nearest term bond maturity is November 2014 with only about \$81 million in bonds due at that time – not an issue given our free cash flow. We finished 2011 with a cash balance of \$86 million. Given that cash and our revolver availability, we have ample liquidity as we enter 2012.

LOOKING FORWARD

We'll be working hard in the year ahead to maintain our advertising revenue momentum, adding digital sales staff and expanding our sales training, but much of our performance will depend on the overall economy.

We'll continue to focus on expense control. Even as we restructure, we'll do so strategically, working to preserve the drivers of our business: news, advertising and digital.

We will be diligent in reducing debt and improving our financial condition. We remain opportunistic, as we always have been, in considering transactions that will strengthen our company, including selling assets, but also exploring digital investments that give us a strategic advantage in our operations.

The road ahead is a promising one thanks in large part to the vision, leadership, talent and hard work of McClatchy employees, executives and directors. Larry Jinks, one of our most trusted advisers, retired from the McClatchy Board of Directors in 2011 after 16 years of dedicated service. We wish Larry the best in retirement and thank him for his many contributions.

We also bid a fond farewell to one of our senior executives and welcomed a new leader to the executive management team.

Frank Whittaker, vice president of operations and a 26-year company executive, retired in May 2011. Frank was instrumental in helping McClatchy grow from a small, family-owned newspaper company into the nation's third largest newspaper publisher with an expanding digital business. We thank Frank for his distinguished service and wish him a long and fulfilling retirement.

We were delighted to add Mark Ziemann to McClatchy's executive ranks as vice president for operations, replacing Frank. Mark arrived from *The Kansas City Star*

where he served as president and publisher since 2008 and previously as the newspaper's editor and vice president. As a longtime journalist and editor, Mark is deeply committed to high-quality journalism and public service – values at the core of the McClatchy tradition. Mark was very successful in maintaining these values in the digital environment and helping advertisers grow their businesses online through *The Kansas City Star's* many digital products and services. Mark will have a key role in helping additional McClatchy newspapers manage this transition.

The road ahead is an exciting one because McClatchy is successfully navigating through a difficult economic environment, producing high-quality, high-margin print and digital products along the way. We thank you for joining us on this journey.



GARY B. PRUITT
Chairman, President and
Chief Executive Officer

March 1, 2012

STOCKHOLDER INFORMATION

GENERAL OFFICE

The McClatchy Company
2100 Q Street
Sacramento, CA 95816
(916) 321-1846

TRANSFER AGENT AND REGISTRAR

Wells Fargo Shareowner Services
P.O. Box 64874
St. Paul, MN 55164-0874
www.shareowneronline.com
(800) 718-2377

INDEPENDENT AUDITOR

Deloitte & Touche LLP
980 9th Street
Sacramento, CA 95814

FORM 10-K

Upon request, the company will provide, without charge, a copy of its report on Form 10-K filed with the Securities and Exchange Commission. Requests should be made in writing to:

The McClatchy Company
Attention: Assistant Treasurer
P.O. Box 15779
Sacramento, CA 95852

ANNUAL MEETING

The annual meeting of stockholders will be held on Wednesday, May 16, 2012 at 9:00 a.m. Pacific Time. The Shareholder meeting will be held in the Vizcaya Pavillion, 2019 21st Street, Sacramento, CA 95818.

CERTIFICATIONS OF OFFICERS

The company submitted its Annual CEO Certification for 2011 to the New York Stock Exchange on June 20, 2011. The company has filed with the Securities and Exchange Commission as Exhibits 31.3 and 31.2 to its Annual Report on Form 10-K for the fiscal year ended December 25, 2011, the Certifications of its Chief Executive Officer and Chief Financial Officer required in connection with that report by rules 13a-14(a) and 15-d-14(a) under the Securities Exchange Act.

DIRECTORS AND OFFICERS

Directors

Elizabeth Ballantine
President, EBA Associates

Leroy T. Barnes, Jr.
Former Vice President and
Treasurer, PG&E Corporation

Molly Maloney Evangelisti
Former Special Projects Coordinator,
The Sacramento Bee

Kathleen Foley Feldstein
President, Economics Studies, Inc.

Brown McClatchy Maloney
Former Owner and Publisher,
Olympic View Publishing
and Owner, Radio Pacific

Kevin S. McClatchy
Former Managing General Partner
and Chief Executive Officer,
Pittsburgh Pirates

William B. McClatchy
Entrepreneur, Journalist and
Co-founder of Index Investing, LLC

Theodore R. Mitchell
President and Chief Executive Officer,
New Schools Venture Fund

Gary B. Pruitt
Chairman, President and
Chief Executive Officer,
The McClatchy Company

S. Donley Ritchey, Jr.
Former Chairman and
Chief Executive Officer,
Lucky Stores, Inc.

Frederick R. Ruiz
Chairman Emeritus and
Co-founder, Ruiz Foods, Inc.

Officers

Gary B. Pruitt
Chairman, President and
Chief Executive Officer

Heather L. Fagundes
Vice President, Human Resources

Anders Gyllenhaal
Vice President,
News and Washington Editor

Christian A. Hendricks
Vice President, Interactive Media

Karole R. Morgan-Prager
Vice President, General Counsel
and Corporate Secretary

Patrick J. Talamantes
Vice President, Finance
and Chief Financial Officer

Robert J. Weil
Vice President, Operations

Mark Zieman
Vice President, Operations

R. Elaine Lintecum
Treasurer

Hai V. Nguyen
Controller



THE MCCLATCHY COMPANY
Since 1857

2100 Q Street • Sacramento, CA 95816 • (916) 321-1846
www.mcclatchy.com

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K**

(Mark One)

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

For the fiscal year ended: December 25, 2011

or

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

For the transition period from _____ to _____

Commission file number: 1-9824

The McClatchy Company

(Exact name of registrant as specified in its charter)

Delaware
State or other jurisdiction of incorporation or organization

52-2080478
I.R.S. Employer Identification No.

2100 "Q" Street, Sacramento, CA
(Address of principal executive offices)

95816
(Address of principal executive offices)

Registrant's telephone number, including area code: 916-321-1846

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

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
Class A Common Stock, par value \$.01 per share	New York Stock Exchange

Securities registered pursuant to section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

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

Based on the closing price of the Company's Class A Common Stock on the New York Stock Exchange on June 24, 2011 the last business day of the Company's second fiscal quarter, the aggregate market value of the voting and non-voting common equity held by non-affiliates was approximately \$171.6 million. For purposes of the foregoing calculation only, as required by Form 10-K, the Registrant has included in the shares owned by affiliates, the beneficial ownership of Common Stock of officers and directors of the Registrant and members of their families, and such inclusion shall not be construed as an admission that any such person is an affiliate for any purpose.

Shares outstanding as of February 28, 2012:

Class A Common Stock 60,607,179
Class B Common Stock 24,800,962

DOCUMENTS INCORPORATED BY REFERENCE

Definitive Proxy Statement for the Company's May 16, 2012, Annual Meeting of Shareholders to be filed pursuant to Regulation 14A under the Securities Exchange Act of 1934 (incorporated in Part III to the extent provided in Items 10, 11, 12, 13 and 14 hereof).

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2011 FORM 10-K

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Forward-Looking Information:

This report on Form 10-K contains forward-looking statements regarding the future financial performance and operations of The McClatchy Company (“McClatchy” or the “Company”). These statements represent management’s expectations or beliefs concerning future events and are based upon current expectations and knowledge of factors impacting McClatchy’s business, including, without limitation, McClatchy’s customers and the markets in which McClatchy operates, the Company’s advertising revenues, the effect of the Company’s revenues on the fair value of its reporting units, its newspapers’ audience and circulation volumes, its impairment analyses and management’s evaluation of the factors pertinent thereto, the economy, the Company’s pension plans, including its assumptions regarding return on pension plan assets and assumed discount rates and future contributions to its qualified pension plan, newsprint pricing and other costs, its restructuring plans, including projected costs and savings, amortization expense, stock option expenses, prepayment of debt, capital expenditures, litigation, sufficiency of capital resources, possible acquisitions and investments, and future financial performance. Such statements are subject to risks, trends and uncertainties. Forward-looking statements are generally preceded by, followed by or are a part of sentences that include the words “believes,” “expects,” “anticipates,” “estimates,” or similar expressions. For all of those statements, McClatchy claims the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.

You should understand that the following important factors, in addition to those discussed elsewhere in this document, particularly in the section entitled “Risk Factors” in this annual report on Form 10-K, in the documents which we incorporate by reference and in our other filings with the Securities and Exchange Commission, could affect the future results of McClatchy and could cause those future results to differ materially from those expressed in the Company’s forward-looking statements: McClatchy might not generate sufficient cash from operations, or otherwise, necessary to reduce debt or meet debt covenants as expected; McClatchy may experience decreased circulation and diminished revenues from retail, classified and national advertising; McClatchy’s operations have been, and will likely continue to be, adversely affected by competition, including competition from internet publishing and advertising platforms; increases in the cost of newsprint; bankruptcies or financial strain of its major advertising customers; litigation or any potential litigation; geo-political uncertainties including the risk of war; changes in printing and distribution costs from anticipated levels; changes in interest rates; changes in pension assets and liabilities; increased consolidation among major retailers in our markets or other events depressing the level of or reducing the demand for advertising; our inability to negotiate and obtain favorable terms under collective bargaining agreements with unions; competitive action by other companies; and other factors, many of which are beyond our control.

PART I

ITEM 1. BUSINESS

Available Information

The McClatchy Company (McClatchy or the Company) maintains a website which includes an Investor Relations section available to all interested parties at www.mcclatchy.com. All of the Company's filings with the United States Securities and Exchange Commission, along with any amendments thereto, are available free of charge on our website in the Investor Relations section. The Company's Corporate Governance Guidelines; Charters for the following committees of the board of directors: audit committee, committee on the board, pension and savings plans committee, compensation and nominating committees; and the Company's Code of Business Conduct and Ethics and Senior Officers Code of Ethics may also be found on this website. In addition, paper copies of any such filings and corporate governance documents are available free of charge by contacting the Company at the address listed on the cover page of this filing. The contents of this website are not incorporated into this filing. Further, the reference to the URL for this website is intended to be an inactive textual reference only.

Overview

The Company is a hybrid print and digital, news and advertising company committed to a three-pronged strategy:

- First, to operate high-quality newspapers in growth markets;
- Second, to operate the leading local digital business in each of its daily newspaper markets, including websites, email products, mobile services and other electronic media; and
- Third, to extend these franchises by supplementing the mass reach of the newspaper with direct marketing and direct mail products so that advertisers can capture both mass and targeted audiences with one-stop shopping.

By virtue of its strategy, the Company is the leading local media company in its markets. The Company has more than a century and a half of experience in mass and targeted media with its origins in the California Gold Rush era of 1857. Originally incorporated in California as McClatchy Newspapers, Inc., the Company's three original California newspapers—*The Sacramento Bee*, *The Fresno Bee* and *The Modesto Bee*—were the core of the Company until 1979 when the Company began to diversify geographically outside of California. At that time, it purchased two newspapers in the Northwest, the *Anchorage Daily News* and the *Tri-City Herald* in southeastern Washington. In 1986, the Company purchased *The (Tacoma) News Tribune* and in 1987, the Company reincorporated in Delaware. The Company expanded into the Carolinas when it purchased newspapers in South Carolina in 1990 and *The News and Observer Publishing Company* in North Carolina in 1995.

On June 27, 2006, the Company acquired Knight-Ridder, Inc. (KRI), retaining 20 former KRI owned daily papers and significant digital assets.

The McClatchy Company is a leading news and information provider, offering a wide array of print and digital products in each of the markets it serves. As the third largest newspaper company in the country (based upon daily circulation), McClatchy's operations include 30 daily newspapers, community newspapers, websites, mobile news and advertising, niche publications, direct marketing and direct mail services. The Company's newspapers range from large dailies serving metropolitan areas to non-daily newspapers serving small communities. For the fiscal year 2011, the Company had an average paid daily circulation of 2.0 million and Sunday circulation of 2.8 million. McClatchy also operates local websites in each of its markets that complement its newspapers and extend its audience reach. McClatchy-owned newspapers include, among others, *The Miami Herald*, *The Sacramento Bee*, the *Fort Worth Star-Telegram*, *The Kansas City Star*, *The Charlotte Observer*, and *The (Raleigh) News & Observer*.

McClatchy also owns a portfolio of premium digital assets, including 15.0% of CareerBuilder, LLC, which operates the nation's largest online job site, CareerBuilder.com, 25.6% of Classified Ventures, LLC, a company that offers classified websites such as the auto website Cars.com and the rental site Apartments.com, and 33.3% of HomeFinder, LLC, which operates the online real estate website HomeFinder.com.

McClatchy is listed on the New York Stock Exchange under the symbol MNI.

Strategic Emphasis

The Company's local media businesses have undergone a period of tremendous structural and cyclical change. The Company's strategy of being the leading local media company in each of its markets is furthered by focusing on five major operational imperatives:

- Increasing advertising revenues;
- Expanding its digital advertising business;
- Maintaining its commitment to public service journalism;
- Broadening audience in its local markets; and
- Focusing on cost controls.

Increasing Advertising Revenues

Advertising revenues make up the vast majority of the Company's revenues, making the quality of its sales function of utmost importance. Advertising revenues were approximately 75% of consolidated net revenues in fiscal 2011 and 76% in fiscal 2010. Circulation revenues approximated 21% of consolidated net revenues in fiscal 2011 and 20% in fiscal 2010.

The Company has a local sales force in each of its markets and believes that these sales forces are generally larger than those of other local media outlets and websites in those markets. The Company's sales forces are responsible for delivering to advertisers the broad array of its advertising products, including print, digital and direct marketing products. The Company's advertisers range from large national retail chains to local automobile dealerships to small businesses and classified advertisers.

Increasingly, the Company's emphasis has been on growing the breadth of products offered to advertisers, particularly its digital products, while expanding its relationships with smaller advertisers. Over the last two years the Company expanded its "Sunday Select" program, which delivers a package of preprinted advertisements on Sunday to non-newspaper subscribers upon their request. Also the Company has expanded its popular "Print and Deliver" program, which helps small advertisers create preprinted advertising inserts to reach customers near their stores. See the discussion below on the Company's efforts in developing new digital advertising products and expanding the reach of those products. To reach national advertisers, the Company's newspapers work with national advertising representation firms and the Company's corporate advertising department to develop relationships and make it easier for those large advertisers to place orders.

Expanding McClatchy's Digital Advertising Business

The Company's advertising revenues from digital advertising have been growing even as the Company has faced structural and cyclical change. McClatchy continues to be a newspaper industry leader in digital advertising revenue from newspaper websites as a percent of total advertising with 19.9% of advertising coming from digital products in fiscal 2011, compared to 18.1% in fiscal 2010. For fiscal 2011, 48.4% of the Company's digital advertising revenues came from advertisements placed only online; that is, they were not tied to a joint print buy, compared to 44.5% in fiscal 2010. Management believes this independent revenue stream bodes well for the future of the Company's digital business and is evidence of its importance as a resource for advertisers.

The Company's websites offer classified digital advertising products provided by companies in which we hold non-majority equity interests, including CareerBuilder for employment, Cars.com for autos and Apartments.com in the rental category.

Management continues to pursue new digital products and offerings. In August, the Company completed the launch of dealsaver[®], McClatchy's proprietary daily deals service, across all of its markets. Unlike competitors, dealsaver[®] benefits from the promotional power of McClatchy's local papers, their related websites and local sales forces.

Since late 2010, McClatchy has been rolling out Find n Save across its markets. Find n Save is a digital shopping portal that provides advertisers with a common platform to reach online audiences with digital circulars, coupons and display advertising. McClatchy has partnered with several other leading media and publishing companies to form ShopCo, LLC, which provides Find n Save with significant scale. Fellow investors currently include, among others, The Washington Post Company, Gannett, and the Hearst Corporation.

The Company is also a member, along with other newspaper companies, in a broad-based partnership with Yahoo, Inc. (Yahoo). The Company's local sales force is able to sell Yahoo advertising inventory and share in the revenue from the sales.

Maintaining Commitment to Public Service Journalism

The Company believes that high-quality news content is the foundation of the mass reach necessary for the press to play its role in a democratic society. It is also the underpinning of the Company's success in the marketplace. McClatchy newspapers continually receive national and regional awards among their peers for high-quality journalism.

Today, the Company delivers breaking news as its websites and news delivered on mobile devices compete with television and radio broadcasters for news headlines that can subsequently be expanded in its newspapers. The Company's news organizations can provide both targeted information and in-depth coverage as needed through newspapers, websites, mobile delivery and other developing technologies.

Management believes its newspapers and digital operations are well-equipped to discover, produce and distribute premium quality content in ways that leverage the Company's size and tap technology to find efficiencies in newsgathering and distribution.

Broadening Newspaper's Audiences in Their Local Markets

Each of the Company's daily newspapers has the largest circulation of any newspaper serving its particular community, and coupled with a local website and other digital platforms, reaches a broad audience in each market. The Company believes that its broad reach in each market is of primary importance in attracting advertising, the principal source of revenues for the Company.

While daily newspaper paid circulation was down 4.3%, Sunday circulation was up 0.2% in fiscal 2011 compared with fiscal 2010. Circulation volume trends began to improve in 2010 as compared to 2009 and continued to improve steadily during the course of 2011. During 2010 and 2011 the Company's newspapers cycled over initiatives begun in 2009 including aggressive price increases at most newspapers and reductions in distribution by the Company to eliminate unprofitable circulation not valued by advertisers. By comparison, circulation was down 6.9% daily and 6.3% Sunday in fiscal 2010.

In addition, the Company's digital audience continues to show growth, with average local daily unique visitors at McClatchy newspapers' websites in 2011 up 6.1% from 2010. In addition, all McClatchy websites now offer mobile-friendly versions for smartphones, and its newspapers' content is available on e-readers, tablets and other mobile devices.

To remain the leading local media company and a must-buy for advertisers, McClatchy is focused on maintaining a broad reach of print and digital audiences in each market it serves. McClatchy will continue to refine and strengthen its print platform, but its growth increasingly comes from its digital products and the beneficial impact those products have on the total audience the Company delivers for its advertisers.

Focusing on Cost Controls

The ongoing structural and cyclical change in the current economy demands that the Company respond by re-engineering and restructuring its operations to achieve an efficient and sustainable cost structure. Compensation expense is the largest component of the Company's cash operating expenses. Technology increasingly is giving the Company the ability to operate more efficiently and reduce staff and related compensation expense. The Company looks actively for opportunities to realize efficiencies by outsourcing and/or centralizing certain functions such as production, circulation, finance, information systems, customer call centers, and advertising operations. For instance, 11 of the Company's newspapers are now produced by other printers in outsourcing arrangements with nearby newspapers owned by McClatchy or other companies. The Company also believes using technology is an important component of its ability to continue to operate cost-efficiently.

The Company's newspaper operations have emphasized restructuring moves that are preferred or acceptable to our audiences and advertisers, such as reducing the width of newspapers or reducing unprofitable circulation that reaches areas outside of a newspaper's core market. The Company is focusing its efforts on quality content production, effective sales efforts and growth in digital operations.

During the last several years the Company announced several strategic restructuring programs that resulted in significant reduction of staffing and announced the freezing of the Company's pension plans and other cost saving measures. See further discussion in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Other Operational Information

Each of the Company's newspapers is largely autonomous in its local advertising and editorial operations in order to meet most effectively the needs of the communities it serves.

The Company has two operating segments. Each segment consists primarily of a group of newspapers and related businesses reporting to segment managers that are aggregated into a single reportable segment. One operating segment consists primarily of the Company's newspaper operations in California, the Northwest and Texas while the other operating segment consists primarily of newspaper operations in the Southeast, the Gulf Coast and the Midwest. Publishers of each of the newspapers make the day-to-day decisions and report to vice presidents (segment managers). The segment managers are responsible for implementing the operating and financial plans at each of the newspapers within their respective operating segment. The corporate managers, including executive officers, set the basic business, accounting, financial and reporting policies.

The Company's newspapers also work together to consolidate functions and share resources regionally and across the Company in operational areas that lend themselves to such efficiencies, such as certain regional or national sales efforts, accounting functions, digital publishing systems and products, information technology functions and others. A corporate advertising department is headed by a vice president of advertising who works with the Company's largest advertisers in placing advertising across the Company in newspapers and online. These efforts are often coordinated through the segment managers and corporate personnel.

The Company's newspaper business is somewhat seasonal, with peak revenues and profits generally occurring in the second and fourth quarters of each year reflecting the spring and Thanksgiving and Christmas holidays, respectively. The first and third quarters, when holidays are not prevalent, are historically the slowest quarters for revenues and profits.

The following table summarizes the circulation of each of the Company's daily newspapers. These circulation figures are reported on the Company's fiscal year basis and are not meant to reflect Audit Bureau of Circulations (ABC) reported figures.

<u>Circulation by Newspaper</u>	<u>2011</u>		<u>2010</u>	
	<u>Daily</u>	<u>Sunday</u>	<u>Daily</u>	<u>Sunday</u>
<i>The Sacramento Bee</i>	204,638	270,171	211,745	263,340
<i>The Kansas City (Missouri) Star</i>	201,140	304,547	210,891	299,091
<i>The Miami Herald</i>	159,123	212,875	155,818	220,308
<i>The Charlotte Observer</i>	151,828	214,159	163,120	216,173
<i>Fort Worth Star-Telegram</i>	148,678	233,458	160,627	235,000
<i>The (Raleigh) News & Observer</i>	131,126	192,416	133,944	185,106
<i>The Fresno Bee</i>	109,935	141,117	114,549	139,616
<i>Lexington Herald-Leader</i>	91,031	116,417	94,509	112,136
<i>The (Tacoma) News Tribune</i>	79,534	103,096	83,839	95,769
<i>The (Columbia, SC) State</i>	72,450	93,982	77,654	99,221
<i>The Wichita Eagle</i>	69,318	101,281	72,677	108,549
<i>The Modesto Bee</i>	60,595	72,680	63,537	72,007
<i>El Nuevo Herald (Miami)</i>	56,453	71,960	57,134	73,592
<i>Idaho Statesman (Boise)</i>	49,023	76,197	50,842	72,933
<i>Belleville (Illinois) News-Democrat</i>	47,347	56,880	50,155	54,324
<i>The (Macon, GA) Telegraph</i>	45,483	65,778	48,726	65,107
<i>Anchorage Daily News</i>	43,954	49,321	46,883	52,432
<i>The (Myrtle Beach, SC) Sun News</i>	36,723	51,806	38,441	51,687
<i>(Biloxi, MS) Sun Herald</i>	35,768	41,300	38,437	42,504
<i>The (San Luis Obispo, CA) Tribune</i>	34,046	38,408	33,863	38,978
<i>The Bradenton (Florida) Herald</i>	32,691	44,423	35,589	45,290
<i>(Columbus, GA) Ledger-Enquirer</i>	32,128	41,730	33,835	42,197
<i>Tri-City (Washington) Herald</i>	32,046	37,409	34,209	38,531
<i>The Olympian (Washington)</i>	24,055	29,212	25,107	30,041
<i>The (Rock Hill, SC) Herald</i>	21,491	25,776	23,185	26,765
<i>(State College, PA) Centre Daily Times</i>	19,217	26,306	20,592	27,026
<i>The Island Packet (Hilton Head, SC)</i>	18,655	21,526	18,475	20,882
<i>The Bellingham (Washington) Herald</i>	16,919	21,216	17,730	22,295
<i>Merced (California) Sun-Star</i>	12,935	—	13,848	—
<i>The Beaufort (South Carolina) Gazette</i>	9,747	10,105	10,108	10,298

The Company's newspapers are generally delivered by independent contractors, and subscription revenues are recorded net of direct delivery costs.

Other Operations

The Company owns 15.0% of CareerBuilder, LLC, which operates the nation's largest online job site CareerBuilder.com, and 25.6% of Classified Ventures, LLC, a company that offers classified websites such as Cars.com and Apartments.com. The Company owns 33.3% of HomeFinder, LLC, which operates the real estate website HomeFinder.com. The Company also owns a 15.0% interest in TKG Internet Holdings, which owns 79.3% of Topix.net (Topix), a general interest website focused on local communities, for an effective ownership of 11.9%. In 2011, McClatchy became a 12.5% owner of ShopCo, LLC, owner of Find n Save, a digital shopping portal that provides advertisers with a common platform to reach online audiences with digital circulars, coupons and display advertising.

McClatchy-Tribune Information Service (MCT), a joint venture of McClatchy and Tribune Company (Tribune), offers stories, graphics, illustrations, photos and paginated pages for print publishers and web-ready

content for online publishers. All the Company's newspapers, Washington, D.C., staff and foreign bureaus produce MCT editorial material. Content is also supplied by Tribune newspapers and a number of other newspapers.

The Company owns 49.5% of the voting stock and 70.6% of the nonvoting stock of The Seattle Times Company. The Seattle Times Company owns *The Seattle Times* newspaper and weekly newspapers in Puget Sound and daily newspapers located in Walla Walla and Yakima, Washington.

In addition, the Company owns a 27.0% interest in Ponderay Newsprint Company (Ponderay), a general partnership, which owns and operates a newsprint mill in the state of Washington. The Company is required to purchase up to 56,800 metric tons of newsprint annually from Ponderay on a "take-if-tendered" basis at prevailing market prices.

The Company uses the equity method of accounting for a majority of its investments in unconsolidated companies.

Raw Materials

During fiscal 2011, the Company consumed approximately 167,000 metric tons of newsprint compared to 183,000 metric tons in fiscal 2010 for its continuing operations. The decrease in tons consumed was primarily due to lower advertising sales and circulation volumes. The Company currently obtains a majority of its supply of newsprint from Ponderay and SP Newsprint Co. (SP), as well as a number of other suppliers, primarily under long-term contracts. In addition to the commitment for Ponderay newsprint noted above, the Company has a purchase commitment for 2012 of 81,648 metric tons of newsprint from SP.

The Company's earnings are sensitive to changes in newsprint prices. Newsprint expense accounted for 10.3% of total operating expenses in fiscal 2011 and 9.2% in fiscal 2010. However, because the Company has an ownership interest in Ponderay, an increase in newsprint prices, while negatively affecting the Company's operating expenses, would increase the earnings from its share of this investment, therefore partially offsetting the increase in the Company's newsprint expense. A decline in newsprint prices would have the opposite effect. Ponderay is also impacted by fluctuations in the cost of energy and fiber used in the paper-making process. The Company estimates that it will use approximately 155,000 metric tons of newsprint in fiscal 2012, depending on the level of print advertising, circulation volumes and other business considerations.

The Company purchased 147,000 metric tons of newsprint from Ponderay and SP in 2011. See the discussion above; Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations"; and the financial statements and accompanying notes for further discussion of the impact of these investments on the Company's business.

McClatchy fully supports recycling efforts. In 2011, 97.6% of the newsprint used by McClatchy newspapers was made up of some recycled fiber; the average content was 67.5% recycled fiber. This translates into an overall recycled newsprint average of 65.8%. During 2011, all of McClatchy's newspapers collected and recycled press waste, newspaper returns and printing plates.

Competition

The Company's newspapers, direct marketing programs and internet sites compete for advertising revenues and readers' time with television, radio, other internet sites, direct mail companies, free shoppers, suburban neighborhood and national newspapers and other publications, and billboard companies, among others. In some of its markets, the Company's newspapers also compete with other newspapers published in nearby cities and

towns. Competition for advertising is generally based upon print readership levels and demographics, advertising rates, internet usage and advertiser results, while competition for circulation and readership is generally based upon the content, journalistic quality, service and the price of the newspaper.

The Company's major daily newspapers are the primary general circulation newspaper in each of their respective markets. Its newspaper internet sites are generally the leading local sites in each of the Company's major daily newspaper markets, based upon research conducted by the Company and various independent sources. Nonetheless, the Company has noted changes in readership trends, including a shift of readers to the internet and mobile devices, and has experienced a continued shift of advertising to digital advertising. The Company faces greater competition, particularly in the areas of employment, automotive and real estate advertising, from online competitors. To address the structural shift to digital media, the Company's newspapers provide editorial content on a wide variety of platforms and formats—from its daily newspaper to leading local websites; on social network sites such as Facebook and Twitter; on smartphones and on e-readers; on blogs and in niche publications and websites; in e-mail newsletters and RSS feeds. In addition, its websites offer leading digital classified products such as CareerBuilder.com, Cars.com and Apartments.com and retail and national advertising on Find n Save portals. The Company also operates dealsaver® its proprietary daily deals service, in all of its markets.

Employees—Labor

As of December 25, 2011, the Company had approximately 7,800 full and part-time employees (equating to approximately 6,880 full-time equivalent employees), of whom approximately 6.2% were represented by unions. Most of the Company's union-represented employees are currently working under labor agreements with expiration dates through 2014. Twenty-one of the Company's 30 daily papers have no unions.

While the Company's newspapers have not had a strike for decades and the Company does not currently anticipate a strike occurring, the Company cannot preclude the possibility that a strike may occur at one or more of its newspapers when future negotiations occur. The Company believes that, in the event of a newspaper strike, it would be able to continue to publish and deliver to subscribers, a capability which is critical to retaining revenues from advertising and circulation, although there can be no assurance of this.

Compliance with Environmental Laws

The Company uses appropriate waste disposal techniques for items such as ink and other toxic fluids. The Company has \$2.0 million of letters of credit shared among various state environmental agencies and the U.S. Environmental Protection Agency to provide collateral related to existing or previously disposed oil drums. However, the Company does not currently have any significant environmental issues and has no significant expenses or capital expenditures related to environmental control facilities.

ITEM 1A. RISK FACTORS

The Company has significant competition in the market for news and advertising, which may reduce its advertising and circulation revenues in the future.

The Company's primary source of revenues is advertising, followed by circulation. In recent years, the advertising industry generally has experienced a secular shift toward internet advertising and away from other traditional media. In addition, the Company's circulation has declined, reflecting general trends in the newspaper industry, including consumer migration toward the internet and other media for news and information. The Company faces increasing competition from other digital sources for both advertising and circulation revenues. This competition has intensified as a result of the continued developments of digital media technologies. Distribution of news, entertainment and other information over the internet, as well as through mobile phones, tablets and other devices, continues to increase in popularity. These technological developments are increasing the number of media choices available to advertisers and audiences. As media audiences fragment, the Company

expects advertisers to continue to allocate larger portions of their advertising budgets to digital media. This increased competition has had and is expected to continue to have an adverse effect on the Company's business and financial results, including negatively impacting revenues and operating income.

Weak general economic and business conditions subject the Company to risks of declines in advertising revenues.

Despite some signs of recovery, the U. S. economy continues to be in a period of economic uncertainty. Certain aspects of the economy, including real estate, employment and consumer confidence, remain challenging. These economic conditions have had and are expected to continue to have an adverse effect on the Company's advertising revenues. To the extent these economic conditions continue or worsen, the Company's business and advertising revenues will be adversely affected, which could negatively impact the Company's operations and cash flows and the Company's ability to meet the covenants in its senior secured credit agreement. In addition, seasonal variations in consumer spending cause our quarterly advertising revenues to fluctuate. Second- and fourth-quarter advertising revenues are typically higher than first- and third-quarter advertising revenues, reflecting the slower economic activity in the winter and summer and the stronger fourth-quarter holiday season. If general economic conditions and other factors cause a decline in revenues, particularly during the second or fourth quarters, the Company may not be able to grow or maintain its revenues for the year, which would have an adverse effect on the Company's business and financial results.

Our quarterly financial results have fluctuated in the past and will fluctuate in the future. As a result, you should not rely upon our past quarterly financial results as indicators of future performance.

Our financial results in any given quarter can be influenced by numerous factors, many of which we are unable to predict or are outside of our control, including:

- the timing of our investments, restructuring plans and capital expenditures;
- expenses associated with our long-term plans, including our construction of and relocation to a new production facility and offices in Miami;
- our ability to implement cost controls; and
- the effect of the overall economy on our revenues, particularly advertising revenues related to employment, real estate and consumer goods.

If management is unable to execute cost-control measures successfully, total operating costs may be greater than expected, which may adversely affect the Company's profitability.

As a result of recent adverse general economic and business conditions and the Company's operating results, the Company has taken steps to lower operating costs by reducing workforce and implementing general cost-control measures. If the Company does not achieve its expected savings from these initiatives, or if operating costs increase as a result of these initiatives, total operating costs may be greater than anticipated. Although management believes that appropriate steps have been taken and are being taken to implement cost-control efforts, such efforts may affect the Company's business and its ability to generate future revenue. Portions of the Company's expenses are fixed costs that neither increase nor decrease proportionately with revenues. As a result, management is limited in its ability to reduce costs in the short term. If these cost-control efforts do not reduce costs sufficiently, income from continuing operations may decline.

An economic downturn and its impact on the Company's business may result in goodwill and masthead impairment charges.

The Company recorded masthead impairment charges of \$2.8 million in fiscal 2011, \$59.6 million in fiscal 2008 and \$3.0 billion of goodwill and masthead impairment charges in fiscal 2007 reflecting the economic

downturn and the decline in the price of the Company's publicly traded common stock. Further erosion of general economic, market or business conditions could have a negative impact on the Company's business and stock price, which may require the Company to record additional impairment charges in the future.

The Company has \$1.6 billion in total consolidated debt, which subjects the Company to significant financial risk.

As of December 25, 2011, the Company had approximately \$1.6 billion in total principal indebtedness outstanding. This level of debt increases the Company's vulnerability to general adverse economic and industry conditions. Higher leverage ratios could affect the Company's future ability to refinance maturing debt or the ultimate structure of such refinancing. In addition, the Company's credit ratings could affect its ability to refinance its debt.

Covenants in the indenture governing the Company's 11.50% senior secured notes due 2017 (the 2017 Notes) and its senior secured credit facility restrict the Company's operations in many ways.

The indenture governing the 2017 Notes and the senior secured credit facility contain various covenants that limit, subject to certain exceptions, the Company's ability and/or its restricted subsidiaries' ability to, among other things:

- incur liens or additional debt or provide guarantees;
- issue redeemable stock and preferred stock;
- pay dividends or make distributions on capital stock or repurchase capital stock or repurchase outstanding notes or debentures prior to their stated maturity;
- make loans, investments or acquisitions;
- enter into agreements that restrict distributions from its subsidiaries;
- create or permit restrictions on the ability of its subsidiaries to pay dividends or distributions or guarantee debt or create liens;
- sell assets and capital stock of its subsidiaries;
- enter into certain transactions with its affiliates; and
- dissolve, liquidate, consolidate or merge with or into, or sell substantially all its assets to another person.

The restrictions contained in the indenture for the 2017 Notes and the senior secured credit facility could adversely affect the Company's ability to:

- finance its operations;
- make needed capital expenditures;
- make strategic acquisitions or investments or enter into alliances;
- withstand a future downturn in its business or the economy in general;
- engage in business activities, including future opportunities, that may be in its interest; and
- plan for or react to market conditions or otherwise execute its business strategies.

The Company's ability to comply with covenants contained in the indenture for the 2017 Notes and the senior secured credit facility may be affected by events beyond its control, including prevailing economic, financial and industry conditions. Even if the Company is able to comply with all of the applicable covenants, the restrictions on its ability to manage its business could adversely affect its business by, among other things, limiting its ability to take advantage of financings, mergers, acquisitions and other corporate opportunities that the Company believes would be beneficial to it.

Potential disruptions in the credit markets could adversely affect the availability and cost of short-term funds for liquidity requirements and could adversely affect the Company's access to capital or to obtain financing at reasonable rates and its ability to refinance existing debt at reasonable rates or at all.

If internal funds are insufficient to fund the Company's operations, the Company may be required to rely on the banking and credit markets to meet its financial commitments and short-term liquidity needs. Disruptions in the capital and credit markets, as were experienced during 2008 and 2009, could adversely affect the Company's ability to access additional funds in the capital markets or draw on its senior secured credit facility. There can be no assurance that continued or increased volatility and disruption in the capital and credit markets will not impair the Company's liquidity in future periods. If this should happen, any alternative credit arrangements may not be put in place without a potentially significant increase in the Company's cost of borrowing.

As of December 25, 2011, the Company had approximately \$1.6 billion in total principal indebtedness, consisting of \$851 million of publicly-traded senior secured notes and unsecured publicly-traded notes maturing in 2014, 2017, 2027 and 2029. The near-term 2014 notes totaled \$81.4 million. While cash flow should permit the Company to lower the amount of this debt before it matures, a significant portion of this debt will probably need to be refinanced in the future. Access to the capital markets for longer-term financing may be restricted if disruptions in the capital and credit markets occur again as were experienced during 2008 and 2009.

The Company requires newsprint for operations and, therefore, its operating results may be adversely affected if the price of newsprint increases.

Newsprint is the major component of the Company's cost of raw materials. Newsprint accounted for 10.3% of McClatchy's operating expenses for fiscal 2011. Accordingly, earnings are sensitive to changes in newsprint prices. The price of newsprint has historically been volatile and may increase as a result of various factors, including:

- declining newsprint supply from mill closures;
- reduction in newsprint suppliers because of consolidation in the newsprint industry;
- paper mills reducing their newsprint supply because of switching their production to other paper grades; and
- a decline in the financial situation of newsprint suppliers.

The Company has not attempted to hedge fluctuations in the normal purchases of newsprint or enter into contracts with embedded derivatives for the purchase of newsprint. If the price of newsprint increases materially, operating results could be adversely affected. If newsprint suppliers experience labor unrest, transportation difficulties or other supply disruptions, the Company's ability to produce and deliver newspapers could be impaired and/or the cost of the newsprint could increase, both of which would negatively affect its operating results.

A portion of the Company's employees are members of unions and if the Company experiences labor unrest, its ability to produce and deliver newspapers could be impaired.

If McClatchy experiences labor unrest, its ability to produce and deliver newspapers could be impaired in some locations. The results of future labor negotiations could harm the Company's operating results. The Company's newspapers have not endured a labor strike for decades. However, management cannot ensure that a strike will not occur at one or more of the Company's newspapers in the future. As of December 25, 2011, approximately 6.2% of full-time and part-time employees were represented by unions. Most of the Company's union-represented employees are currently working under labor agreements, with expiration dates through 2014. McClatchy faces collective bargaining upon the expirations of these labor agreements. Even if its newspapers do not suffer a labor strike, the Company's operating results could be harmed if the results of labor negotiations restrict its ability to maximize the efficiency of its newspaper operations.

Under the Pension Protection Act, the Company will be required to make greater contributions to its defined benefit pension plans in the next several years than previously required, placing greater liquidity needs upon its operations.

The adverse conditions in the capital markets in 2008 had a significantly negative impact on the investment funds in the Company's pension plan, which was partially offset by strong returns in the capital markets since the end of 2008. In May 2011, the Company contributed \$163.0 million in cash to the pension plan and in January 2011, McClatchy contributed company-owned real property valued at \$49.7 million to its pension plan. However, even with these contributions plan assets fell short of its projected benefit obligations. As a result, the projected benefit obligations of the qualified pension plan exceeded plan assets by \$422.5 million as of December 25, 2011. In early 2012, the Company contributed \$40.0 million to its qualified defined benefit pension plan, reducing the underfunded obligation from \$422.5 million at year-end 2011 to \$382.5 million as of January 4, 2012, all other things being equal.

The excess of benefit obligations over pension assets is expected to give rise to required pension contributions over the next several years. The Pension Relief Act of 2010 (PRA) provided relief in the funding requirements of the qualified defined benefit pension plan, and the Company has elected an option that allows the funding related to its 2009 and 2011 plan years required contributions to be paid over 15 years. However, even with the relief provided by the PRA, management expects future contributions to be required. In addition, poor capital market performance and/or lower long-term interest rates may result in greater annual contribution requirements.

The Company has invested in certain internet ventures, but such ventures may not be as successful as expected, which could adversely affect the results of operations of the Company.

The Company continues to evaluate its business and make strategic investments in digital ventures, either alone or with partners, to further its growth in its digital businesses. In 2011, McClatchy became a 12.5% owner of ShopCo, LLC, a partnership with several other leading media and publishing companies, which provides its Find n Save shopping portal with significant scale. The Company also has investments in CareerBuilder.com, Cars.com, Apartments.com and HomeFinder.com. There can be no assurances that the Company will receive a return on these investments or partnerships will result in advertising growth or will produce equity income or capital gains in future years.

If the Company is not successful in growing its digital businesses, its business, financial condition and prospects will be adversely affected.

The Company's future growth depends to a significant degree upon the development of its digital businesses. The growth and success of its digital businesses over the long term depend on various factors, including, among other things, the ability to:

- continue to increase digital audiences;
- attract advertisers to its websites;
- maintain or increase the advertising rates on its websites;
- exploit new and existing technologies to distinguish its products and services from those of competitors and develop new content, products and services; and
- invest funds and resources in digital opportunities.

If the Company is not successful in growing its digital businesses, its business, financial condition and prospects will be adversely affected.

Circulation declines could adversely affect the Company's circulation and advertising revenues.

Advertising and circulation revenues are affected by circulation and readership levels of the Company's newspapers. In recent years, newspapers have experienced difficulty maintaining or increasing print circulation levels because of a number of factors, including:

- increased competition from other publications and other forms of media technologies available in various markets, including the internet and other new media formats that are often free for users;
- continued fragmentation of media audiences;
- a growing preference among some consumers to receive all or a portion of their news other than from a newspaper;
- increases in subscription and newsstand rates; and
- declining discretionary spending by consumers affected by negative economic conditions.

These factors could also affect the Company's newspapers' ability to institute circulation price increases for print products. A prolonged reduction in circulation would have a material adverse effect on advertising revenues. To maintain the Company's circulation base, it may be required to incur additional costs that it may not be able to recover through circulation and advertising revenues.

Adverse results from litigation or governmental investigations can impact the Company's business practices and operating results.

From time to time, the Company and its subsidiaries are parties to litigation and regulatory, environmental and other proceedings with governmental authorities and administrative agencies. Adverse outcomes in lawsuits or investigations could result in significant monetary damages or injunctive relief that could adversely affect the Company's operating results or financial condition as well as its ability to conduct businesses as they are presently being conducted.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The corporate headquarters of the Company are located at 2100 "Q" Street, Sacramento, California. At December 25, 2011, the Company had newspaper production facilities in 18 markets in 15 states. The Company's facilities vary in size and in total occupy about 7.0 million square feet. Approximately 2.5 million of the total square footage is leased from others, while the remaining square footage is property owned by the Company. The Company owns substantially all of its production equipment, although certain office equipment is leased.

The Company maintains its properties in good condition and believes that its current facilities are adequate to meet the present needs of its newspapers.

ITEM 3. LEGAL PROCEEDINGS

The Company becomes involved from time to time in claims and lawsuits incidental to the ordinary course of its business, including such matters as libel, invasion of privacy, intellectual property infringement, wrongful termination actions, wage and hour violations and complaints alleging discrimination. In addition, the Company is involved from time to time in governmental and administrative proceedings concerning employment, labor, environmental and other claims. Historically, such claims and proceedings have not had a material adverse effect upon the Company's consolidated results of operations or financial condition.

ITEM 4. MINE SAFETY DISCLOSURES

None.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information: The Company's Class A Common Stock is listed on the New York Stock Exchange (NYSE symbol—MNI). A small amount of Class A Common Stock is also traded on other exchanges. The Company's Class B Stock is not publicly traded. The following table lists per share dividends paid on both classes of Common Stock and the high and low prices of the Company's Class A Common Stock as reported by the NYSE for each fiscal quarter of 2011 and 2010:

	PRICES		DIVIDENDS
	HIGH	LOW	
<i>Year Ended December 25, 2011:</i>			
First quarter	\$5.61	\$3.21	\$0.00
Second quarter	\$3.75	\$2.30	\$0.00
Third quarter	\$2.91	\$1.25	\$0.00
Fourth quarter	\$2.41	\$1.05	\$0.00
 <i>Year Ended December 26, 2010:</i>			
First quarter	\$6.28	\$3.23	\$0.00
Second quarter	\$7.16	\$3.76	\$0.00
Third quarter	\$4.26	\$2.60	\$0.00
Fourth quarter	\$5.13	\$2.63	\$0.00

Holder:

The number of record holders of Class A and Class B Common Stock at February 28, 2012 was 5,552 and 20, respectively.

Dividends:

The payment and amount of future dividends remain within the discretion of the Board of Directors and will depend upon the Company's future earnings, financial condition, and other factors considered relevant by the Board. The Company suspended its quarterly dividend after the payment of the first quarter dividend in fiscal 2009. Also, the amount of future dividends is governed by reaching certain leverage levels of earnings before interest, taxes, depreciation and amortization (EBITDA) under its senior secured credit agreement.

Sales of Unregistered Securities:

None

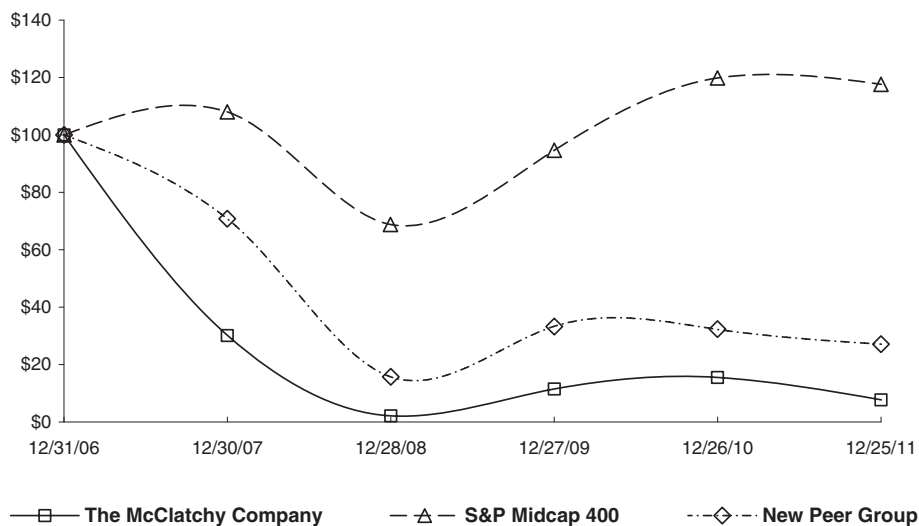
Purchases of Equity Securities:

None

The following graph compares the cumulative five-year total return attained by shareholders on The McClatchy Company's common stock versus the cumulative total returns of the S&P Midcap 400 index and a customized peer group composed of nine companies. The Company selected its peer group based on the fact that McClatchy is a pure-play newspaper publishing and digital media company with no other media business beyond its newspaper and online business.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

Among The McClatchy Company, The S&P Midcap 400 Index,
and a Peer Group



*\$100 invested on 12/31/06 in stock or index, including reinvestment of dividends.
Index calculated on month-end basis.

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	<u>12/31/06</u>	<u>12/30/07</u>	<u>12/28/08</u>	<u>12/27/09</u>	<u>12/26/10</u>	<u>12/25/11</u>
The McClatchy Company	100.00	30.20	2.16	11.49	15.55	7.70
S&P Midcap 400	100.00	107.98	68.86	94.60	119.80	117.72
Peer Group	100.00	70.85	15.82	33.31	32.34	27.15

The Company's current customized peer group includes nine companies that are publicly traded with a majority of their revenues from newspaper publishing. This peer group includes: A H Belo Corp., E W Scripps Company, Gannett Co., Gatehouse Media Inc., Journal Communications Inc., Lee Enterprises Inc., Media General Inc., New York Times Company and Sun-Times Media Group Inc.

ITEM 6. SELECTED FINANCIAL DATA

See Note 12 to Consolidated Financial Statements included in Item 8 of this Form 10-K for discussion and quantification of the impact of restatement adjustments on the Company's Statement of Operations Data and Balance Sheet Data as of December 26, 2010, and December 27, 2009, and for the fiscal years then ended, as applicable.

SELECTED FINANCIAL DATA

(in thousands, except per share amounts)

	December 25, 2011	December 26, 2010 (1)	December 27, 2009 (1)	December 28, 2008	December 30, 2007 (2)
REVENUES—NET:					
Advertising	\$ 956,305	\$1,049,964	\$1,143,129	\$1,568,766	\$ 1,911,722
Circulation	262,335	272,776	278,256	265,584	275,658
Other	51,000	52,492	50,199	66,106	72,983
	<u>1,269,640</u>	<u>1,375,232</u>	<u>1,471,584</u>	<u>1,900,456</u>	<u>2,260,363</u>
OPERATING EXPENSES:					
Depreciation and amortization	121,528	133,404	142,889	142,948	148,559
Other operating expenses	943,997	1,002,945	1,130,183	1,536,343	1,685,710
Goodwill and masthead impairment	2,800	—	—	59,563	2,992,046
	<u>1,068,325</u>	<u>1,136,349</u>	<u>1,273,072</u>	<u>1,738,854</u>	<u>4,826,315</u>
OPERATING INCOME (LOSS)	201,315	238,883	198,512	161,602	(2,565,952)
NON-OPERATING (EXPENSES) INCOME:					
Interest expense	(165,434)	(177,641)	(127,276)	(157,385)	(197,997)
Interest income	97	550	47	1,429	243
Equity income (loss) in unconsolidated companies—net	27,762	11,752	2,130	(14,021)	(36,899)
Write-down of investments and land	—	(24,447)	(34,172)	(26,462)	(84,568)
Gain (loss) on non-operating items and other— net	(955)	(10,396)	44,320	56,922	1,982
	<u>(138,530)</u>	<u>(200,182)</u>	<u>(114,951)</u>	<u>(139,517)</u>	<u>(317,239)</u>
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	62,785	38,701	83,561	22,085	(2,883,191)
INCOME TAX PROVISION (BENEFIT)	8,396	5,601	26,800	19,278	(156,582)
INCOME (LOSS) FROM CONTINUING OPERATIONS	54,389	33,100	56,761	2,807	(2,726,609)
INCOME (LOSS) FROM DISCONTINUED OPERATIONS, NET OF INCOME TAXES	—	3,083	(6,174)	(6,758)	(9,404)
NET INCOME (LOSS)	<u>\$ 54,389</u>	<u>\$ 36,183</u>	<u>\$ 50,587</u>	<u>\$ (3,951)</u>	<u>\$(2,736,013)</u>
NET INCOME (LOSS) PER COMMON SHARE:					
Basic:					
Income (loss) from continuing operations	\$ 0.64	\$ 0.39	\$ 0.68	\$ 0.03	\$ (33.26)
Income (loss) from discontinued operations	—	0.04	(0.07)	(0.08)	(0.11)
Net income (loss) per share	<u>\$ 0.64</u>	<u>\$ 0.43</u>	<u>\$ 0.61</u>	<u>\$ (0.05)</u>	<u>\$ (33.37)</u>
Diluted:					
Income (loss) from continuing operations	\$ 0.63	\$ 0.39	\$ 0.68	\$ 0.03	\$ (33.26)
Income (loss) from discontinued operations	—	0.04	(0.07)	(0.08)	(0.11)
Net income (loss) per share	<u>\$ 0.63</u>	<u>\$ 0.43</u>	<u>\$ 0.61</u>	<u>\$ (0.05)</u>	<u>\$ (33.37)</u>
DIVIDENDS PER COMMON SHARE	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 0.09</u>	<u>\$ 0.54</u>	<u>\$ 0.72</u>
CONSOLIDATED BALANCE SHEET DATA:					
Total assets	\$3,040,059	\$3,146,859	\$3,299,899	\$3,522,206	\$ 4,137,919
Long-term debt	1,577,476	1,703,339	1,896,436	2,037,776	2,471,827
Financing obligations	272,795	—	—	—	—
Stockholders' equity	175,187	215,752	166,686	52,429	425,540

(1) Certain amounts in fiscal 2010 and 2009 have been restated as discussed in Note 12 to the Consolidated Financial Statements.

(2) On March 5, 2007, the company sold the (Minneapolis) *Star Tribune* newspaper of Minneapolis, MN. Results of the (Minneapolis) *Star Tribune* and other divested newspapers are included in discontinued operations through 2010.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

The McClatchy Company is a leading news, advertising and information provider, offering a wide array of print and digital products in each of the markets it serves. As the third largest newspaper company in the United States based on daily circulation, McClatchy's operations include 30 daily newspapers, community newspapers, websites, mobile news and advertising, niche publications, direct marketing and direct mail services. The Company's largest newspapers include *The Miami Herald*, *The Sacramento Bee*, *Fort Worth Star-Telegram*, *The Kansas City Star*, *The Charlotte Observer* and *The News & Observer* in Raleigh, N.C.

McClatchy also owns a portfolio of premium digital assets, including 15.0% of CareerBuilder, LLC, which operates the nation's largest online job site, CareerBuilder.com, 25.6% of Classified Ventures, LLC, a company that offers classified websites such as the auto website Cars.com and the rental site Apartments.com, and 33.3% of HomeFinder, LLC, which operates the online real estate website HomeFinder.com.

The Company's primary source of revenue is print and digital advertising, which accounted for 75.3% of the Company's revenue for fiscal 2011. Print and digital advertising revenues are derived from retail, national and classified advertising. Print and preprinted insert advertising are sold in the daily newspaper, but are also sold in direct marketing and other advertising products. All categories of advertising discussed below include both print and digital advertising.

Classified advertising revenues were 26.3% of total advertising revenues in fiscal 2011 compared to 26.7% in fiscal 2010 and 26.9% in fiscal 2009. Revenues from retail advertising carried either as a part of newspapers (run-of-press or ROP advertising), in advertising inserts placed in newspapers (preprint advertising) and/or advertising sold in digital products, was 52.2% of total advertising revenues compared to 52.5% in fiscal 2010 and 53.4% in fiscal 2009. Direct marketing advertising contributed 13.4% of total advertising revenues in 2011 compared to 11.5% in fiscal 2010 and 10.3% in fiscal 2009. National advertising revenues contributed 8.0% of total advertising revenues in fiscal 2011 compared to 9.2% in fiscal 2010 and 9.3% in fiscal 2009.

While included in the revenues described above, most categories of digital advertising are performing better than print advertising. Digital results include both the digital portion of digital sales bundled with print and digital advertising sold on a stand-alone basis. Digital-only advertising revenues have consistently grown faster than digital advertising sold in conjunction with print products and grew 9.1% in fiscal 2011 compared to fiscal 2010.

Circulation revenues increased to 20.7% of the Company's revenues in fiscal 2011 from 19.8% in fiscal 2010 and 18.9% in fiscal 2009. Most of the Company's newspapers are delivered by independent contractors. Circulation revenues are recorded net of direct delivery costs.

See the following "Results of Operations" for a discussion of the Company's revenue performance and contribution by category for fiscal 2011, 2010 and 2009.

Recent Events and Trends

Advertising Revenues:

Advertising revenues in fiscal 2011 compared to fiscal 2010 decreased as a result of the continuing weak economy and the secular shift in advertising demand from print to digital products. While advertising revenue trends generally improved throughout 2010, they slowed in the first nine months of 2011. In particular, beginning in December 2010, the Company noted a marked decline in national advertising that persisted throughout 2011. However, retail and national advertising began to improve in September 2011 and continued to trend better through the fourth quarter of 2011.

Management believes the advertising declines over the last several years are primarily attributable to the weaknesses in the U.S. economy and the choppiness of the general economic recovery, along with the general shift in advertising to digital media. Despite declines in advertising revenue as a whole, certain advertising revenue categories began to grow in fiscal 2010, including digital and direct marketing advertising, and this trend continued in fiscal 2011. Digital advertising revenues grew 0.3% in fiscal 2011 compared to fiscal 2010. Digital results include both the digital portion of digital sales bundled with print and digital advertising sold on a stand-alone basis. Digital-only advertising revenues have consistently grown faster than digital advertising sold in conjunction with print products and grew 9.1% in fiscal 2011 from fiscal 2010. Direct marketing revenues were up 6.2% in fiscal 2011 compared to fiscal 2010. See the revenue discussions in management's review of the Company's "Results of Operations".

Audience Trends:

Audience trends improved in fiscal 2011 compared to fiscal 2010 and 2009. Daily circulation declined 4.3% in 2011 compared to fiscal 2010, but Sunday circulation grew 0.2%. In 2010, daily circulation volumes had declined 6.9%, and Sunday was down 6.3% compared to fiscal 2009. The Company's digital traffic continues to grow with daily average local unique visitors to its newspaper websites up 6.1% in fiscal 2011 compared to fiscal 2010.

Contributions to Qualified Defined Benefit Pension Plan:

Contribution of Company-owned real property to pension plan: In January 2011, the Company contributed certain of its real property appraised at \$49.7 million to its qualified defined benefit pension plan. The Company is leasing back the property from its pension plan for 10 years at an initial annual rent of approximately \$4.0 million. The property is managed by an independent fiduciary and the appraisals and lease payments were determined by that fiduciary. The contribution of real property satisfied virtually all of the Company's required pension contribution in 2011.

Cash contributions: As discussed below, on May 27, 2011, the Company made a voluntary contribution of \$163.0 million to its qualified defined benefit plan from proceeds of the sale of real property in Miami. Also in January 2012, the Company contributed \$40.0 million to its qualified defined benefit pension plan, which is expected to fully fund its required contributions in fiscal 2012.

Sale of Real Property in Miami and Subsequent Plans for Relocation:

Sale Transaction: On May 27, 2011, the Company sold 14.0 acres of land in Miami, including the building holding the operations of one of its subsidiaries, The Miami Herald Media Company, and an adjacent parking lot for a purchase price of \$236.0 million. Approximately 9.4 acres of the Miami land was previously subject to a contract with another buyer that terminated in the first quarter of fiscal 2011 (see Note 2 to the Consolidated Financial Statements for a greater discussion of the original contract). The Company received cash proceeds of \$230.0 million, and an additional \$6.0 million is being held in an escrow account payable to McClatchy upon relocation of its Miami operations.

The Miami Herald Media Company will continue to operate from its existing location through May 2013 rent free. Because the Company will not pay rent for the two-year period, the Company is deemed to have continuing involvement in the property. As a result, under generally accepted accounting principles, the sale is treated as a financing transaction. Accordingly, the Company will continue to depreciate the carrying value of the building in its financial statements and no gain or loss has been recognized on the transaction until its operations are moved.

The Company used \$163.0 million of the sale proceeds to make a contribution to its qualified defined benefit pension plan and used the remaining portion of the proceeds for general corporate purposes, including the payment of interest and taxes and for debt reduction.

Relocation Plans: On January 24, 2012, the Company entered into a contract to purchase approximately 6.1 acres of land located in Doral, Fla., for approximately \$3.1 million. McClatchy intends to build a new production facility on this site for *The Miami Herald* and *El Nuevo Herald* newspaper operations. On the same day, the Company entered into an agreement to lease a two-story office building adjacent to the future production facility. The newspapers plan to relocate their operations from their current location to the new site in May 2013.

The lease on the office building is an operating lease with initial annual base lease payments of \$1.8 million beginning in May 2013 when the building is expected to be occupied. Total costs related to relocating the newspapers' operations and for constructing the new production facility, including the purchase of the property, construction costs, accelerated depreciation and moving expenses, is estimated as follows:

- Capital expenditures related to the new facilities are estimated to be \$32 million.
- Cash expenses to relocate the Miami newspapers' operations are expected to be \$12 million.
- In addition, the Company will incur \$13 million in accelerated depreciation on existing assets expected to be retired or decommissioned.
- \$6 million of the cash costs will be reimbursed from an escrow account established for this purpose by the purchaser of the existing Miami facilities.

The relocation is expected to be completed in May 2013 and, accordingly, the costs and expenses are expected to be incurred over the next approximately 16 months.

Restructuring Plans and Other Expense Activity:

2009: In March 2009, the Company announced restructuring efforts, which included reducing the Company's workforce by 15%, or 1,650 positions, the freezing of the Company's pension plans and a temporary suspension of the Company matching contribution to the 401(k) plan as of March 31, 2009. The Company's restructuring plan also involved wage reductions across the Company for additional savings. The Company's chairman and chief executive officer (CEO) declined his 2009 bonus. In addition, effective March 30, 2009, the CEO's base salary was reduced by 15%, other executive officers' salaries were reduced by 10%, and no bonuses were paid to any employee in 2009. The Company also reduced the cash compensation, including retainers and meeting fees, paid to its directors by approximately 13%, and the directors declined any stock awards for 2009. The costs related to these plans, including related severance, were largely paid in fiscal 2009.

2011 and 2010: The Company continued to pursue cost savings and efficiencies to match its lower revenues in fiscal 2011 and 2010 through both voluntary and involuntary reductions at specific newspapers. Also, certain of the Company's newspapers required furloughs (generally one-week furloughs) during fiscal 2011 for a majority of full-time employees. The costs related to these reductions, including related severance, were recorded as operating expenses and were largely paid in the years the reductions were implemented.

Newsprint:

Newsprint prices are volatile and are largely dependent on global demand and supply for newsprint. In 2010, supply and demand were largely in balance as the result of higher export demand and reductions in capacity. As a result, producers were able to increase prices in fiscal 2010. In 2011, newsprint supply exceeded demand and, as a result, there were no additional price increases in 2011. Nevertheless, newsprint prices were higher in fiscal 2011 than in 2010 as a result of the price increases during 2010. No price increases have been announced in 2012.

Significant changes in newsprint prices can increase or decrease the Company's operating expenses and, therefore, directly affect the Company's operating results. However, because the Company has ownership interests in newsprint producer Ponderay, an increase in newsprint prices, while negatively affecting the

Company's operating expenses, would increase its share of earnings from this investment. A decline in newsprint prices would have the opposite effect. Ponderay is also impacted by the higher cost of energy and fiber used in the paper-making process. The impact of newsprint price increases on the Company's financial results is discussed under "Results of Operations" below.

Debt Refinancing and Subsequent Debt Repayments:

February 2010 Refinancing: The Company was a party to a credit agreement, dated as of June 27, 2006 (as amended through May 20, 2009, the "original credit agreement"), which provided for a five-year revolving credit facility and term loans. On January 26, 2010, the Company entered into an amendment and restatement of the original credit agreement that became effective on February 11, 2010 (the Amended and Restated Credit Agreement), immediately prior to the closing of an offering of \$875.0 million in aggregate principal amount of senior secured notes described below. The Amended and Restated Credit Agreement required a substantial reduction in bank debt and allowed for the early retirement of other bond debt using the proceeds of the secured notes offering. The Company was in compliance with all covenants of the credit agreement at the time of the refinancing.

In connection with the Amended and Restated Credit Agreement, the Company issued its \$875.0 million in aggregate principal amount of its 11.50% Senior Secured Notes due 2017 (the 2017 Notes). In addition, the Company completed tender offers for its 7.125% notes due in 2011 (the 2011 Notes) and 15.75% senior notes due in 2014 (the 2014 Senior Notes), paying \$187.3 million in cash for aggregate principal amounts of \$148.0 million of 2011 Notes and \$23.9 million of 2014 Senior Notes.

December 2010 Amendment: Throughout 2010 the Company paid down the principal amount of its term loans outstanding under the Amended and Restated Credit Agreement using its cash from operations. On December 16, 2010, the Company entered into an amendment of the Amended and Restated Credit Agreement to, among other things, remove certain restrictions on the ability to repurchase its publicly traded bonds, to repay the remaining bank term loans and to reduce the lenders' revolving loan commitments under the Amended and Restated Credit Agreement.

2011 Activity: On June 1, 2011, the Company retired at maturity \$18.1 million of its 2011 Notes. Also, the Company purchased \$121.9 million aggregate principal amount of its outstanding debt securities using cash generated by operations and proceeds from asset sales.

See Note 4 to the Consolidated Financial Statements for an expanded discussion of these transactions.

2012 Activity: In February 2012, the Company purchased \$30.5 million aggregate principal amount of its outstanding 5.75% notes due in 2017 in privately-negotiated transactions.

Recent Accounting Pronouncements:

See Note 1 to the Consolidated Financial Statements for a discussion of recent accounting pronouncements.

Critical Accounting Policies

The accompanying discussion and analysis of the Company's financial condition and results of operations are based upon the Company's consolidated financial statements, which have been prepared in accordance with generally accepted accounting principles in the United States. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. These estimates form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. The Company bases its estimates and judgments on historical experience and on various other assumptions that it believes are reasonable under the circumstances. However, future events are subject to change and the best estimates and judgments routinely require adjustment. The most significant areas involving estimates and assumptions are amortization and/or impairment of goodwill and other intangibles, pension and

post-retirement expenses, insurance reserves, and the Company's accounting for income taxes. The Company believes the following critical accounting policies, in particular, affect its more significant judgments and estimates used in the preparation of its consolidated financial statements.

Goodwill and Intangible Impairment:

The Company tests for goodwill annually (at year-end) or whenever events occur or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. Such indicators of impairment may include, but are not limited to, changes in business climate such as an economic downturn, significant operating cash flow declines related to its newspapers or a major change in the assessment of future operations of its newspapers, or a sustained decline in the Company's stock price below the per-share book value of stockholders' equity. The Company conducted its annual impairment testing at the end of its fiscal years in 2011, 2010 and 2009.

Summary of Approach and Analysis of Impairments—The required two-step approach to test for impairment requires the use of accounting judgments and estimates of future operating results. Because accounting standards require that impairment testing be done at a reporting unit level, the Company performs this testing on its operating segments (which are considered reporting units). An impairment charge generally is recognized when the carrying amount of the reporting unit's net assets exceeds the estimated fair value of the reporting unit. In summary the Company conducts its tests and considers the following factors:

- The fair value of the Company's reporting units is determined using a discounted cash flow model. The projected cash flows are based on estimates of revenues, newsprint expenses and other cash costs. While these estimates are always inherently subject to risks and uncertainties, the ability to project future operations (and in particular advertising revenues) is difficult.
- The discount rate is determined using the Company's weighted average cost of capital, adjusted for risks perceived by investors which are implicit in the Company's publicly-traded stock price.
- The amount of a goodwill impairment charge requires management to allocate the fair value of the reporting units to all of the assets and liabilities of that unit (including any unrecognized intangible assets), using its best judgments and estimates in valuing the reporting unit, to determine the implied fair value of goodwill.
- The resulting total fair value of the reporting units is then reconciled to the market capitalization of the Company, giving effect to an appropriate control premium. A goodwill impairment charge is recorded to the extent that the implied goodwill values are below the book value of goodwill for the reporting units.

Fair value calculations by their nature require management to make assumptions about future operating results that can be difficult to predict with certainty. They are influenced by management's views of future advertising trends in the industry and in the markets in which it operates newspapers. The variability in these trends and the difficulty in projecting advertising growth, in particular, in each newspaper market are impacted by the unprecedented declines in advertising in recent years. The Company implemented restructuring plans which have mitigated the impact of these declines on its cash flows and helped stabilize operations. Based on management's analysis, at December 25, 2011, the fair values of the Company's reporting unit that primarily consists of operations in California, the Northwest and Texas exceeded the carrying value by approximately 20% and the operating segment that primarily consists of operations in the Southeast, the Gulf Coast and the Midwest exceeded the carrying value by approximately 10%.

Masthead Considerations:

Newspaper mastheads (newspaper titles and website domain names) are not subject to amortization and are tested for impairment annually (at year-end), or more frequently if events or changes in circumstances indicate

that the asset might be impaired. The impairment test consists of a comparison of the fair value of each newspaper masthead with its carrying amount. The Company uses a relief from royalty approach that utilizes a discounted cash flow model to determine the fair value of each newspaper masthead. Management's judgments and estimates of future operating results in determining the reporting unit fair values are consistently applied to each newspaper in determining the fair value of each newspaper masthead.

The Company performed its annual impairment tests on newspaper mastheads as of December 25, 2011, December 26, 2010, and December 27, 2009. As a result of its testing, the Company recorded a charge of \$2.8 million for masthead impairments in fiscal 2011. No impairment charges to the value of mastheads were recorded in 2010 or 2009.

Other Intangible Assets Considerations:

Long-lived assets such as intangible assets are subject to amortization (primarily advertiser and subscriber lists) and are tested for recoverability whenever events or change in circumstances indicate that their carrying amounts may not be recoverable. The carrying amount of each asset group is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use of such asset group. No impairment loss was recognized on intangible assets subject to amortization in 2011, 2010 or 2009.

Pension and Post-Retirement Benefits:

On February 5, 2009, the Company announced a decision to freeze its defined benefit pension plans as of March 31, 2009. The Company has significant pension and post-retirement benefit costs and credits that are developed from actuarial valuations. Inherent in these valuations are key assumptions including discount rates and expected returns on plan assets. The Company is required to consider current market conditions, including changes in interest rates, in establishing these assumptions. Changes in the related pension and post-retirement benefit costs or credits may occur in the future because of changes resulting from fluctuations in the Company's employee headcount and/or changes in the various assumptions.

Current standards of accounting for defined benefit pension plans and post-retirement benefit plans requires recognition of (1) the funded status of a pension plan (difference between the plan assets at fair value and the projected benefit obligation) and (2) the funded status of a post-retirement plan (difference between the plan assets at fair value and the accumulated benefit obligation), as an asset or liability on the balance sheet. At December 25, 2011, net retirement obligations in excess of retirement plans' assets were \$530.6 million. This amount included \$108.1 million for non-qualified plans that do not have assets. Obligations in excess of plan assets for the Company's qualified plan netted to a \$422.5 million liability at December 25, 2011. At December 26, 2010, net retirement obligations in excess of retirement plans' assets were \$613.3 million. This amount included \$134.2 million for non-qualified plans that do not have assets. Obligations in excess of plan assets for the Company's qualified plan netted to a \$479.1 million liability at December 26, 2010.

The Company used discount rates of 5.1% to 5.9% and an assumed long-term return on assets of 8.25% to calculate its retirement expenses in 2011. See Note 6 to the Consolidated Financial Statements for a more in-depth discussion of the Company's policies in setting its key assumptions related to these obligations.

For fiscal 2011 a change in the weighted average rates would have had the following impact on the Company's net benefit cost:

- A decrease of 50 basis points in the long-term rate of return would have increased the Company's net benefit cost by approximately \$6.4 million;
- A decrease of 25 basis points in the discount rate would have decreased the Company's net benefit cost by approximately \$0.4 million.

Income Taxes:

The Company's current and deferred income tax provisions are calculated based on estimates and assumptions that could differ from the actual results reflected in income tax returns filed during the subsequent year. These estimates are reviewed and adjusted, if needed, throughout the year. Adjustments between the Company's estimates and the actual results of filed returns are recorded when identified.

The amount of income taxes paid is subject to periodic audits by federal and state taxing authorities, which may result in proposed assessments. These audits may challenge certain aspects of the Company's tax positions such as the timing and amount of deductions and allocation of taxable income to the various tax jurisdictions. Income tax contingencies require significant management judgment in estimating final outcomes. Actual results could materially differ from these estimates and could significantly affect the effective tax rate and cash flows in future periods.

Insurance:

The Company is insured for workers' compensation using both self-insurance and large deductible programs. The Company relies on claims experience in determining an adequate provision for insurance claims.

The Company used a discount rate of 1.4% to calculate workers' compensation reserves as of December 25, 2011. A decrease of 25 basis points in the discount rate would have had an immaterial effect on total workers' compensation reserves. A 10% increase in the claims would have increased the total workers' compensation reserves by approximately \$2.0 million.

Results of Operations

Fiscal 2011 Compared to Fiscal 2010

The Company reported income from continuing operations in fiscal 2011 of \$54.4 million or \$0.63 per diluted share compared to income from continuing operations of \$33.1 million or 39 cents per diluted share in fiscal 2010. Total net income in fiscal 2010 including discontinued operations was \$36.2 million or \$0.43 per share. The Company did not have discontinued operations in fiscal 2011.

Revenues:

Revenues in fiscal 2011 were \$1.3 billion, down 7.7% from revenues of \$1.4 billion in fiscal 2010. Advertising revenues were \$1.0 billion in fiscal 2011, down 8.9% from fiscal 2010, and circulation revenues were \$262.3 million in fiscal 2011, down 3.8% from fiscal 2010.

The following summarizes the Company's revenue by category, which compares fiscal 2011 with fiscal 2010 (dollars in thousands):

	<u>December 25, 2011</u>	<u>December 26, 2010</u>	<u>% Change</u>
Advertising:			
Retail	\$ 499,250	\$ 550,993	(9.4)
National	76,296	97,068	(21.4)
Classified:			
Auto	80,823	83,221	(2.9)
Real estate	44,703	55,468	(19.4)
Employment	51,933	56,032	(7.3)
Other	73,950	85,101	(13.1)
Total classified	<u>251,409</u>	<u>279,822</u>	(10.2)
Direct marketing and other	<u>129,350</u>	<u>122,081</u>	6.0
Total advertising	956,305	1,049,964	(8.9)
Circulation	262,335	272,776	(3.8)
Other	51,000	52,492	(2.8)
Total revenues	<u>\$1,269,640</u>	<u>\$1,375,232</u>	(7.7)

Advertising revenue is the largest component of the Company's revenue, accounting for 75.3% and 76.3% of total revenues in 2011 and 2010, respectively. The Company categorizes advertising as follows:

- Retail—local retailers, local stores of national retailers, department and furniture stores, restaurants and other consumer-related businesses. Retail advertising also includes revenues from preprinted advertising inserts distributed in the newspaper.
- National—national and major accounts such as telecommunications companies, financial institutions, movie studios, airlines and other national companies.
- Classified—local auto dealers, employment, real estate including display advertising and other classified advertising.
- Direct Marketing and Other—advertisements in direct mail, shared mail and niche publications, total market coverage publications and other miscellaneous advertising.

Advertising in the newspaper is typically display advertising, or in the case of classified, display and/or liner advertising, while digital advertising is in the form of display, coupon or banner ads, video, search advertising and/or liner ads. Advertising printed directly in the newspaper is considered "run of press" (ROP) advertising while preprint advertising consists of preprinted advertising inserts delivered with the newspaper.

Retail advertising in fiscal 2011 decreased \$51.7 million, or 9.4% from fiscal 2010, primarily reflecting the impact of the slow economic recovery and the secular shift to digital advertising which is substantially more competitive. Digital retail advertising in fiscal 2011 increased \$2.1 million, or 2.8% from fiscal 2010, driven by banner, coupon and display advertisements, while print ROP advertising in fiscal 2011 decreased \$35.4 million, or 14.7% from fiscal 2010. Preprint advertising in fiscal 2011 decreased \$18.5 million, or 7.8% from fiscal 2010.

National advertising in fiscal 2011 decreased \$20.8 million, or 21.4% from fiscal 2010. The declines in total national advertising were primarily in the telecommunications and national automotive segments. Digital national advertising in fiscal 2011 decreased \$4.0 million, or 17.5% from fiscal 2010.

In fiscal 2011 classified advertising decreased \$28.4 million, or 10.2% from fiscal 2010. Print classified advertising in fiscal 2011 declined \$30.8 million, or 16.4%. Digital classified advertising in fiscal 2011 increased

\$2.4 million, or 2.6%, primarily from growth in automotive digital advertising which was offset by declines in other categories. The following is a discussion of the major classified advertising categories:

- Automotive advertising in fiscal 2011 decreased \$2.4 million, or 2.9%, from fiscal 2010. Print automotive advertising in fiscal 2011 declined \$7.6 million, or 15.2% from fiscal 2010, while digital automotive advertising in fiscal 2011 grew \$5.2 million, or 15.9% from fiscal 2010. The better results in digital advertising, relative to other major categories, reflect the strength of the Company's Cars.com digital products.
- Real estate advertising in fiscal 2011 decreased \$10.8 million, or 19.4%, from fiscal 2010. The Company continued to be adversely impacted by the real estate downturn. Print real estate advertising declined \$10.6 million, or 25.9%, while digital real estate advertising declined \$0.2 million, or 1.4% from fiscal 2010.
- Employment advertising in fiscal 2011 decreased \$4.1 million, or 7.3% from fiscal 2010, reflecting a national slowdown in hiring resulting in a decrease in employment advertising. Print employment advertising declined \$1.6 million, or 6.2%, while digital employment advertising decreased \$2.5 million, or 8.3% from fiscal 2010. The greater decline in digital employment advertising reflects, in part, an increase in customers going directly to the Company's online employment vertical, CareerBuilder, in fiscal 2011 rather than accessing CareerBuilder through the Company's newspaper websites. The shift in audience directly to CareerBuilder decreased digital employment revenues by \$1.5 million (out of the \$2.5 million total decline) in fiscal 2011 compared to fiscal 2010.
- Other classified advertising, which primarily includes third-party liners, legal and remembrances advertisements, decreased \$11.2 million in fiscal 2011, or 13.1% from fiscal 2010. Print other classified declined \$11.0 million in fiscal 2011, or 15.6% from fiscal 2010. Digital other classified declined \$0.2 million, or 1.3%.

Digital advertising revenue, which is included in each of the advertising categories discussed above, totaled \$190.4 million in fiscal 2011, an increase of 0.3% as compared to fiscal 2010. Digital-only advertising revenues, which totaled \$92.1 million in fiscal 2011, grew 9.1% from fiscal 2010, while digital advertising revenues sold in conjunction with print products declined 6.8% from fiscal 2010 reflecting fewer print advertising sales.

Direct marketing advertising grew \$7.5 million, or 6.2%, in fiscal 2011 from fiscal 2010 largely reflecting growing popularity of the Company's "Sunday Select" product and other direct marketing products. Sunday Select is a package of preprints delivered to non-newspaper subscribers upon request.

In fiscal 2011, circulation revenues decreased \$10.4 million, or 3.8% from fiscal 2010, primarily reflecting lower volumes. Average paid daily circulation declined 4.3% while Sunday grew 0.2% in fiscal 2011. Circulation volume trends improved during 2011 as the Company's newspapers cycled the circulation initiatives taken in 2009 and, to a lesser degree, in 2010 to both cut expenses and increase prices. The Company expects circulation volumes to remain lower in fiscal 2012 compared to fiscal 2011 reflecting the fragmentation of audiences faced by all media as available outlets proliferate and readership trends change.

Operating Expenses:

Operating expenses in fiscal 2011 and fiscal 2010 include severance-related restructuring charges and accelerated depreciation on equipment related to the outsourcing of printing at various newspapers. Operating expenses in 2011 also included impairments related to mastheads and certain property, and costs of moving certain operations. The following table summarizes operating expenses, as well as the amount of these items in operating expenses in fiscal 2011 and 2010 (in thousands):

	<u>2011</u>	<u>2010</u>	<u>% Change</u>
Operating expenses	\$1,068,325	\$1,136,349	(6.0)
Total restructuring and impairment charges	30,444	15,863	91.9
Compensation expense	\$ 457,707	\$ 519,180	(11.8)
Compensation-related restructuring charges (included in total restructuring charges above)	13,853	9,853	40.6

Operating expenses in fiscal 2011 decreased \$68.0 million, or 6.0%, from fiscal 2010 as the Company continued to reduce costs to mitigate the impact of revenue declines. Operating expenses in fiscal 2011 included \$13.9 million in severance related to the Company's continued restructuring program, \$1.2 million of accelerated depreciation on equipment related to the outsourcing of printing at various newspapers, \$14.5 million in impairment charges and \$0.9 million in costs of moving certain operations. Operating expenses in fiscal 2010 included \$9.9 million in severance related to the Company's restructuring plans and \$6.0 million of accelerated depreciation on equipment related to the outsourcing of printing at various newspapers.

Compensation expenses in fiscal 2011 decreased \$61.5 million, or 11.8% from fiscal 2010, and included the restructuring charges discussed above, which were greater in fiscal 2011 than in fiscal 2010. The decline in compensation primarily reflected reductions in staffing. On average, staffing was down 11.8% in fiscal 2011 compared to fiscal 2010. Fringe benefit costs in fiscal 2011 were down \$26.1 million from fiscal 2010 primarily reflecting lower retirement costs and, to a lesser extent, lower medical costs. See an expanded discussion of retirement costs in Note 6 to the Consolidated Financial Statements.

Newsprint, supplement and printing expense in fiscal 2011 increased 6.8% from fiscal 2010 primarily reflecting higher newsprint prices, which were partially offset by lower newsprint usage. Newsprint expense in fiscal 2011 was up 5.1% while supplement and printing expense increased 12.1% from fiscal 2010 reflecting, in part, the costs of outsourced printing and increased sales of direct marketing products. Depreciation and amortization expenses in fiscal 2011 declined \$11.9 million compared to fiscal 2010 and included the impact of lower accelerated depreciation on equipment related to outsourcing in 2011. Depreciation expense was also lower because of lower capital expenditures in recent years and by other assets that became fully depreciated during the year. Other operating costs were down \$3.9 million, or 1.1%, in fiscal 2011 compared to fiscal 2010. Other operating expenses in 2011 included a total of \$15.4 million of impairment charges and moving costs included in restructuring and impairment charges discussed above. The reduction in other operating expenses in fiscal 2011 primarily reflects Company-wide efforts to reduce costs, including, among others, reductions in energy-related expenses and professional services.

Interest:

Interest expense in fiscal 2011 decreased \$12.2 million, or 6.9%, from fiscal 2010. Interest expense on tax reserves declined \$7.6 million in fiscal 2011 compared to fiscal 2010 due to the expiration of certain statutes of limitation and the settlement of tax audits that resulted in the reversal of accrued interest. In addition, interest on debt was lower primarily due to lower debt balances in fiscal 2011. In fiscal 2010, interest expense included a \$2.1 million write-off of deferred debt financing fees associated with bank term debt repaid during the year that was not associated with amendment of the credit agreement. See Note 5 to the Consolidated Financial Statements for a discussion of the Company's debt refinancing in 2010.

Equity Income:

Income from unconsolidated investments was \$27.8 million in fiscal 2011 compared to income of \$11.8 million in fiscal 2010. The Company's internet-related joint ventures, particularly CareerBuilder and Classified Ventures, reported greater income in fiscal 2011 reflecting growing digital advertising revenues in their respective businesses.

Gain (Loss) on Extinguishment of Debt:

In fiscal 2011, the Company purchased \$121.9 million aggregate principal amount of its outstanding debt securities and recorded a loss on debt extinguishment of \$1.2 million.

On February 11, 2010, the Company completed a refinancing of substantially all of its debt maturing in 2011 by amending and restating its credit agreement, issuing \$875.0 million in principal amount of the 2017 Notes and consummating a tender offer for an aggregate \$171.9 million in principal amount of the 2011 Notes and the 2014 Senior Notes. On December 16, 2010, the Company agreed to repay all of its outstanding term debt (totaling \$41.0 million) under this facility and lenders agreed to amend the Amended and Restated Credit Agreement to eliminate restrictions on the early retirement of the Company's existing public bonds. The Company recognized \$10.7 million in losses in fiscal 2010 on its debt refinancing and the subsequent amendment to its Credit Agreement.

See Note 4 to the Consolidated Financial Statements for an expanded discussion of these transactions.

Income Taxes:

The effective income tax rate on income from continuing operations in fiscal 2011 was 13.4% compared to 14.5% in fiscal 2010. The Company's tax provision in fiscal 2011 included a benefit from a favorable settlement of certain state tax issues in the first fiscal quarter of 2011 and expiration of statutes later in 2011. Further, the effective tax rate percentage was affected by the inclusion in pre-tax income of discrete items such as reduction to interest expense from the closure of statutes of limitations and audit settlements, the extinguishment of debt, certain asset disposals, the masthead impairment, and severance for fiscal 2011. Excluding the impact of these items, the net tax provision resulted in a tax rate of 44.0% and exceeded the federal statutory rate of 35.0% due primarily to the inclusion of state income taxes.

The effective tax rate in 2010 also included favorable tax settlements for certain federal and state tax issues, including expiration of the statute of limitations for open tax years for certain states. Further, the effective tax rate percentage was affected by the inclusion in pre-tax income of discrete items such as the extinguishment of debt, the write-down of an asset previously under contract to be sold, and severance for fiscal 2010. The effective tax rate on earnings in fiscal 2010 excluding the impact of these items was approximately 41.6%, and exceeded the federal statutory rate of 35.0% due primarily to the inclusion of state income taxes.

Fiscal 2010 Compared to Fiscal 2009

Changes to Previously Announced Fiscal 2010 and 2009 Annual Results

The fiscal 2010 and 2009 consolidated financial information has been updated within this Management's Discussion and Analysis of Financial Condition and Results of Operations to reflect the effects of the restatement as more fully described in Note 12, "Restatement of Consolidated Financial Statements" to the Consolidated Financial Statements included in Item 8 of this Form 10-K.

The Company reported income from continuing operations of \$33.1 million in fiscal 2010 and \$56.8 million in fiscal 2009, or \$0.39 per share and \$0.68 per share, respectively. The Company's total net income in fiscal 2010 was \$36.2 million or \$0.43 per share including discontinued operations as compared to total net income of \$50.1 million or \$0.61 per share in fiscal 2009. The declines in net income are primarily as a result of decreased revenues, as described further below.

Revenues:

Revenues in fiscal 2010 were \$1.4 billion, down 6.5% from revenues of \$1.5 billion in fiscal 2009. Advertising revenues were \$1.0 billion in fiscal 2010, down 8.1% from fiscal 2009, and circulation revenues were \$272.8 million in fiscal 2010, down 2.0% from fiscal 2009.

The following summarizes the Company's revenue by category, which compares fiscal 2010 with fiscal 2009 (dollars in thousands):

	<u>December 26, 2010</u>	<u>December 27, 2009</u>	<u>% Change</u>
Advertising:			
Retail	\$ 550,993	\$ 610,280	(9.7)
National	97,068	106,251	(8.6)
Classified:			
Auto	83,221	90,667	(8.2)
Real estate	55,468	70,655	(21.5)
Employment	56,032	58,963	(5.0)
Other	85,101	87,212	(2.4)
Total classified	<u>279,822</u>	<u>307,497</u>	(9.0)
Direct marketing and other	<u>122,081</u>	<u>119,101</u>	2.5
Total advertising	1,049,964	1,143,129	(8.1)
Circulation	272,776	278,256	(2.0)
Other	<u>52,492</u>	<u>50,199</u>	4.6
Total revenues	<u>\$1,375,232</u>	<u>\$1,471,584</u>	(6.5)

Advertising revenue is the largest component of the Company's revenue, accounting for 76.3% and 77.7% of total revenues in 2010 and 2009, respectively.

Retail advertising in fiscal 2010 decreased \$59.3 million, or 9.7% from fiscal 2009. The declines in retail advertising were across numerous segments, including the furniture and home furnishings segments and department store advertising. Digital retail advertising in fiscal 2010 increased \$4.2 million, or 5.9% from fiscal 2009, driven by banner and display advertisements and the impact of the Yahoo alliance, while print ROP advertising in fiscal 2010 decreased \$44.5 million, or 15.6% from fiscal 2009. Preprint advertising in fiscal 2010 decreased \$19.0 million, or 7.5% from fiscal 2009.

National advertising in fiscal 2010 decreased \$9.2 million, or 8.6% from fiscal 2009. The declines in total national advertising were primarily in the telecommunications and national automotive segments. Digital national advertising in fiscal 2010 decreased \$0.1 million, or 0.6% from fiscal 2009.

Classified advertising in fiscal 2010 decreased \$27.7 million, or 9.0% from fiscal 2009. Print classified advertising in fiscal 2010 declined \$28.0 million, or 13.0%. Digital classified advertising in fiscal 2010 increased \$0.4 million, or 0.4% from fiscal 2009 as the Company recorded growth in every classified category except digital real estate advertising. The following is a discussion of the major classified advertising categories:

- Automotive advertising in fiscal 2010 decreased \$7.4 million, or 8.2% from fiscal 2009, reflecting lower automotive sales and the consolidation of automotive dealers in early 2010. Print automotive advertising in fiscal 2010 declined \$8.4 million, or 14.3% from fiscal 2009, while digital automotive advertising in fiscal 2010 grew \$1.0 million, or 3.1% from fiscal 2009. The better results in digital advertising, relative to other major categories, reflect the strength of the Company's Cars.com digital products.

- Real estate advertising in fiscal 2010 decreased \$15.2 million, or 21.5% from fiscal 2009. The Company continued to be adversely impacted by the real estate downturn. In total, print real estate advertising declined \$13.2 million, or 24.4%, while digital real estate advertising declined \$2.0 million, or 12.2% from fiscal 2009.
- Employment advertising in fiscal 2010 decreased \$2.9 million, or 5.0%, from fiscal 2009, reflecting a national slowdown in hiring resulting in a decrease in employment advertising. However, employment advertising grew in the second half of 2010. For the full year, print employment advertising declined \$3.1 million, or 10.4%, while digital employment advertising increased \$0.1 million, or 0.4% from fiscal 2009.
- Other classified advertising, which primarily includes third-party liners, legal and remembrances advertisements, decreased \$2.1 million in fiscal 2010, or 2.4% from fiscal 2009. Print other classified declined \$3.4 million in fiscal 2010, or 4.6% from fiscal 2009. Digital other classified grew \$1.3 million, or 9.4%.

Digital advertising revenue, which is included in each of the advertising categories discussed above, totaled \$189.9 million in fiscal 2010, an increase of 2.4% as compared to fiscal 2009. Digital retail advertising and all categories of digital classified advertising, except real estate, increased in 2010 compared to 2009.

Direct marketing advertising grew \$3.5 million, or 3.0%, in fiscal 2010 from fiscal 2009 reflecting growing popularity of the Company's "Sunday Select" product and other direct marketing products. Sunday Select is a package of preprints delivered to non-newspaper subscribers upon request.

In fiscal 2010, circulation revenues decreased \$5.5 million, or 2.0% from fiscal 2009 primarily reflecting lower volumes. Average paid daily circulation declined 6.9% and Sunday was down 6.3% in fiscal 2010. Circulation volume trends improved during 2010 as the Company's newspapers cycled the circulation initiatives taken in 2009 to both cut expenses and increase prices. The Company's daily circulation volumes remained lower in fiscal 2011 compared to fiscal 2010 reflecting the fragmentation of audiences faced by all media as available outlets proliferate and readership trends change.

Operating Expenses:

Operating expenses in fiscal 2010 and fiscal 2009 include severance related restructuring charges and accelerated depreciation on equipment related to the outsourcing of printing at various newspapers. The following table summarizes operating expenses, as well as the amount of these items in operating expenses in fiscal 2010 and 2009 (in thousands):

	<u>2010</u>	<u>2009</u>	<u>% Change</u>
Operating expenses	\$1,136,349	\$1,273,072	(10.7)
Total restructuring charges	15,863	39,139	(59.5)
Compensation expense	\$ 519,180	\$ 582,241	(10.8)
Compensation-related restructuring charges (included in restructuring charges above)	9,853	28,575	(65.5)

Operating expenses in fiscal 2010 decreased \$136.7 million, or 10.7%, from fiscal 2009 as the Company continued to reduce costs to mitigate the impact of revenue declines. Operating expenses in fiscal 2010 included \$9.9 million in severance related to the Company's continued restructuring program and \$6.0 million of accelerated depreciation on equipment related to the outsourcing of printing at various newspapers. Operating expenses in fiscal 2009 included \$28.6 million in severance and benefit plan curtailment gain related to the Company's restructuring plans and \$10.6 million of accelerated depreciation on equipment related to the outsourcing of printing at various newspapers.

Compensation expenses in fiscal 2010 decreased \$63.1 million, or 10.8%, from fiscal 2009, and included the restructuring charges discussed above, which were greater in fiscal 2009 than in fiscal 2010. The decline in compensation primarily reflected reductions in staffing. On average, staffing was down 13.4% in fiscal 2010 compared to fiscal 2009. Fringe benefit costs in fiscal 2010 were similar to the amount in fiscal 2009 as lower medical costs were offset by higher retirement benefits, primarily accrued 401(k) supplemental contributions (see Note 6 to the Consolidated Financial Statements for an expanded discussion of 401(k) plan benefits).

Newsprint, supplement and printing expense in fiscal 2010 was down 18.3% from fiscal 2009 primarily reflecting declines in newsprint usage, and to a lesser extent, average newsprint prices for the year (owing to lower newsprint prices in the first half of fiscal 2010). Newsprint expense in fiscal 2010 was down 23.6% while supplement expense increased 5.7% from fiscal 2009. Depreciation and amortization expenses in fiscal 2010 declined \$9.5 million compared to fiscal 2009 and included the impact of lower accelerated depreciation on equipment related to outsourcing in 2010. Depreciation expense was also lower because of lower capital expenditures in recent years and by other assets that became fully depreciated during the year. Other operating costs were down \$33.7 million, or 8.8% from fiscal 2009 reflecting Company-wide efforts to reduce costs, including, among others, reductions in bad debt expense, energy-related expenses and professional services.

Interest:

Interest expense in fiscal 2010 increased \$50.4 million, or 39.6% from fiscal 2009 due primarily to higher interest rates on the new secured notes issued in the February 2010 debt refinancing, offset partially by lower debt balances. In addition, interest expense in fiscal 2010 included a \$2.1 million write-off of deferred debt financing fees associated with bank term debt repaid during the year that was not associated with amendment of the credit agreement. See Note 4 to the Consolidated Financial Statements for a discussion of the Company's debt refinancing in 2010.

Equity Income:

Income from unconsolidated investments was \$11.8 million in fiscal 2010 compared to income of \$2.1 million in fiscal 2009. The Company's internet-related joint ventures, particularly CareerBuilder and Classified Ventures, reported greater income in fiscal 2010.

Write-down of Investments and Land:

In fiscal 2010, a less-than-50% owned company identified goodwill impairment at a reporting unit and as a result, the Company recognized a charge of \$3.0 million related to its share of this impairment in the fourth quarter of fiscal 2010.

On January 31, 2011, the contract to sell certain land in Miami terminated because the buyer did not consummate the transaction by the closing deadline in the contract. Management evaluated the value of this land on its balance sheet and, as a result of this evaluation, the Company wrote down the value of the land by \$24.4 million in the fourth quarter of 2010. The Company wrote down the value of the land by \$34.2 million in the fourth quarter of 2009 after extending the deadline on the contract to January 31, 2011, and receipt of an additional \$6.0 million nonrefundable deposit from the buyer. This transaction is discussed in greater detail in Note 2 to the Consolidated Financial Statements.

Gain (Loss) on Extinguishment of Debt:

On February 11, 2010, the Company completed a refinancing of substantially all of its debt maturing in 2011 by amending and restating its credit agreement, issuing \$875.0 million of senior secured notes and tendering for certain public notes due in 2011 and 2014. On December 16, 2010, the Company agreed to repay all of its outstanding term debt (totaling \$41.0 million) under this facility and lenders agreed to amend the

Amended and Restated Credit Agreement (Credit Agreement) to eliminate restrictions on the early retirement of the company's existing public bonds. The Company paid \$32.0 million in fees related to various transactions in the refinancing and the subsequent amendment, most of which were capitalized as deferred financing costs. However, the Company recognized \$10.7 million in losses on debt refinancing and the subsequent amendment to its Credit Agreement in fiscal 2010.

On June 26, 2009, the Company completed a private debt exchange offer for all of its outstanding debt securities for a combination of cash and its 2014 Senior Notes. In exchange for the \$3.4 million in cash and \$24.2 million of 2014 Senior Notes the Company retired \$102.8 million of unsecured publicly traded bonds. A total of \$23.9 million of 2014 Senior Notes were repurchased in connection with the February 2010 tender offer using the proceeds from the senior secured notes discussed in the "Recent Events and Trends, *Debt Refinancing*" section above. The Company recorded an after-tax gain of \$44.1 million on the transaction in fiscal 2009.

See Note 4 to the Consolidated Financial Statements for an expanded discussion of these transactions.

Income Taxes:

The effective income tax rate on income from continuing operations in fiscal 2010 was 14.5%. The effective tax rate is lower than the statutory federal tax rate due largely to tax settlements for certain federal and state tax issues, including expiration of open tax years for certain states. Further, the effective tax rate percentage was affected by the inclusion in pre-tax income of discrete items such as the extinguishment of debt, the write-down of an asset previously under contract to be sold, and severance for fiscal 2010. The effective tax rate on earnings excluding the impact of these items was approximately 41.6% and is largely reflective of higher effective state tax rates in certain states in which the Company operates.

Discontinued Operations:

In fiscal 2010, the Company recorded \$4.9 million in pre-tax income mainly related to a reduction in a reserve for potential indemnification obligations related to workers' compensation claims. The obligations are associated with disposed newspapers and the reserve was reduced because the affected newspapers paid the current amounts and have shown the ability to continue to service their obligations.

In fiscal 2009 the Company reserved \$10.7 million for indemnifications related to several divested papers.

LIQUIDITY AND CAPITAL RESOURCES

Sources and Uses of Liquidity and Capital Resources:

The Company's cash and cash equivalents were \$86.0 million as of December 25, 2011, compared to \$17.5 million at the end of fiscal 2010. The larger cash balance at the end of fiscal 2011 reflects the receipt of dividends totaling \$30.3 million after the window closed to repurchase debt in the open market in the fourth quarter of 2011 and management's decision to maintain greater liquidity as the Company entered 2012.

Operating activities:

The Company used \$30.8 million of cash from operations in fiscal 2011 while it generated \$227.3 million and \$131.6 million of cash from operating activities of continuing operations in fiscal 2010 and 2009, respectively. The decrease in cash from operating activities in fiscal 2011 primarily relates to the use of cash for the following operational purposes:

- To contribute funds to the Company's pension plan (see discussion of pension contributions resulting from the Miami property sale below);
- To pay interest on the Company's 2017 Notes (The 2017 Notes were issued in February 2010 and only one semi-annual interest payment was due in fiscal 2010);

- To pay funds for the supplemental contributions accrued throughout 2010 but payable to the Company's 401(k) plan in fiscal 2011;
- For 2010 employee bonuses paid in 2011 (no similar payments were made in fiscal 2010); and
- To pay higher severance costs in 2011 than in fiscal 2010.

The increase in cash from operating activities in fiscal 2010 from fiscal 2009 primarily related to lower expenses as a result of cost restructuring over the past two years.

Pension Contributions: The Company made substantial contributions to its qualified defined benefit pension plan in 2011 to reduce its unfunded plan liability. In January 2011, the Company contributed certain of its real property appraised at \$49.7 million to its qualified defined benefit pension plan, which largely satisfied the Company's required pension contribution for fiscal 2011. On May 27, 2011, the Company voluntarily contributed \$163.0 million of cash to its qualified defined benefit pension plan using a portion of its \$236.0 million in proceeds from the sale of real property in Miami. See Notes 2 and 6 to the Consolidated Financial Statements for greater discussion of the Company's contributions.

As of December 25, 2011, the projected benefit obligations of the Company's qualified pension plan exceeded plan assets by \$422.5 million compared to \$479.1 million at the end of fiscal 2010. The excess of benefit obligations over pension assets is expected to give rise to an increase in required pension contributions over the next several years. The Pension Relief Act of 2010 (PRA) provides relief in the funding requirements of the qualified defined benefit pension plan, and the Company elected an option that allows the required contributions related to its 2009 and 2011 plan years to be paid over 15 years. Even with the relief provided, however, based on the current funding position of the pension plan, management expects future contributions to be required but also expects contributions in future years to be manageable using the Company's expected cash from operations.

In January 2012, the Company made a voluntary contribution of \$40.0 million to its qualified defined benefit plan to reduce its unfunded plan liability. The Company expects this contribution to satisfy all of its required contributions for fiscal 2012.

While amounts of future contributions are subject to numerous assumptions, including, among others, changes in interest rates, returns on assets in the pension plan and future government regulations, the Company estimates that approximately \$77.6 million will be required to be contributed to the qualified defined benefit plan over 2013 and 2014. The timing and amount of these payments reflects actuarial estimates the Company believes to be reasonable but are subject to changes in estimates. Management believes cash from operations will be sufficient to satisfy its contribution requirements.

Relocation Plans: On January 24, 2012, the Company entered into a contract to purchase approximately 6.1 acres of land located in Doral, Fla., for approximately \$3.1 million. McClatchy intends to build a new production facility on this site for *The Miami Herald* and *El Nuevo Herald* newspaper operations. See Notes 2 and 11 to the Consolidated Financial Statements for background on the sale of property and relocation of the Company's Miami newspaper operations.

On the same day, the Company entered into an agreement to lease a two-story office building adjacent to the future production facility. The newspapers plan to relocate their operations from their current location to the new site in May 2013. The lease on the office building is an operating lease with initial annual base lease payments of \$1.8 million beginning in May 2013 when the building is expected to be occupied. In addition to construction costs discussed below, the company expects to incur up to approximately \$12 million in out-of-pocket costs related to moving expenses over the next approximately 16 months. McClatchy expects these costs to be expensed over this period and is entitled to reimbursement of \$6 million of its relocation costs from the escrow account created by the purchaser of its existing facilities in Miami.

Investing activities:

The Company generated \$6.4 million of cash from investing activities in fiscal 2011. The Company received \$31.6 million in dividends from its equity investments; \$14.3 million exceeded the cumulative earnings from an investee and was considered a return of investment and therefore treated as an investing activity, while \$17.4 million reflected a return on investment and is shown as an operating activity. The Company also received proceeds from the sales of property, plant and equipment (PP&E), and these inflows were partially offset by \$17.0 million in purchases of PP&E. Capital expenditures have averaged \$15.4 million annually over the last three years and are expected to be about \$20.0 million in 2012, exclusive of its project to construct a new production facility in Miami.

As discussed above, McClatchy intends to build a new production facility for *The Miami Herald* and *El Nuevo Herald* newspaper operations. Total capital expenditures related to the new facilities are estimated to be approximately \$32 million and approximately \$23 million is expected to be funded in fiscal 2012. See Notes 2 and 11 to the Consolidated Financial Statements for background on the sale of property and relocation of the Company's Miami newspaper operations.

The Company generated \$17.5 million of cash from investing activities in fiscal 2010. The Company received \$24.3 million in dividends from its interest in Classified Ventures and received a \$6.0 million deposit on land in Miami which was previously under contract to be sold (See Note 2 to the Consolidated Financial Statements.). The Company also received proceeds from the sales of PP&E, and these inflows were partially offset by the purchase of PP&E.

In 2009, the Company used \$0.1 million of cash from investing activities resulting from the receipt of \$13.5 million in proceeds from selling various assets, and receipts, net of closing adjustments, related to the sale of its interest in the SP Newsprint Company (sold in 2008). These sources were offset by purchases of PP&E totaling \$13.6 million.

Financing activities:

The Company generated \$92.9 million from financing activities in fiscal 2011. The Company received \$230.0 million in proceeds from the sale of land in Miami and incurred \$2.6 million in costs related to the transaction. The amount is recorded as a financing obligation as discussed in Note 2 to the Consolidated Financial Statements. The Company repurchased \$121.9 million of aggregate principal amount of notes for \$116.9 million in cash in privately negotiated transactions in fiscal 2011 and retired at maturity \$18.1 million of 2011 bonds on June 1, 2011. See an expanded discussion of the notes repurchased in 2011 in Note 4 to the Consolidated Financial Statements.

The Company used \$231.3 million for financing activities in fiscal 2010. The Company received net proceeds of \$864.7 million from the issuance of \$875.0 million aggregate principal amount of the 2017 Notes (See discussion of debt refinancing under "Debt and Related Matters" below.). The Company used proceeds from the refinancing and cash from operations and investments to repay \$330.7 million in revolving bank debt and \$546.8 million in term bank debt under its credit facility. In addition, the Company paid \$187.3 million to retire \$171.9 million in aggregate principal of notes that would have matured in 2011 and 2014. The Company paid \$32.0 million in costs associated with the various refinancing transactions, most of which were recorded as deferred financing charges and the rest recorded as a loss on debt extinguishment.

The Company used \$121.9 million to fund financing activities in fiscal 2009. During the second quarter of fiscal 2009, the Company repaid \$31.0 million in bonds due on April 15, 2009. The Company also paid an aggregate of \$7.1 million in cash (\$3.4 million in payments to bondholders) and related expenses and issued \$24.2 million in aggregate principal amount of the 2014 Senior Notes, in total consideration to retire \$102.8 million in publicly traded debt securities in its June 2009 private exchange offer. (See Note 4 to the Consolidated Financial Statements and the discussion under "*Debt and Related Matters*" below for more detail on this transaction.)

In fiscal 2009, the Company repaid \$3.2 million of its Term A loan under its original credit agreement, reduced its revolving bank debt by \$61.0 million under its original credit agreement, and paid \$5.7 million in fees to amend its original credit agreement. The Company also paid \$14.9 million in dividends in fiscal 2009. The Company suspended its dividend after the payment of the first quarter dividend in 2009. The amount of future dividends is governed by reaching certain leverage levels of earnings before interest, taxes, depreciation and amortization (EBITDA) under its senior secured credit agreement.

The Company expects that most of its free cash flow generated from operations in the foreseeable future will be used to repay debt, make pension contributions and fund capital expenditures. Management believes that operating cash flow and liquidity under its credit facilities as described below are adequate to meet the liquidity needs of the Company, including currently planned capital expenditures and other investments at least for the next 16 months.

Debt and Related Matters:

Credit Agreement:

The Company was a party to a credit facility originally entered into on June 27, 2006, as amended that provided for a \$590.0 million, five-year revolving credit facility and a \$546.8 million, five-year term loan (original credit agreement or facility). Both the term loan and the revolving credit facility under the original credit agreement were due on June 27, 2011. The original credit facility has been amended and restated in connection with a debt refinancing entered into in February 2010, and amended further in December 2010 as discussed below.

February 11, 2010: On January 26, 2010, the Company entered into an amendment and restatement of the original credit agreement that became effective on February 11, 2010 (the Amended and Restated Credit Agreement), immediately prior to the closing of an offering of \$875.0 million in aggregate principal amount of the 2017 Notes (as defined below). The Amended and Restated Credit Agreement required a substantial reduction in bank debt and allowed for the early retirement of other bond debt using the proceeds of the secured notes offering. The Company was in compliance with all financial covenants of the original credit agreement at the time of the refinancing.

Upon closing of the refinancing transaction on February 11, 2010, the Amended and Restated Credit Agreement provided for a \$262.0 million term loan and a \$249.3 million revolving credit facility, including a \$100.0 million letter of credit sub-facility and extended the term of certain of the credit commitments to July 1, 2013. (See discussion of the December 16, 2010, amendment below for additional details on the Amended and Restated Credit Agreement.)

In connection with the Amended and Restated Credit Agreement, the Company issued \$875.0 million in aggregate principal amount of its 11.5% senior secured notes due February 15, 2017 (the 2017 Notes). The 2017 Notes are secured by a first-priority lien on certain of McClatchy's and the subsidiary guarantors' assets and will rank equally with liens granted under McClatchy's Amended and Restated Credit Agreement. The assets securing the 2017 Notes are unchanged from the original credit agreement and include intangible assets, inventory, receivables and certain other assets. In addition, the Company completed tender offers for its 7.125% notes due in 2011 (2011 Notes) and 15.75% senior notes due 2014 (2014 Senior Notes), paying \$187.3 million in cash for \$171.9 million of principal amount of 2011 Notes and 2014 Senior Notes.

The 2017 Notes were issued in a private placement. In August 2010, the original 2017 Notes (and associated guarantees) were exchanged for new 2017 Notes (and associated guarantees) that have terms substantially identical to the original notes except that the 2017 Notes issued in the exchange are not subject to transfer restrictions.

December 16, 2010 Amendment: The Company paid down the principal amount of its term loans outstanding under the Amended and Restated Credit Agreement throughout 2010 using its cash from operations. On December 16, 2010, the Company entered into an amendment of the Amended and Restated Credit Agreement (the Credit Agreement) to, among other things, remove certain restrictions on the ability to repurchase its publicly traded bonds, to repay the remaining \$41.0 million of bank term loans and to reduce the lenders' revolving loan commitments under the Amended and Restated Credit Agreement. The remaining term loans were repaid on December 20, 2010.

The Credit Agreement provides for a \$125.0 million revolving credit facility, including a \$100.0 million letter of credit sub-facility. The Credit Agreement will terminate on July 1, 2013.

2011 Activity: On June 1, 2011, the Company retired at maturity \$18.1 million of its 2011 Notes. Also during 2011, the Company purchased \$121.9 million aggregate principal amount of its outstanding debt securities using cash generated by operations and proceeds from asset sales. The Company purchased outstanding principal amount of debt securities as follows: \$0.4 million of its 15.75% senior notes due 2014, \$87.5 million of 4.625% notes due 2014, \$10.0 million of 5.75% notes due 2017 and \$24.0 million of its 11.50% secured notes due in 2017.

At December 25, 2011, the Company had no amounts outstanding under its Credit Agreement and had outstanding letters of credit totaling \$47.0 million securing estimated obligations stemming from workers' compensation claims and other contingent claims. At December 25, 2011, net of these letters of credit, a total of \$78.0 million was available under the Company's revolving facility under the Credit Agreement.

Debt under the Credit Agreement incurs interest at the London Interbank Offered Rate (LIBOR) plus a spread ranging from 425 basis points to 575 basis points or at a base rate plus a spread ranging from 325 basis points to 475 basis points. In each case, the applicable spread is based upon the Company's consolidated total leverage ratio (as defined in the Credit Agreement). In the case of a LIBOR spread, the Credit Agreement sets a floor on LIBOR for the purposes of interest payments of no less than 300 basis points (except for working capital borrowings, which are not subject to the 300 basis point floor and are limited to \$45.0 million and a 30 day term). A commitment fee for the unused revolving credit is priced at 50 basis points to 75 basis points based upon the Company's consolidated total leverage ratio (as defined in the Credit Agreement). As of December 25, 2011, the Company paid interest on borrowings under the Credit Agreement at a rate of 425 basis points over the 300 basis point LIBOR floor (or 7.25%) and pays 50.0 basis points for commitment fees.

The Credit Agreement contains quarterly financial covenants, including requirements that the Company maintain a minimum consolidated interest coverage ratio (as defined in the Credit Agreement) of 1.50 to 1.00. The Company is required to maintain a maximum consolidated leverage ratio (as defined in the Credit Agreement) of 6.50 to 1.00 from the quarter ending in March 2011 through the quarter ending in December 2011; decreasing to 6.25 to 1.00 from the quarter ending in March 2012 through the quarter ending in December 2012; and decreasing to 6.00 to 1.00 thereafter. Under the Credit Agreement, the Company is required to maintain at least \$50.0 million of available liquidity, defined as the sum of cash equivalents plus the amount available under the Company's revolving facility, as of the last day of each fiscal quarter. The Credit Agreement includes limitations on cash dividends allowed to be paid at certain leverage levels and other covenants, including limitations on additional debt.

At December 25, 2011, the Company's consolidated interest coverage ratio (as defined in the Credit Agreement) was 2.26 to 1.0, its consolidated leverage ratio (as defined in the Credit Agreement) was 4.57 to 1.0 and its available liquidity was \$164.0 million, and the Company was in compliance with all of its financial covenants. Because of the significance of the Company's outstanding debt, remaining in compliance with debt covenants is critical to the Company's operations. If revenue declines continue beyond those currently anticipated, the Company expects to continue to restructure operations and reduce debt to maintain compliance with its covenants.

The Credit agreement also prohibits the payment of a dividend when the consolidated leverage ratio (as defined in the Credit Agreement) is greater than 4.50 to 1.00. Dividends of up to \$10 million annually may be paid when leverage is between 4.50 to 1.00 and 4.00 to 1.00 and the amount of dividends allowed increases at lower leverage ratios.

Senior Secured Notes: The 2017 Notes are governed by an indenture entered into on February 11, 2010, which includes a number of covenants that are applicable to the Company and its restricted subsidiaries. The covenants are subject to a number of important exceptions and qualifications set forth in the indenture for the 2017 Notes. These covenants include, among other things, restrictions on the ability of the Company and its restricted subsidiaries to incur additional debt; make investments and other restricted payments; pay dividends on capital stock or redeem or repurchase capital stock or subordinated obligations; sell assets or enter into sale/ leaseback transactions; create specified liens; create or permit restrictions on the ability of the Company's restricted subsidiaries to pay dividends or make other distributions to the Company; engage in certain transactions with affiliates; and consolidate or merge with or into other companies or sell all or substantially all of the Company's and its subsidiaries' assets, taken as a whole.

Substantially all of the Company's subsidiaries have guaranteed the Company's obligations under the Credit Agreement and 2017 Notes. In addition, the Company has granted a security interest to the banks that are a party to the Credit Agreement and the trustee under the indenture governing the 2017 Notes that include, but are not limited to, intangible assets, inventory, receivables and certain minority investments as collateral for the debt. The security interest does not include any land, buildings, machinery and equipment (PP&E) and any leasehold interests and improvements with respect to such PP&E, which would be reflected on a consolidated balance sheet of the Company and its subsidiaries, and shares of stock and indebtedness of the subsidiaries of the Company.

2009 Exchange Offer: On June 26, 2009, the Company completed a private debt exchange offer for all of its outstanding debt securities for a combination of cash and its 2014 Senior Notes. The 2014 Senior Notes were senior unsecured obligations and were guaranteed by McClatchy's existing and future material domestic subsidiaries. The Company exchanged \$3.4 million in cash and \$24.2 million of 2014 Senior Notes in the exchange offer. In exchange for the cash and 2014 Senior Notes the Company retired the following outstanding principal amount of debt securities maturing in the respective years: \$3.8 million in 2011 notes, \$11.1 million in 2014 notes, \$53.4 million in 2017 notes, \$10.8 million in 2027 debentures and \$23.8 million in 2029 debentures. The Company recorded a pre-tax gain of approximately \$44.1 million on the exchange in 2009. The gain was equal to the carrying amount of the exchanged securities less the total future cash payments of the 2014 Senior Notes, including both payments of interest and principal amount, and related expenses of the exchange. A total of \$23.9 million of 2014 Senior Notes were repurchased in connection with the February 2010 tender-offer using the proceeds from the 2017 Notes discussed in "Debt Refinancing" section above, leaving \$0.4 million outstanding (which were purchased in February 2011).

Off-Balance-Sheet Arrangements:

As of December 25, 2011, the Company did not have any significant off-balance-sheet arrangements as defined in Item 303(a)(4)(ii) of Regulation S-K.

Contractual Obligations:

The following table summarizes specific financial obligations under the Company's contractual obligations and commercial commitments related to continuing operations as of December 25, 2011 (in thousands):

	Payments Due By Period				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Included in the Company's balance sheet:					
Long-term debt principal	\$1,634,494	\$ —	\$ 81,438	\$ —	\$1,553,056
Pension obligations (a)	530,553	37,463	103,938	103,722	285,430
Post-retirement obligations (a)	27,474	3,897	6,702	5,508	11,367
Workers' compensation obligations	20,506	5,051	6,146	3,515	5,794
Other long-term obligations (b)	19,319	3,919	6,245	4,318	4,837
Financing obligations (c)	48,024	4,004	8,008	8,008	28,004
Other obligations:					
Purchase obligations (d)	130,289	25,708	32,920	24,425	47,236
Operating leases (e)	86,065	12,484	21,772	14,785	37,024
Total (f)	<u>\$2,496,724</u>	<u>\$92,526</u>	<u>\$267,169</u>	<u>\$164,281</u>	<u>\$1,972,748</u>

- (a) Retirement obligations do not take into account the tax-deductibility of the payments. The timing of the payments of these obligations reflects actuarial estimates the Company believes to be reasonable. The amounts do not take into consideration the \$40.0 million contribution to the Company's qualified defined benefit plan in January 2012 or its impact on future year contributions.
- (b) Primarily deferred compensation, future lease obligations and indemnification obligations reserves related to disposed newspapers.
- (c) Financing obligations do not include the obligation related to the sale of property in Miami as no cash payment will be made related to this amount. See further discussion in Note 2 to the Consolidated Financial Statements.
- (d) Primarily printing outsource agreements and capital expenditures for property, plant and equipment.
- (e) Excludes payments on leases included in financing obligation above.
- (f) The table excludes unrecognized tax benefits, and related penalties and interest, totaling \$50.9 million because a reasonably reliable estimate of the timing of future payments, if any, cannot be determined. It also excludes pre-tax interest on debt that is expected to be approximately \$146 million or less annually.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Substantially all of the Company's outstanding debt is composed of fixed-rate bonds and, therefore, are not subject to interest rate fluctuations.

The discount rate used to measure the Company's obligations under its qualified defined benefit pension plan is generally based upon long-term interest rates on highly-rated corporate bonds. Hence, changes in long-term interest rates may have a significant impact on the funding position of the Company's qualified defined pension plan. Management estimates that a 1.0% increase in its discount rate could decrease its pension obligations by approximately \$200.0 million. A 1% decrease in the Company's discount rate would have the opposite impact. Based on current interest rates, the amount of contributions due to the plan and the timing of the payments of these obligations are included in the table of contractual obligations above and reflect actuarial estimates the Company believes to be reasonable.

See the discussion at "Recent Events and Trends—Operating Expenses" for the impact of market changes on the Company's newsprint and pension costs.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

**INDEX TO FINANCIAL STATEMENTS
AND FINANCIAL STATEMENT SCHEDULES**

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All other schedules are omitted as not applicable under the rules of Regulation S-X.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of The McClatchy Company:

We have audited the accompanying consolidated balance sheets of The McClatchy Company and subsidiaries (the Company) as of December 25, 2011 and December 26, 2010 and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 25, 2011. We also have audited the Company's internal control over financial reporting as of December 25, 2011 based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying "Management Report on Internal Control Over Financial Reporting." Our responsibility is to express an opinion on these financial statements and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 25, 2011 and December 26, 2010 and the results of their operations and their cash flows for each of the three years in the period ended December 25, 2011, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the

Company maintained, in all material respects, effective internal control over financial reporting as of December 25, 2011, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

/S/ DELOITTE & TOUCHE LLP

Sacramento, California
March 2, 2012

CONSOLIDATED STATEMENT OF OPERATIONS

(In thousands, except for per share amounts)

	Year Ended		
	December 25, 2011	December 26, 2010	December 27, 2009
REVENUES—NET:			
Advertising	\$ 956,305	\$1,049,964	\$1,143,129
Circulation	262,335	272,776	278,256
Other	51,000	52,492	50,199
	<u>1,269,640</u>	<u>1,375,232</u>	<u>1,471,584</u>
OPERATING EXPENSES:			
Compensation	457,707	519,179	582,241
Newsprint, supplements and printing	145,874	136,642	167,164
Depreciation and amortization	121,528	133,404	142,889
Other operating expenses	343,216	347,124	380,778
	<u>1,068,325</u>	<u>1,136,349</u>	<u>1,273,072</u>
OPERATING INCOME	201,315	238,883	198,512
NON-OPERATING (EXPENSES) INCOME:			
Interest expense	(165,434)	(177,641)	(127,276)
Interest income	97	550	47
Equity income from unconsolidated companies—net	27,762	11,752	2,130
Write-down of investments and land	—	(24,447)	(34,172)
Gain (loss) on extinguishment of debt	(1,203)	(10,661)	44,117
Other—net	248	265	203
	<u>(138,530)</u>	<u>(200,182)</u>	<u>(114,951)</u>
INCOME FROM CONTINUING OPERATIONS			
BEFORE INCOME TAXES	62,785	38,701	83,561
INCOME TAX PROVISION	8,396	5,601	26,800
INCOME FROM CONTINUING OPERATIONS	<u>54,389</u>	<u>33,100</u>	<u>56,761</u>
INCOME (LOSS) FROM DISCONTINUED OPERATIONS, NET OF INCOME TAXES	<u>—</u>	<u>3,083</u>	<u>(6,174)</u>
NET INCOME (LOSS)	<u>\$ 54,389</u>	<u>\$ 36,183</u>	<u>\$ 50,587</u>
NET INCOME (LOSS) PER COMMON SHARE:			
Basic:			
Income from continuing operations	\$ 0.64	\$ 0.39	\$ 0.68
Income (loss) from discontinued operations	—	0.04	(0.07)
Net income (loss) per share	<u>\$ 0.64</u>	<u>\$ 0.43</u>	<u>\$ 0.61</u>
Diluted:			
Income from continuing operations	\$ 0.63	\$ 0.39	\$ 0.68
Income (loss) from discontinued operations	—	0.04	(0.07)
Net income (loss) per share	<u>\$ 0.63</u>	<u>\$ 0.43</u>	<u>\$ 0.61</u>
WEIGHTED AVERAGE NUMBER OF COMMON SHARES:			
Basic	85,211	84,760	83,785
Diluted	86,044	85,539	83,810

See notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEET

(In thousands, except share amounts)

	<u>December 25,</u> <u>2011</u>	<u>December 26,</u> <u>2010</u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 86,020	\$ 17,508
Trade receivables, net of allowances of \$7,341 in 2011 and \$7,836 in 2010	179,046	183,741
Other receivables	10,272	11,809
Newsprint, ink and other inventories	28,842	33,322
Deferred income taxes	16,605	22,762
Income tax receivable	5,158	9,444
Other current assets	19,033	21,701
	<u>344,976</u>	<u>300,287</u>
PROPERTY, PLANT AND EQUIPMENT:		
Land	308,489	196,497
Building and improvements	362,091	391,746
Equipment	784,592	797,919
Construction in progress	4,463	3,286
	<u>1,459,635</u>	<u>1,389,448</u>
Less accumulated depreciation	(698,658)	(680,240)
	<u>760,977</u>	<u>709,208</u>
INTANGIBLE ASSETS:		
Identifiable intangibles—net	586,160	647,225
Goodwill	1,012,011	1,014,257
	<u>1,598,171</u>	<u>1,661,482</u>
INVESTMENTS AND OTHER ASSETS		
Investments in unconsolidated companies	304,893	306,881
Other assets	31,042	169,001
	<u>335,935</u>	<u>475,882</u>
TOTAL ASSETS	<u>\$ 3,040,059</u>	<u>\$ 3,146,859</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 44,727	\$ 47,771
Accrued pension liabilities	37,462	7,355
Accrued compensation	42,928	67,478
Income taxes payable	13,063	2,942
Unearned revenue	73,352	75,125
Accrued interest	49,686	51,864
Other accrued liabilities	15,676	31,250
	<u>276,894</u>	<u>283,785</u>
NON-CURRENT LIABILITIES:		
Long-term debt	1,577,476	1,703,339
Deferred income taxes	139,296	230,159
Pension and postretirement obligations	516,668	599,904
Financing obligations	272,795	—
Other long-term obligations	81,743	113,920
	<u>2,587,978</u>	<u>2,647,322</u>
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Common stock \$.01 par value:		
Class A—authorized 200,000,000 shares, issued 60,865,566 in 2011 and 60,278,448 in 2010 ...	609	603
Class B—authorized 60,000,000 shares, issued 24,800,962 in 2011 and 2010	248	248
Additional paid-in capital	2,219,161	2,212,915
Accumulated deficit	(1,696,032)	(1,750,421)
Treasury stock at cost, 260,170 shares in 2011 and 116,045 in 2010	(1,145)	(532)
Accumulated other comprehensive loss	(347,654)	(247,061)
	<u>175,187</u>	<u>215,752</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 3,040,059</u>	<u>\$ 3,146,859</u>

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

(In thousands)

	December 25, 2011	December 26, 2010	December 27, 2009
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	\$ 54,389	\$ 36,183	\$ 50,587
Less net income (loss) from discontinued operations	—	3,083	(6,174)
Net income (loss) from continuing operations	54,389	33,100	56,761
Reconciliation to net cash provided by continuing operations:			
Depreciation and amortization	121,528	133,404	142,889
Write-down of investments and land	—	24,447	34,172
Contribution to qualified defined benefit pension plan	(163,000)	(8,235)	—
Employee benefit expense	816	5,568	1,659
Stock compensation expense	5,174	4,626	2,971
Deferred income taxes	(18,964)	(26,023)	2,068
Loss (gain) on disposal of equipment (including impairments)	9,397	(254)	(1,485)
Loss (gain) on extinguishment of debt	1,203	10,661	(44,117)
Equity (income) in unconsolidated companies	(27,762)	(11,752)	(995)
Dividends from equity investment	17,375	—	—
Write-off of deferred financing cost	—	2,148	364
Other	5,717	2,896	13,822
Changes in certain assets and liabilities:			
Trade receivables	4,695	22,099	37,860
Inventories	4,480	3,052	12,927
Other assets	2,694	(11,299)	(6,110)
Accounts payable	(4,256)	523	(24,594)
Accrued compensation	(24,583)	8,264	1,386
Income taxes	(16,443)	(6,568)	(55,633)
Other liabilities	(3,233)	40,644	(42,348)
Net cash from operating activities of continuing operations	(30,773)	227,301	131,597
Net cash from operating activities of discontinued operations	—	(2,106)	(8,431)
Net cash from operating activities	(30,773)	225,195	123,166
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from sale of property, plant and equipment and other	9,201	2,952	9,284
Proceeds from sale of investments	2,893	—	4,208
Deposit for land	—	6,000	—
Purchases of property, plant and equipment	(16,984)	(15,628)	(13,574)
Dividends from equity investment	14,250	24,274	—
Equity investments and other	(2,986)	(120)	(23)
Net cash from investing activities	6,374	17,478	(105)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of notes	—	864,710	—
Repayments of term bank debt	—	(546,800)	(3,200)
Net repayments of revolving bank debt	—	(330,700)	(61,000)
Purchases of privately-placed notes	(447)	(31,929)	—
Extinguishment of public notes and related expenses	(134,555)	(155,410)	(38,082)
Payment of cash dividends	—	—	(14,905)
Payment of financing costs	(2,552)	(31,986)	(5,665)
Proceeds from financing obligation related to Miami transaction	230,000	—	—
Other—principally stock issuances	465	793	950
Net cash from financing activities	92,911	(231,322)	(121,902)
NET CHANGE IN CASH AND CASH EQUIVALENTS	68,512	11,351	1,159
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	17,508	6,157	4,998
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 86,020</u>	<u>\$ 17,508</u>	<u>\$ 6,157</u>

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

(In thousands, except share and per share amounts)

	Par Value Class A	Par Value Class B	Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
BALANCES, DECEMBER 28, 2008	\$575	\$251	\$2,203,776	\$(1,829,717)	\$(322,312)	\$ (144)	\$ 52,429
Net income				50,587			50,587
Other comprehensive income (loss), net of tax:							
Pension and postretirement plans:							
Unamortized gain					67,539		67,539
Prior service credit					368		368
Other comprehensive loss related to equity investments					(119)		(119)
Other comprehensive income							67,788
Total comprehensive income							118,375
Dividends declared (\$.09 per share)				(7,474)			(7,474)
Conversion of 250,000 Class B shares to Class A shares	3	(3)					
Issuance of 1,934,656 Class A shares under stock plans	19		940				959
Stock compensation expense			2,971				2,971
Purchase of 32,638 shares of treasury stock						(9)	(9)
Tax impact from stock plans			(565)				(565)
BALANCES, DECEMBER 27, 2009	597	248	2,207,122	(1,786,604)	(254,524)	(153)	166,686
Net income				36,183			36,183
Other comprehensive income (loss), net of tax:							
Pension and postretirement plans:							
Unamortized gain					8,050		8,050
Prior service cost					(640)		(640)
Other comprehensive gain related to equity investments					53		53
Other comprehensive income							7,463
Total comprehensive income							43,646
Issuance of 573,347 Class A shares under stock plans	6		1,161				1,167
Stock compensation expense			4,626				4,626
Purchase of 78,143 shares of treasury stock						(379)	(379)
Tax impact from stock plans			6				6
BALANCES, DECEMBER 26, 2010	\$603	\$248	\$2,212,915	\$(1,750,421)	\$(247,061)	\$ (532)	\$ 215,752
Net income				54,389			54,389
Other comprehensive loss, net of tax:							
Pension and postretirement plans:							
Unamortized loss					(99,447)		(99,447)
Prior service cost					(640)		(640)
Other comprehensive loss related to equity investments					(506)		(506)
Other comprehensive loss							(100,593)
Total comprehensive loss							(46,204)
Issuance of 587,118 Class A shares under stock plans	6		973				979
Stock compensation expense			5,174				5,174
Purchase of 144,125 shares of treasury stock						(613)	(613)
Tax impact from stock plans			99				99
BALANCES, DECEMBER 25, 2011	\$609	\$248	\$2,219,161	\$(1,696,032)	\$(347,654)	\$(1,145)	\$ 175,187

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

The McClatchy Company (McClatchy or the Company) is a leading news, advertising and information provider, offering a wide array of print and digital products in each of the markets it serves. As the third largest newspaper company in the United States based on daily circulation, McClatchy's operations include 30 daily newspapers, community newspapers, websites, mobile news and advertising, niche publications, direct marketing and direct mail services. The Company's largest newspapers include *The Miami Herald*, *The Sacramento Bee*, *Fort Worth Star-Telegram*, *The Kansas City Star*, *The Charlotte Observer* and *The News & Observer* in Raleigh, N.C.

McClatchy also owns a portfolio of premium digital assets, including 15.0% of CareerBuilder, LLC, which operates the nation's largest online job site, CareerBuilder.com, 25.6% of Classified Ventures, LLC, a company that offers classified websites such as the auto website Cars.com and the rental site Apartments.com, and 33.3% of HomeFinder, LLC, which operates the online real estate website HomeFinder.com. McClatchy is listed on the New York Stock Exchange under the symbol MNI.

The consolidated financial statements include the Company and its subsidiaries. Intercompany items and transactions are eliminated. In preparing the financial statements, management makes 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. Actual results could differ from those estimates.

Certain prior year amounts have been reclassified to conform to the current year presentation in the Company's Consolidated Balance Sheet and Consolidated Statement of Cash Flows.

Discontinued operations—The Company divested 13 newspapers from 2006 through 2007. The sales contracts for several of the disposed newspapers include indemnification obligations. Expenses and credits related to disposed newspaper operations have been recorded as discontinued operations.

Revenue recognition—The Company recognizes revenues from advertising placed in a newspaper and/or on a website over the advertising contract period or as services are delivered, as appropriate, and recognizes circulation revenues as newspapers are delivered over the applicable subscription term. Circulation revenues are recorded net of direct delivery costs. Other revenue is recognized when the related product or service has been delivered. Revenues are recorded net of estimated incentives, including special pricing agreements, promotions and other volume-based incentives and net of sales tax collected from the customer. Revisions to these estimates are charged to revenues in the period in which the facts that give rise to the revision become known.

Cash equivalents are highly liquid debt investments with original maturities of three months or less.

Concentrations of credit risks—Financial instruments, which potentially subject the Company to concentrations of credit risks, are principally cash and cash equivalents and trade accounts receivables. Cash and cash equivalents are placed with major financial institutions. As of December 25, 2011, the Company had no cash balances at financial institutions in excess of federal insurance limits. The Company routinely assesses the financial strength of significant customers and this assessment, combined with the large number and geographic diversity of its customers, limits the Company's concentration of risk with respect to trade accounts receivable.

Allowance for doubtful accounts—The Company maintains an allowance account for estimated losses resulting from the risk its customers will not make required payments. Generally, the Company uses the aging of accounts receivable, reserving for all accounts due 90 days or longer, to establish allowances for losses on accounts receivable. However, if the Company becomes aware that the financial condition of specific customers has deteriorated, additional allowances are provided.

The Company provides an allowance for doubtful accounts as follows (in thousands):

	Year Ended		
	December 25, 2011	December 26, 2010	December 27, 2009
Balance at beginning of year	\$ 7,836	\$10,298	\$ 15,255
Charged to costs and expenses	8,309	7,479	16,459
Amounts written off	(8,804)	(9,941)	(21,416)
Balance at end of year	<u>\$ 7,341</u>	<u>\$ 7,836</u>	<u>\$ 10,298</u>

Inventories are stated at the lower of cost (based principally on the first-in, first-out method) or current market value.

Property, plant and equipment are stated at cost. Major improvements, as well as interest incurred during construction, are capitalized. Capitalized interest was not material in fiscal 2011, 2010 or 2009. Expenditures for maintenance and repairs are charged to expense as incurred.

Depreciation is computed generally on a straight-line basis over estimated useful lives of:

- 5 to 60 years for buildings and improvements
- 9 to 25 years for presses
- 2 to 15 years for other equipment

Equity investments in unconsolidated companies—The Company uses the equity method of accounting for its investments in and earnings or losses of companies that it does not control but over which it does exert significant influence. The Company considers whether the fair values of any of its equity method investments have declined below their carrying value whenever adverse events or changes in circumstances indicate that recorded values may not be recoverable. If the Company considered any decline to be other than temporary (based on various factors, including historical financial results and the overall health of the investee), then a write-down would be recorded to estimated fair value. See Note 2 for discussion of investments in unconsolidated companies.

Segment reporting—The Company’s primary business is the publication of newspapers and related digital and direct marketing products. The Company has two operating segments that it aggregates into a single reportable segment because each has similar economic characteristics, products, customers and distribution methods. Each segment consists primarily of a group of newspapers reporting to segment managers. One operating segment consists primarily of the Company’s newspaper operations in California, the Northwest and Texas while the other operating segment consists primarily of newspaper operations in the Southeast, the Gulf Coast and the Midwest.

Goodwill and intangible impairment—The Company tests for impairment of goodwill annually (at year-end) or whenever events occur or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. The required two-step approach uses accounting judgments and estimates of future operating results. Changes in estimates or the application of alternative assumptions could produce significantly different results. Impairment testing is done at a reporting unit level. The Company performs this testing on operating segments, which are also considered reporting units. An impairment loss generally is recognized when the carrying amount of the reporting unit’s net assets exceeds the estimated fair value of the reporting unit. The fair value of the Company’s reporting units is determined using a discounted cash flow model. The estimates and judgments that most significantly affect the fair value calculation are assumptions related to revenue growth, newsprint prices, compensation levels, discount rate and private and public market

trading multiples for newspaper assets. The Company's considers current market capitalization (based upon the recent stock market prices) plus an estimated control premium in determining the reasonableness of the aggregate fair value of the reporting units. The Company performed its annual testing at the end of its fiscal year in 2011, 2010 and 2009. No impairment loss was recognized on goodwill in any of these years.

Newspaper mastheads (newspaper titles and website domain names) are not subject to amortization and are tested for impairment annually (at year-end) or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test consists of a comparison of the fair value of each newspaper masthead with its carrying amount. The Company uses a relief from royalty approach which utilizes a discounted cash flow model (discussed above) to determine the fair value of each newspaper masthead. The Company performed impairment tests on newspaper mastheads at the end of its fiscal years. As a result of its testing, two of the Company's newspaper mastheads were measured at fair values totaling \$17.8 million at December 25, 2011, and the Company recorded an impairment charge of \$2.8 million in fiscal 2011. No impairments were recorded in fiscal 2010 or 2009.

Long-lived assets such as intangible assets are amortized (primarily advertiser and subscriber lists) and are tested for recoverability whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. The carrying amount of each asset group is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use of such asset group. No impairment loss was recognized on intangible assets subject to amortization in fiscal years 2011, 2010 and 2009.

Stock-based compensation—Beginning in fiscal 2006, all share-based payments to employees, including grants of employee stock options, stock appreciation rights, restricted stock units and restricted stock under equity incentive plans and purchases under the employee stock purchase plan, are recognized in the financial statements based on their fair values. At December 25, 2011, the Company had five stock-based compensation plans with outstanding balances in four of the plans. See an expanded discussion of the Company's stock plans in Note 9. Total stock-based compensation expense was \$5.2 million, \$4.6 million and \$3.0 million in fiscal 2011, 2010 and 2009, respectively.

Income taxes—The Company accounts for income taxes using the liability method. Under this method, deferred tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that are expected to be in effect when the differences are expected to reverse.

Current accounting standards in the United States prescribe a recognition threshold and measurement of a tax position taken or expected to be taken in an enterprise's tax returns. The Company recognizes accrued interest related to unrecognized tax benefits in interest expense. Accrued penalties are recognized as a component of income tax expense.

Fair value of financial instruments—Generally accepted accounting principles require the disclosure of the fair value of certain financial instruments, whether or not recognized in the balance sheet, for which it is practicable to estimate fair value. The Company estimated the fair values presented below using appropriate valuation methodologies and market information available as of year-end. Considerable judgment is required to develop estimates of fair value, and the estimates presented are not necessarily indicative of the amounts that the Company could realize in a current market exchange. The use of different market assumptions or estimation methodologies could have a material effect on the estimated fair values. Additionally, the fair values were estimated at year-end, and current estimates of fair value may differ significantly from the amounts presented.

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

Cash and equivalents, accounts receivable and accounts payable. The carrying amount of these items approximates fair value.

Long-term debt. The fair value of long-term debt is determined based on a number of observable inputs including the current market activity of the Company's publicly-traded notes, trends in investor demand and market values of comparable publicly-traded debt. At December 25, 2011, the estimated fair value of long-term debt was \$1.3 billion and the carrying value of long-term debt was \$1.6 billion.

Comprehensive income (loss)—The Company records changes in its net assets from non-owner sources in its Consolidated Statement of Stockholders' Equity. Such changes relate primarily to valuing its pension liabilities, net of tax effects. The following table summarizes the changes in other comprehensive income (loss) (in thousands):

(in thousands)	Changes to Comprehensive Income (Loss)		
	Pre-Tax	Tax	After-Tax
Year Ended December 25, 2011:			
Pension and post retirement plans:			
Unamortized loss	\$(165,746)	\$ 66,299	\$ (99,447)
Prior service cost	(1,066)	426	(640)
Other comprehensive loss related to equity investments	(842)	336	(506)
	<u>\$(167,654)</u>	<u>\$ 67,061</u>	<u>\$(100,593)</u>
Year Ended December 26, 2010:			
Pension and post retirement plans:			
Unamortized gain	\$ 13,416	\$ (5,366)	\$ 8,050
Prior service cost	(1,066)	426	(640)
Other comprehensive gain related to equity investments	88	(35)	53
	<u>\$ 12,438</u>	<u>\$ (4,975)</u>	<u>\$ 7,463</u>
Year Ended December 27, 2009:			
Pension and post retirement plans:			
Unamortized gain	\$ 112,565	\$(45,026)	\$ 67,539
Prior service credit	613	(245)	368
Other comprehensive loss related to equity investments	(199)	80	(119)
	<u>\$ 112,979</u>	<u>\$(45,191)</u>	<u>\$ 67,788</u>

Earnings per share (EPS)—Basic EPS excludes dilution from common stock equivalents and reflects income divided by the weighted average number of common shares outstanding for the period. Diluted EPS is based upon the weighted average number of outstanding shares of common stock and dilutive common stock equivalents in the period. Common stock equivalents arise from dilutive stock options, restricted stock units and restricted stock and are computed using the treasury stock method. The weighted average anti-dilutive stock options that could potentially dilute basic EPS in the future, but were not included in the weighted average share calculation were 5.8 million in fiscal 2011, 4.3 million in fiscal 2010 and 6.3 million in fiscal 2009.

New accounting pronouncements—In September 2011, the Financial Accounting Standards Board (FASB) issued amended accounting guidance related to goodwill impairment testing. The new guidance provides the option to perform a qualitative assessment by applying a more likely than not scenario to determine whether the fair value of a reporting unit is less than its carrying amount, which may then allow a company to skip the annual two-step quantitative goodwill impairment test depending on the determination. The amended guidance is effective for the Company commencing in the first fiscal quarter of 2012. Earlier adoption is permitted. Management does not expect the adoption of the amended guidance to have a material impact on the Company's consolidated financial statements.

In September 2011, the FASB issued amended accounting guidance related to disclosures about an employer's participation in a multiemployer pension plan. The new guidance requires that employers provide

additional quantitative and qualitative disclosures for multiemployer pension plans and multiemployer other postretirement benefit plans. The amended guidance is effective for the Company on a retrospective basis commencing in the first fiscal quarter of 2012. Earlier adoption is permitted. Management does not expect the adoption of the amended guidance to have a material impact on the Company's consolidated financial statement disclosures.

In May 2011, the FASB issued a single authoritative guidance on a framework on how to measure fair value and on what disclosures to provide about fair value measurements. The FASB also clarified existing fair value measurement disclosures and made other amendments to current guidance. These amended standards and the adoption of this disclosure-only guidance is effective for the Company's first fiscal quarter of 2012 and is not expected to have a material impact on the Company's consolidated financial results.

In June 2011, the FASB issued guidance that revises the manner in which entities present comprehensive income in their financial statements. The new guidance removes the presentation options in previous guidance and requires entities to report components of comprehensive income in either (1) a continuous statement of comprehensive income or (2) two separate but consecutive statements. The new guidance does not change the items that must be reported in other comprehensive income. This amended guidance is effective for the Company's first fiscal quarter of 2012 and is not expected to have a material impact on the Company's consolidated financial results or disclosures.

NOTE 2. INVESTMENTS IN UNCONSOLIDATED COMPANIES AND MIAMI LAND

The following is the Company's ownership interest and investment in unconsolidated companies and joint ventures as of December 25, 2011, and December 26, 2010, (dollars in thousands):

<u>Company</u>	<u>% Ownership Interest</u>	<u>December 25, 2011</u>	<u>December 26, 2010</u>
CareerBuilder, LLC	15.0	\$218,805	\$220,777
Classified Ventures, LLC	25.6	66,886	66,976
HomeFinder, LLC	33.3	1,628	3,061
Seattle Times Company (C-Corporation)	49.5	—	—
Ponderay Newsprint Company (general partnership)	27.0	11,800	13,320
Other	Various	5,774	2,747
		\$304,893	\$306,881

The Company uses the equity method of accounting for a majority of investments.

In fiscal 2011 and 2010, Classified Ventures, LLC paid the Company dividends totaling \$17.4 million and \$24.3 million, respectively. In fiscal 2011 CareerBuilder, LLC paid the Company a dividend of \$7.5 million and other unconsolidated companies paid dividends totaling \$6.7 million.

In 2010, a less-than-50% owned company identified goodwill impairment at a reporting unit and as a result, the Company recognized \$3.0 million as its portion of the charge related to this write-down in fiscal 2010.

The Company is required to purchase 56,800 metric tons of newsprint of annual production from Ponderay Newsprint Company on a "take-if-tendered" basis at prevailing market prices.

The Company recorded its share of the comprehensive losses from The Seattle Times Company (STC) to the extent that it had a carrying value in its investment in STC. The Company's investment in STC is now zero, and no future income or losses from STC will be recorded until the Company's carrying value on its balance sheet is restored through future earnings by STC.

The Company also incurred expense related to the purchase of products and services provided by these companies, for the uploading and hosting of online advertising on behalf of the Company's newspapers' advertisers.

The following table summarizes expenses incurred for products provided by its less-than 50% owned companies and is recorded in operating expenses in fiscal 2011, 2010 and 2009 (in thousands):

	<u>Career- Builder</u>	<u>Classified Ventures</u>	<u>Ponderay</u>
2011	\$1,230	\$12,552	\$20,414
2010	1,272	11,073	23,048
2009	1,241	10,250	27,413

As of December 25, 2011, and December 26, 2010, the Company had approximately \$3.6 million payable to CareerBuilder, LLC and Ponderay Newsprint Company in each year.

The table below presents the summarized financial information for the Company's investments in unconsolidated companies on a combined basis (dollars in thousands):

	<u>2011</u>	<u>2010</u>	
Current assets	\$ 480,050	\$ 473,765	
Noncurrent assets	563,286	603,216	
Current liabilities	359,891	298,229	
Noncurrent liabilities	228,713	280,184	
Equity	454,732	498,568	
	<u>2011</u>	<u>2010</u>	<u>2009</u>
Net revenues	\$1,332,394	\$1,195,755	\$1,142,551
Operating income	154,257	102,863	67,442
Net income	171,305	95,855	66,524

On January 31, 2011, the original contract to sell certain land in Miami terminated because the buyer did not consummate the transaction by the closing deadline in the contract. Under the terms of an agreement with the developer, McClatchy is entitled to receive a \$7.0 million termination fee and has filed a claim against the developer to secure payment. However the Company has not recorded any amounts in its financial statements related to this fee pending the resolution of this claim. McClatchy previously received approximately \$16.5 million in nonrefundable deposits, which it used to repay debt.

On May 27, 2011, the Company sold 14.0 acres of land in Miami, including the building holding the operations of one of its subsidiaries, The Miami Herald Media Company, and an adjacent parking lot for a purchase price of \$236.0 million. Approximately 9.4 acres of the Miami land was previously subject to the original contract, which was terminated as discussed above. The Company received cash proceeds of \$230.0 million, and an additional \$6.0 million is being held in an escrow account, payable to McClatchy once expenses are incurred related to the relocation of its Miami operations.

Under the sale agreement, The Miami Herald Media Company will continue to operate from its existing location through May 2013 rent free. Because the Company will not pay rent for this period, the Company is deemed to have continuing involvement in the property. As a result, under generally accepted accounting principles, the sale is treated as a financing transaction. Accordingly, the Company will continue to depreciate the carrying value of the building in its financial statements until its operations are moved, and no gain or loss has been recognized on the transaction.

As a result of the accounting treatment described above, the Company has recorded a liability (in financing obligations) equal to the sales proceeds received in the second quarter of 2011 (\$230.0 million). The Company is required to impute rent based on market rates. The imputed rent will be reflected as interest expense as required by generally accepted accounting principles until the operations are moved. The Company expects to recognize a gain of approximately \$10 million at the time the operations are moved and there is no longer continuing involvement with the Miami property.

See Note 11, "Subsequent Event", for a discussion of the Company's plans to relocate its Miami newspaper operations.

NOTE 3. INTANGIBLE ASSETS AND GOODWILL

Intangible assets and goodwill consisted of the following (in thousands):

	December 25, 2011		
	<u>Gross Amount</u>	<u>Accumulated Amortization</u>	<u>Net Amount</u>
Intangible assets subject to amortization:			
Advertiser and subscriber lists	\$803,840	\$(421,392)	\$ 382,448
Other	31,121	(30,996)	125
Total	<u>\$834,961</u>	<u>\$(452,388)</u>	382,573
Other intangible assets not subject to amortization:			
Newspaper mastheads			203,587
Total			586,160
Goodwill			1,012,011
Total intangible assets and goodwill			<u>\$1,598,171</u>
	December 26, 2010		
	<u>Gross Amount</u>	<u>Accumulated Amortization</u>	<u>Net Amount</u>
Intangible assets subject to amortization:			
Advertiser and subscriber lists	\$803,840	\$(364,010)	\$ 439,830
Other	31,071	(30,063)	1,008
Total	<u>\$834,911</u>	<u>\$(394,073)</u>	440,838
Other intangible assets not subject to amortization:			
Newspaper mastheads			206,387
Total			647,225
Goodwill			1,014,257
Total intangible assets and goodwill			<u>\$1,661,482</u>

Changes in identifiable intangible assets and goodwill in fiscal 2011 and 2010 consisted of the following (in thousands):

	<u>December 26, 2010</u>	<u>Impairment Charges/ Adjustments</u>	<u>Amortization Expense</u>	<u>December 25, 2011</u>
Intangible assets subject to amortization	\$ 834,911	\$ 50	\$ —	834,961
Accumulated amortization	<u>(394,073)</u>	<u>—</u>	<u>(58,315)</u>	<u>\$ (452,388)</u>
	440,838	50	(58,315)	382,573
Mastheads and other	206,387	(2,800)	—	203,587
Goodwill (1)	<u>1,014,257</u>	<u>(2,246)</u>	<u>—</u>	<u>1,012,011</u>
Total	<u>\$1,661,482</u>	<u>\$(4,996)</u>	<u>\$(58,315)</u>	<u>\$1,598,171</u>

	<u>December 27, 2009</u>	<u>Impairment Charges/ Adjustments</u>	<u>Amortization Expense</u>	<u>December 26, 2010</u>
Intangible assets subject to amortization	\$ 834,906	\$ 5	\$ —	\$ 834,911
Accumulated amortization	<u>(335,535)</u>	<u>115</u>	<u>(58,653)</u>	<u>(394,073)</u>
	499,371	120	(58,653)	440,838
Mastheads and other	206,387	—	—	206,387
Goodwill (1)	<u>1,006,020</u>	<u>8,237</u>	<u>—</u>	<u>1,014,257</u>
Total	<u>\$1,711,778</u>	<u>\$8,357</u>	<u>\$(58,653)</u>	<u>\$1,661,482</u>

(1) In 2011 the Company identified an error in the timing of the release of certain unrecognized tax benefits obtained in the 2006 acquisition of Knight Ridder. The Company corrected this error by decreasing goodwill by \$2.5 million in 2011. In 2010, the Company identified an error related to carryover tax basis associated with investments in certain internet companies obtained in the Company's 2006 acquisition of Knight Ridder. Research revealed that no tax basis should have been ascribed to these investments. The Company corrected this error by increasing goodwill and decreasing deferred tax assets by \$8.2 million in 2010. Management has determined that the impact of these errors is not material to the previously issued consolidated financial statements.

Changes in indefinite lived intangible assets and goodwill as of December 25, 2011, consisted of the following (in thousands):

	<u>Original Gross Amount</u>	<u>Accumulated Impairment</u>	<u>Carrying Amount</u>
Mastheads and other	\$ 683,000	\$ (479,413)	\$ 203,587
Goodwill	<u>3,587,007</u>	<u>(2,574,996)</u>	<u>1,012,011</u>
Total	<u>\$4,270,007</u>	<u>\$(3,054,409)</u>	<u>\$1,215,598</u>

Amortization expense was \$58.3 million, \$58.7 million and \$59.3 million in fiscal 2011, 2010 and 2009, respectively. The estimated amortization expense for the five succeeding fiscal years is as follows (in thousands):

<u>Year</u>	<u>Amortization Expense</u>
2012	\$58,159
2013	57,004
2014	52,524
2015	48,030
2016	47,721

NOTE 4. LONG-TERM DEBT

As of December 25, 2011, and December 26, 2010, long-term debt consisted of the following (in thousands):

	Face Value at December 25, 2011	Carrying Value	
		December 25, 2011	December 26, 2010
Notes:			
11.50% senior secured notes due in 2017	\$ 851,000	\$ 843,652	\$ 865,978
15.75% senior notes due in 2014	—	—	552
7.125% notes due in 2011	—	—	18,172
4.625% notes due in 2014	81,438	77,406	157,634
5.750% notes due in 2017	336,638	318,624	324,842
7.150% debentures due in 2027	89,188	82,891	82,495
6.875% debentures due in 2029	276,230	254,903	253,666
Long-term debt	<u>\$1,634,494</u>	<u>\$1,577,476</u>	<u>\$1,703,339</u>

On June 1, 2011, the Company retired at maturity \$18.1 million of its 7.125% notes. Also, during 2011 the Company purchased \$121.9 million aggregate principal amount of various debt securities in privately negotiated transactions as summarized below (in thousands):

	Face Value
11.50% senior secured notes due in 2017	\$ 24,000
15.75% senior notes due in 2014	375
4.625% notes due in 2014	87,500
5.750% notes due in 2017	10,000
Total notes repurchased	<u>\$121,875</u>

The Company wrote off discounts related to the bonds it purchased resulting in a loss on the extinguishment of debt of \$1.2 million in 2011.

The Company was a party to a credit facility originally entered into on June 27, 2006, as amended, that provided for a \$590.0 million five-year revolving credit facility and a \$546.8 million five-year Term A loan (original credit agreement or facility). Both the Term A loan and the revolving credit facility under the original credit agreement were due on June 27, 2011, prior to the amendments discussed below. The original credit facility has been amended several times and was amended and restated in connection with a larger refinancing entered into in February 2010 and then further amended in December 2010 as discussed below.

The Company's outstanding notes are stated net of unamortized discounts (totaling \$57.0 million and \$71.4 million as of December 25, 2011, and December 26, 2010, respectively) resulting from recording such assumed liabilities at fair value as of the June 27, 2006, acquisition of KRI and the issuance of the 11.50% senior secured notes due in 2017 at an original issue discount.

In accounting for the refinancing discussed below, management analyzed the transactions on an individual lender basis in accordance with relevant accounting guidance as it relates to debt modification or extinguishment. The Company recognized a \$10.7 million loss related to the refinancing and subsequent debt payments in fiscal 2010.

Debt Refinancing:

February 11, 2010: On January 26, 2010, the Company entered into an amendment and restatement of the original credit agreement that became effective on February 11, 2010 (the Amended and Restated Credit Agreement), immediately prior to the closing of an offering of \$875.0 million of senior secured notes, referred to as the 2017 Notes, as described below. The Amended and Restated Credit Agreement required a substantial reduction in bank debt and allowed for the early retirement of other bond debt using the proceeds of the secured notes offering. The Company was in compliance with all financial covenants of the credit agreement at the time of the refinancing.

Upon closing of the refinancing transaction on February 11, 2010, the Amended and Restated Credit Agreement provided for a \$262.0 million term loan and a \$249.3 million revolving credit facility, including a \$100.0 million letter of credit sub-facility and extended the term of certain of the credit commitments to July 1, 2013. See discussion of the December 16, 2010, amendment below for additional details on the Amended and Restated Credit Agreement.

In connection with the Amended and Restated Credit Agreement, the Company issued new 11.5% senior secured notes due February 15, 2017, totaling \$875.0 million (the 2017 Notes). The 2017 Notes are secured by a first-priority lien on certain of McClatchy's and the subsidiary guarantors' assets and rank equally with liens granted under McClatchy's Amended and Restated Credit Agreement. The assets securing the debt are unchanged from the original credit agreement and include intangible assets, inventory, receivables and certain other assets. In addition, in February 2010 the Company completed tender offers for its 7.125% notes due in 2011 and 15.75% senior notes due 2014, paying \$187.3 million in cash for \$171.9 million in principal amount for these two series of notes.

The 2017 Notes were issued in a private placement. In August 2010, the original 2017 Notes (and associated guarantees) were exchanged for new 2017 Notes (and associated guarantees) that have terms substantially identical to the original notes except that the 2017 Notes issued in the exchange are not subject to transfer restrictions.

December 16, 2010 Amendment: Throughout 2010, the Company paid down the principal amount of its term loans outstanding under the Amended and Restated Credit Agreement using its cash from operations. On December 16, 2010, the Company entered into an amendment of the Amended and Restated Credit Agreement (the Credit Agreement) to, among other things, remove certain restrictions on the ability to repurchase its publicly traded bonds, to repay the remaining \$41.0 million of bank term loans and to reduce the lenders' revolving loan commitments under the Amended and Restated Credit Agreement. The remaining term loans were repaid on December 20, 2010.

The Credit Agreement provides for a \$125.0 million revolving credit facility, including a \$100.0 million letter of credit sub-facility. The Credit Agreement will terminate on July 1, 2013.

At December 25, 2011, the Company had no outstanding amounts under its Credit Agreement and had outstanding letters of credit totaling \$47.0 million securing estimated obligations arising from workers' compensation claims and other contingent claims. At December 25, 2011, net of these letters of credit, a total of \$78.0 million was available under the Company's revolving credit facility under the Credit Agreement.

Debt under the Credit Agreement incurs interest at the London Interbank Offered Rate (LIBOR) plus a spread ranging from 425 basis points to 575 basis points or at a base rate plus a spread ranging from 325 basis points to 475 basis points. In each case, the applicable spread is based upon the Company's consolidated total leverage ratio (as defined in the Credit Agreement). In the case of a LIBOR spread, the Credit Agreement sets a floor on LIBOR for the purposes of interest payments of no less than 300 basis points (except for working capital borrowings, which are not subject to the 300 basis point floor and are limited to \$45.0 million and a 30 day term).

A commitment fee for the unused revolving credit is priced at 50 basis points to 75 basis points based upon the Company's consolidated total leverage ratio (as defined in the Credit Agreement). As of December 25, 2011, the Company paid interest on borrowings under the Credit Agreement at a rate of 425 basis points over the 300 basis point LIBOR floor (or 7.25%) and paid 50.0 basis points for commitment fees.

The Credit Agreement contains quarterly financial covenants including requirements that the Company maintain a minimum consolidated interest coverage ratio (as defined in the Credit Agreement) of 1.50 to 1.00. The Company is required to maintain a maximum consolidated leverage ratio (as defined in the Credit Agreement) of 6.50 to 1.00 from the quarter ending in March 2011 through the quarter ending in December 2011; decreasing to 6.25 to 1.00 from the quarter ending in March 2012 through the quarter ending in December 2012; and decreasing to 6.00 to 1.00 thereafter. Under the Credit Agreement, the Company is required to maintain at least \$50.0 million of available liquidity, defined as the sum of cash equivalents plus the amount available under the Company's revolving facility, as of the last day of each fiscal quarter. The Credit Agreement includes limitations on cash dividends allowed to be paid at certain leverage levels and other covenants, including limitations on additional debt.

The Credit agreement also prohibits the payment of a dividend when the consolidated leverage ratio (as defined in the Credit Agreement) is greater than 4.50 to 1.00. Dividends of up to \$10 million annually may be paid when leverage is between 4.50 to 1.00 and 4.00 to 1.00 and the amount of dividends allowed increases at lower leverage ratios.

At December 25, 2011, the Company was in compliance with all its financial debt covenants. Because of the significance of the Company's outstanding debt, remaining in compliance with debt covenants is critical to the Company's operations. If revenue declines continue beyond those currently anticipated, the Company expects to continue to restructure operations and reduce debt to maintain compliance with its covenants.

Senior Secured Notes: The 2017 Notes are governed by an indenture entered into on February 11, 2010, which includes a number of covenants that are applicable to the Company and its restricted subsidiaries. The covenants are subject to a number of important exceptions and qualifications set forth in the indenture for the 2017 Notes. These covenants include, among other things, restrictions on the ability of the Company and its restricted subsidiaries to incur additional debt; make investments and other restricted payments; pay dividends on capital stock or redeem or repurchase capital stock or subordinated obligations; sell assets or enter into sale/ leaseback transactions; create specified liens; create or permit restrictions on the ability of the Company's restricted subsidiaries to pay dividends or make other distributions to the Company; engage in certain transactions with affiliates; and consolidate or merge with or into other companies or sell all or substantially all of the Company's and its subsidiaries' assets, taken as a whole.

Substantially all of the Company's subsidiaries guarantee the Company's obligations under the Credit Agreement and 2017 Notes (senior secured debt). Each of the guarantor subsidiaries is 100% owned by The McClatchy Company. Following the sale of land in Miami (see Note 2) on May 27, 2011, the Company has no significant independent assets or operations separate from the subsidiaries that guarantee its senior secured debt. The guarantees provided by the guarantor subsidiaries are full and unconditional and joint and several, and any subsidiaries of McClatchy other than the subsidiary guarantors are minor.

In addition, the Company has granted a security interest to the banks that are a party to the Credit Agreement and the trustee under the indenture governing the 2017 Notes that include, but are not limited to, intangible assets, inventory, receivables and certain minority investments as collateral for the debt. The security interest does not include any land, buildings, machinery and equipment (PP&E) and any leasehold interests and improvements with respect to such PP&E, which would be reflected on a consolidated balance sheet of the Company and its subsidiaries and shares of stock and indebtedness of the subsidiaries of the Company.

The following table presents the approximate annual maturities of debt as of December 25, 2011, based upon the Company's required payments, for the next five years and thereafter (in thousands):

<u>Year</u>	<u>Payments</u>
2012	\$ —
2013	
2014	81,438
2015	
2016	
Thereafter	<u>1,553,056</u>
Debt principal	<u>\$1,634,494</u>

NOTE 5. INCOME TAXES

Income tax provision (benefit) related to continuing operations consist of (in thousands):

	<u>Year Ended</u>		
	<u>December 25, 2011</u>	<u>December 26, 2010</u>	<u>December 27, 2009</u>
Current:			
Federal	\$ 28,913	\$ 26,625	\$29,505
State	(1,553)	4,999	(4,774)
Deferred:			
Federal	(3,316)	(16,672)	2,333
State	(15,648)	(9,351)	(264)
Income tax provision	<u>\$ 8,396</u>	<u>\$ 5,601</u>	<u>\$26,800</u>

The effective tax rate for continuing operations and the statutory federal income tax rate are reconciled as follows:

	<u>Year Ended</u>		
	<u>December 25, 2011</u>	<u>December 26, 2010</u>	<u>December 27, 2009</u>
Statutory rate	35.0%	35.0%	35.0%
State taxes, net of federal benefit	0.3%	0.5%	7.7%
Changes in estimates	0.6%	2.9%	3.7%
Changes in unrecognized tax benefits	(13.6)%	(7.6)%	(11.2)%
Benefit of certain manufacturing deductions	—	—	(3.7)%
Settlements	(10.4)%	(19.5)%	—
Other	1.5%	3.2%	0.6%
Effective tax rate	<u>13.4%</u>	<u>14.5%</u>	<u>32.1%</u>

The components of deferred tax assets and liabilities recorded in the Company's Consolidated Balance Sheet on December 25, 2011, and December 26, 2010, are (in thousands):

	<u>2011</u>	<u>2010</u>
Deferred tax assets:		
Compensation benefits	\$228,367	\$267,584
State taxes	17,500	26,761
State loss carryovers	10,759	14,714
Other	6,065	7,612
Total deferred tax assets	<u>262,691</u>	<u>316,671</u>
Valuation allowance	<u>(9,514)</u>	<u>(14,714)</u>
Net deferred tax assets	253,177	301,957
Deferred tax liabilities:		
Depreciation and amortization	258,957	384,376
Investments in unconsolidated subsidiaries	65,604	72,459
Debt discount	18,114	18,696
Deferred gain on debt	33,193	33,822
Total deferred tax liabilities	<u>375,868</u>	<u>509,353</u>
Net deferred tax liabilities	<u>\$122,691</u>	<u>\$207,396</u>

The valuation allowance relates to state net operating loss and capital carryovers. It decreased by \$5.2 million during 2011 and decreased by \$0.2 million during 2010.

The Company has varying amounts of net operating loss and capital loss carryovers in several states. The net operating losses expire in various years between 2020 and 2031 if not used. The capital loss carryovers will expire in 2012 if not used prior to that time. The Company has approximately \$0.4 million of state tax credit carryovers which do not expire.

As of December 25, 2011, the Company had approximately \$50.9 million of long-term liabilities relating to uncertain tax positions consisting of approximately \$30.5 million in gross unrecognized tax benefits (primarily state tax positions before the offsetting effect of federal income tax) and \$20.4 million in gross accrued interest and penalties. If recognized, substantially all of the net unrecognized tax benefits would impact the effective tax rate. It is reasonably possible that a reduction of up to \$37.9 million of unrecognized tax benefits and related interest may occur within the next 12 months as a result of the closure of certain audits and the expiration of statutes of limitations. Net accrued interest and penalties at December 25, 2011, December 26, 2010, and December 27, 2009, were approximately \$15.5 million, \$21.0 million and \$17.0 million, respectively.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (in thousands):

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Balance at beginning of fiscal year	\$ 51,992	\$53,359	\$ 74,414
Increases based on tax positions in prior year	1,409	7,529	2,432
Decreases based on tax positions in prior year	(13,475)	(1,148)	(1,576)
Increases based on tax positions in current year	2,213	1,811	1,512
Settlements	—	(784)	(16,000)
Lapse of statute of limitations	<u>(11,676)</u>	<u>(8,775)</u>	<u>(7,423)</u>
Balance at end of fiscal year	<u>\$ 30,463</u>	<u>\$51,992</u>	<u>\$ 53,359</u>

The Company is currently under audit by the following jurisdictions and for the years indicated: Oregon for 2006 through 2008, Florida for 2007 through 2010, Washington, D.C., for 2006, New Jersey for 1997 through 2006 and Illinois for 2006 and 2008 through 2009. Statutes remain open for federal purposes from 2008 through 2011 and for state purposes from 2006 through 2011, with the exception of New Jersey for which statutes remain open from 1997 through 2006.

NOTE 6. EMPLOYEE BENEFITS

The Company sponsors a qualified defined benefit pension plan, which covers a majority of its employees hired prior to March 2009. Benefits are based on age, years of service and compensation. Contributions to the plan are made by the Company in amounts deemed necessary to provide the required benefits and as required by law. All of the Company's defined benefit plans were frozen in March 2009.

Contribution of Cash and Real Property to Qualified Defined Benefit Plan: On May 27, 2011, the Company contributed \$163.0 million of cash to its qualified defined benefit pension plan using proceeds from the sale of real property in Miami (see Note 2). On January 14, 2011, the Company contributed Company-owned real property from seven locations to its qualified defined benefit pension plan. The pension plan obtained independent appraisals of the property, and based on these appraisals the plan recorded the contribution (the fair value of the property) at \$49.7 million on January 14, 2011.

The Company entered into leases for the seven contributed properties for 10 years at an initial annual rent of approximately \$4.0 million and expects to continue to use the seven properties in its newspaper operations. The properties are managed on behalf of the pension plan by an independent fiduciary, and the terms of the leases were negotiated with the fiduciary.

The contribution and leaseback of the properties were treated as a financing transaction and, accordingly, the Company will continue to depreciate the carrying value of the properties in its financial statements, and no gain or loss has been recognized on the contribution. The Company's pension obligation has been reduced by \$49.7 million, and a long-term and short-term financing obligation equaling \$45.7 million (in financing obligations) and \$4.0 million (in other accrued liabilities), respectively, was recorded on the date of the contribution. The financing obligation is reduced by a portion of lease payments made to the pension plan each month and the balance of this obligation at December 25, 2011, was \$48.0 million.

In January 2012 the Company made a \$40.0 million contribution to its qualified defined benefit plan to reduce its unfunded plan liability. The Company expects this contribution to satisfy all of its required contributions for fiscal 2012. Currently the Company does not expect to make additional pension plan contributions in fiscal 2012.

The Company made an \$8.2 million contribution to its retirement plan in fiscal 2010.

The Company has a limited number of supplemental retirement plans to provide key employees hired prior to March 2009 with additional retirement benefits, which were also frozen on March 31, 2009. These plans are funded on a pay-as-you-go basis and the accrued pension obligation is largely included in other long-term obligations. The Company paid \$7.4 million in fiscal 2011 and \$7.5 million in both fiscal 2010 and 2009 for these plans.

The Company provides or subsidizes certain life insurance benefits for employees. In addition the Company had separate deferred compensation plans (401(k) plans) for employees of Knight Ridder, Inc. and The McClatchy Company, which enable qualified employees to voluntarily defer compensation. On March 31, 2009, the Company temporarily suspended its matching contribution to the 401(k) plans. On June 29, 2009, the Knight Ridder 401(k) plan was merged into The McClatchy Company 401(k) Plan ("McClatchy Plan"). The McClatchy Plan, as amended, includes a Company match (once reinstated) and a supplemental contribution that is tied to Company performance (as defined in the plan). See the table below for a summary of expenses related to the Company's deferred compensation plans.

The elements of retirement costs for continuing operations are as follows (in thousands):

	December 25, 2011	December 26, 2010	December 27, 2009
Pension plans:			
Service Cost	\$ 5,600	\$ 5,885	\$ 6,783
Interest Cost	92,961	93,796	95,136
Expected return on plan assets	(104,251)	(96,151)	(99,326)
Prior service cost amortization	14	14	34
Actuarial loss	6,726	2,229	16
Curtailement loss	—	—	(1,900)
Net pension expense	1,050	5,773	743
Net post-retirement benefit (credit) expense	(234)	(205)	916
Deferred compensation plan expense (credit)	(71)	10,790	2,236
Net retirement expenses	<u>\$ 745</u>	<u>\$ 16,358</u>	<u>\$ 3,895</u>

The following tables provide reconciliations of the pension and postretirement benefit plans' benefit obligations, fair value of assets, funded status and amounts recognized in the Company's Consolidated Balance Sheet at December 25, 2011, and December 26, 2010 (in thousands):

	Pension Benefits		Postretirement Benefits	
	2011	2010	2011	2010
Change in Benefit Obligation				
Benefit obligation, beginning of year	\$ 1,634,124	\$ 1,589,495	\$ 30,585	\$ 34,636
Service cost	5,600	5,885	—	—
Interest cost	92,961	93,796	1,358	1,487
Plan participants' contributions	—	—	1,044	1,329
Actuarial (gain)/loss	120,283	31,215	(1,796)	(1,985)
Gross benefits paid	(83,660)	(80,625)	(3,717)	(4,882)
Administrative expenses	(5,449)	(5,642)	—	—
Benefit obligation, end of year	<u>\$ 1,763,859</u>	<u>\$ 1,634,124</u>	<u>\$ 27,474</u>	<u>\$ 30,585</u>
Accumulated benefit obligation, end of year	\$ 1,763,859	\$ 1,634,124		
Change in Plan Assets				
Fair value of plan assets, beginning of year	\$ 1,051,410	\$ 984,868	\$ —	\$ —
Actual return on plan assets	50,778	137,181	—	—
Employer contribution	220,227	15,628	2,673	3,553
Plan participants' contributions	—	—	1,044	1,329
Gross benefits paid	(83,660)	(80,625)	(3,717)	(4,882)
Administrative expenses	(5,449)	(5,642)	—	—
Fair value of plan assets, end of year	<u>\$ 1,233,306</u>	<u>\$ 1,051,410</u>	<u>\$ —</u>	<u>\$ —</u>
Funded Status				
Fair value of plan assets	\$ 1,233,306	\$ 1,051,410	\$ —	\$ —
Benefit obligations	(1,763,859)	(1,634,124)	(27,474)	(30,585)
Funded status and amount recognized, end of year	<u>\$ (530,553)</u>	<u>\$ (582,714)</u>	<u>\$(27,474)</u>	<u>\$(30,585)</u>
Amounts recognized in the statement of financial position consist of:				
Current liability	\$ (37,462)	\$ (7,355)	\$ (3,897)	\$ (4,440)
Noncurrent liability	(493,091)	(575,359)	(23,577)	(26,145)
	<u>\$ (530,553)</u>	<u>\$ (582,714)</u>	<u>\$(27,474)</u>	<u>\$(30,585)</u>
Amounts recognized in accumulated other comprehensive income consist of:				
Net actuarial loss/(gain)	\$ 585,839	\$ 418,809	\$ (9,634)	\$ (8,350)
Prior service cost/(credit)	41	55	(8,618)	(9,697)
	<u>\$ 585,880</u>	<u>\$ 418,864</u>	<u>\$(18,252)</u>	<u>\$(18,047)</u>

As of December 25, 2011, and December 26, 2010, the measurement dates for the plans, plan assets and related target allocations are as follows (dollars in thousands):

	<u>December 25, 2011</u>	<u>December 26, 2010</u>	<u>2012 Target Allocation</u>
Equity securities	\$ 720,395	\$ 621,842	60%
Debt securities	322,721	217,269	28%
Real estate	77,960	51,679	7%
Commodities	57,721	51,619	5%
Cash equivalents and other	54,509	109,001	NIL
Plan assets	<u>\$1,233,306</u>	<u>\$1,051,410</u>	<u>100%</u>

The Company's investment policies are designed to maximize plans' returns within reasonable and prudent levels of risk, with an investment horizon of greater than 10 years so that interim investment returns and fluctuations are viewed with appropriate perspective. The policy also aims to maintain sufficient liquid assets to provide for the payment of retirement benefits and plan expenses, hence, small portions of the equity and debt investments are held in marketable mutual funds.

The Company's policy seeks to provide an appropriate level of diversification of assets, as reflected in its target allocations, as well as limits placed on concentrations of equities in specific sectors or industries. It uses a mix of active managers and passive index funds and a mix of separate accounts, mutual funds, common collective trusts and other investment vehicles.

The Company's assumed long-term return on assets was developed using a weighted average return based upon its portfolio of assets and expected returns for each asset class, taking into account projected inflation, interest rates and market returns. The assumed return was also reviewed in light of historical and recent returns in total and by asset class.

Expected benefit payments to retirees under the Company's retirement and post-retirement plans over the next 10 years are summarized below (in thousands):

	<u>Retirement Plans (1)</u>	<u>Post-retirement Plans</u>
2012	\$ 85,117	\$ 3,897
2013	87,405	3,502
2014	91,127	3,200
2015	94,893	2,921
2016	98,454	2,587
2017-2021	<u>558,209</u>	<u>8,794</u>
Total	<u>\$1,015,205</u>	<u>\$24,901</u>

(1) Largely to be paid from the qualified defined benefit pension plan

The Company's discount rate was determined by matching a portfolio of long-term, non-callable, high quality bonds to the plans' projected cash flows.

Weighted average assumptions used for valuing benefit obligations were:

	<u>2011</u>	<u>2010</u>
Discount rate in determining pension benefit obligation	5.32%	5.90%
Discount rate in determining post-retirement obligations	4.26%	4.84%

Weighted average assumptions used in calculating expense:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Long-term return on assets	8.25%	8.25%	8.25%
Discount rate in determining pension expense	5.90%	6.05%	6.52%
Discount rate in determining post-retirement expense	4.84%	5.09%	6.22%

The following table summarizes data for pension plans with accumulated benefit obligations in excess of plan assets (in thousands):

	<u>December 25, 2011</u>	<u>December 26, 2010</u>
Projected benefit and accumulated benefit obligation	\$1,763,859	\$1,634,124
Fair value of plan assets	1,233,306	1,051,410

For the post-retirement plans, the medical cost trend rates are expected to decline from 8.0% in 2011 to 5.0% by the year 2018. As of December 25, 2011, a 1% increase in the assumed health care cost trend rate would increase the benefit obligation by \$1.1 million, and a 1% decrease in the assumed health care cost trend rate would decrease the benefit obligation by \$1.0 million. As of December 26, 2010, a 1.0% increase in the assumed health care cost trend rate would increase the benefit obligation by \$1.3 million, and a 1.0% decrease in the assumed health care cost trend rate would decrease the benefit obligation by \$1.1 million.

Fair Value Measurement:

Fair value measurements accounting framework establishes a framework for measuring fair value of assets and liabilities. This framework provides a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1—Inputs to the valuation methodology are quoted prices available in active markets for identical investments as of the reporting date.

Level 2—Inputs to the valuation methodology are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value can be determined through the use of models or other valuation methodologies.

Level—Inputs to the valuation methodology are unobservable inputs in situations where there is little or no market activity for the asset or liability, and the reporting entity makes estimates and assumptions related to the pricing of the asset or liability including assumptions regarding risk.

The table below summarizes the plan's financial instruments for fiscal 2011 that are carried at fair value on a recurring basis by the fair value hierarchy levels discussed above (in thousands):

2011 Plan Assets				
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$30,816	\$ —	\$ —	\$ 30,816
Mutual funds	40,861	—	—	40,861
Corporate stock	211	—	—	211
Corporate debt instruments	—	86,776	—	86,776
U.S. Government securities	—	236,063	—	236,063
Common collective trusts	—	764,983	—	764,983
Mortgage and asset backed securities	—	22,265	—	22,265
Real estate	—	—	50,530	50,530
Other	—	14,418	8,899	23,317
Total	<u>\$71,888</u>	<u>\$1,124,505</u>	<u>\$59,429</u>	1,255,822
Pending trades				(22,516)
				<u>\$1,233,306</u>

The table below summarizes changes in the fair value of the plan's Level 3 investment assets held for the year ended December 25, 2011 (in thousands):

	Real Estate	Private Equity	Receivable	Total
Beginning Balance, December 26, 2010	\$ —	\$7,792	\$ 28,936	\$36,728
Purchases, issuances, sales, settlements	49,710	—	(28,936)	20,774
Realized gains	3,472	—	—	3,472
Transfer in or out of level 3	(3,472)	—	—	(3,472)
Unrealized gains	820	1,107	—	1,927
Ending Balance, December 25, 2011	<u>\$50,530</u>	<u>\$8,899</u>	<u>\$ —</u>	<u>\$59,429</u>

The table below summarizes the plan's financial instruments for fiscal 2010 that are carried at fair value on a recurring basis by the fair value hierarchy levels discussed above (in thousands):

2010 Plan Assets				
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$38,717	\$ —	\$ —	\$ 38,717
Mutual funds	32,708	—	—	32,708
Corporate stock	200	—	—	200
Corporate debt instruments	—	70,060	—	70,060
U.S. Government securities	—	171,942	—	171,942
Common collective trusts	—	692,553	—	692,553
Mortgage and asset backed securities	—	17,140	—	17,140
Other	—	9,612	36,728	46,340
Total	<u>\$71,625</u>	<u>\$961,307</u>	<u>\$36,728</u>	1,069,660
Pending trades				(18,250)
				<u>\$1,051,410</u>

The table below summarizes changes in the fair value of the plan's Level 3 investment assets held for the year ended December 26, 2010 (in thousands):

	<u>Commercial Bank Loans</u>	<u>Private Equity</u>	<u>Receivable</u>	<u>Total</u>
Beginning Balance, December 27, 2009	\$ 1,538	\$7,904	\$32,216	\$41,658
Purchases, issuances, sales, settlements	(5,165)	(172)	(3,280)	(8,617)
Unrealized gains	<u>3,627</u>	<u>60</u>	<u>—</u>	<u>3,687</u>
Ending Balance, December 26, 2010	<u>\$ —</u>	<u>\$7,792</u>	<u>\$28,936</u>	<u>\$36,728</u>

Cash and cash equivalents. The carrying value of these items approximates fair value.

Mutual funds. These investments are publicly traded investments, which are valued using the Net Asset Value (NAV). The NAV of the mutual funds is a quoted price in an active market. The NAV is determined once a day after the closing of the exchange based upon the underlying assets in the fund, less the fund's liabilities, expressed on a per-share basis.

Corporate stock. The fair value of corporate stock is based on the exchange quoted market prices. When quoted prices are not available for identical stock, an industry standard valuation model is used which maximizes observable inputs.

Corporate debt instruments. The fair value of corporate debt instruments is based on yields currently available on comparable securities of issuers with similar credit ratings. When quoted prices are not available for identical or similar debt instruments, the fair value is based upon an industry valuation model, which maximizes observable inputs.

U.S. Government securities. U.S. government securities primarily consist of investments in U.S. Treasury Bonds, Indexed Linked Bonds and Treasury Inflation Protected Securities. The fair value of U.S. government securities is based on quoted market prices when available or is based on yields currently available on comparable securities or on an industry valuation model, which maximizes observable inputs.

Common collective trusts. These investments are valued based on the NAV of the underlying investments and are provided by the fund issuers. NAV for these funds represent the quoted price in a non-market environment. There are no restrictions on participants' ability to withdraw funds from the common collective trusts.

Mortgage and asset backed securities. Mortgage and asset backed securities are valued using quotes from independent pricing vendors based on recent trading activity and other relevant information, including market interest rate curves, referenced credit spreads, and estimated prepayment rates, where applicable.

Other. Other includes:

Private Equity Fund. Private equity funds represent investments in limited partnerships, which invest in start-up or other private companies. Fair value is estimated based on valuations of comparable public companies, recent sales of comparable private and public companies, and discounted cash flow analysis of portfolio companies and is included as a Level 3 investment in the table above.

Receivable. This asset represented the estimated amount to be received from a redemption request made from an equity investment fund in 2008. In early 2009, the Company became aware of a regulatory action and criminal charges for securities fraud filed against two principals that operated the investment strategy in which the fund was invested. The fund assets are held by a court-appointed receiver. Criminal and civil claims continue

against the fund principals. The plan received \$37.0 million from the receiver in fiscal 2011 and has recorded no additional receivable as it cannot determine if or when additional funds may be recovered. This asset was included as a Level 3 investment in the 2010 table above.

Real Estate. On January 14, 2011, the Company contributed Company-owned real property from seven locations to its qualified defined benefit pension plan. The pension plan obtained independent appraisals of the property, and based on these appraisals the plan recorded the contribution at fair value on January 14, 2011. The properties are leased by the Company for its newspaper operations. The properties are managed on behalf of the pension plan by an independent fiduciary, and the terms of the leases between the Company and the plan were negotiated with the fiduciary. The property is valued by independent appraisals conducted under the direction of the independent fiduciary.

NOTE 7. CASH FLOW INFORMATION

Cash paid during the fiscal 2011, 2010 and 2009 for interest and income taxes were (in thousands):

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Interest paid (net of amount capitalized)	\$152,543	\$123,402	\$111,065
Interest paid on tax settlements	122	82	5,466
Income taxes paid (net of refunds)	32,613	37,246	77,481

In January 2011 the Company contributed real property valued at \$49.7 million to its defined benefit pension plan and has recorded a financing obligation equal to the same amount for leases entered into with the defined benefit pension plan for its operations. In addition, in 2011 the Company sold property in Miami but retained use of the property rent free through May 2013. As a result the transaction was treated as a financing transaction (see Note 2 for a description of this transaction and the related accounting treatment) and land was transferred to property, plant and equipment (PP&E). These non-cash transactions are summarized below (in thousands):

Financing obligation for contribution of real property to pension plan	\$ 49,710
Reduction of pension obligation	\$(49,710)
Non-refundable deposits offset against carrying value of land	\$(16,500)
Increase in PP&E for land transferred from other assets	\$116,000

There were no non-cash financing activities during fiscal 2010.

During 2009, the Company exchanged senior notes due in July 2014 for outstanding notes due in 2011, 2014, 2017 and 2029. As a result, the Company issued notes and retired notes for amounts summarized below (in thousands):

Issuance of senior notes and future interest in debt exchange	\$ 43,503
Carrying value of unsecured notes exchanged for senior notes in debt exchange	\$(89,423)

Net cash from operating activities of discontinued operations are summarized below (in thousands):

	<u>2010</u>	<u>2009</u>
Income (loss) from discontinued operations	\$ 3,083	\$(6,174)
Reconciliation to net cash from discontinued operations:		
Payment of income taxes related to sale of newspapers	—	(7,260)
Changes in assets and liabilities and other, net	(5,189)	5,003
Net cash from operating activities of discontinued operations	<u>\$(2,106)</u>	<u>\$(8,431)</u>

The Company had no discontinued operations in fiscal 2011.

NOTE 8. COMMITMENTS AND CONTINGENCIES

The Company has purchase obligations primarily related to printing outsource agreements and capital expenditures for property, plant and equipment expiring at various dates through 2028, totaling \$130.3 million.

Lease commitments—The Company and its subsidiaries rent certain facilities and equipment under operating leases expiring at various dates through 2028. Total rental expense, included in other operating expenses, from continuing operations amounted to \$13.3 million in fiscal 2011, \$14.5 million in fiscal 2010 and \$15.2 million in fiscal 2009. Most of the leases provide that the Company pay taxes, maintenance, insurance and certain other operating expenses applicable to the leased premises in addition to the minimum monthly payments. Some of the operating leases have built in escalation clauses.

The Company has subleased office space to other companies under noncancellable agreements that expire at various dates through 2028. Sublease income from operating leases totaled \$4.4 million, \$3.0 million and \$2.5 million in fiscal 2011, 2010 and fiscal 2009, respectively.

Minimum rental commitments under operating leases with non-cancelable terms in excess of one year and sublease income from leased space are (in thousands):

<u>Year</u>	<u>Lease Obligation</u>	<u>Sublease Income</u>	<u>Net Amount</u>
2012	\$12,484	\$ (3,329)	\$ 9,155
2013	11,572	(2,519)	9,053
2014	10,201	(1,529)	8,672
2015	7,978	(1,197)	6,781
2016	6,807	(747)	6,060
2017	6,520	(298)	6,222
Thereafter	<u>30,503</u>	<u>(442)</u>	<u>30,061</u>
Total	<u>\$86,065</u>	<u>\$(10,061)</u>	<u>\$76,004</u>

Self-Insurance—The Company retains the risk for workers' compensation resulting from uninsured deductibles per accident or occurrence that are subject to annual aggregate limits. Losses up to the deductible amounts are accrued based upon known claims incurred and an estimate of claims incurred but not reported. For the year ended December 25, 2011, the Company compiled its historical data pertaining to the self-insurance experiences and actuarially developed the ultimate loss associated with its self-insurance programs for workers' compensation liability. Management believes that the actuarial valuation provides the best estimate of the ultimate losses to be expected under these programs.

The undiscounted ultimate losses of all the Company's self-insurance reserves at December 25, 2011, and December 26, 2010, were \$20.5 million and \$20.4 million, respectively. Based on historical payment patterns, the Company expects payments of undiscounted ultimate losses to be made as follows (in thousands):

<u>Year</u>	<u>Amount</u>
2012	\$ 5,051
2013	3,530
2014	2,616
2015	1,967
2016	1,548
Thereafter	<u>5,794</u>
Total	<u>\$20,506</u>

The Company discounts the ultimate losses above to present value using an approximate risk-free rate over the average life of its insurance claims. For the years ended December 25, 2011, and December 26, 2010, the discount rate used was 1.4% and 2.2%, respectively. The present value of all self-insurance reserves for the employee group health claims and workers' compensation liability recorded at December 25, 2011, and December 26, 2010, was \$20.4 million and \$19.9 million, respectively.

The Company had letters of credit of \$47.0 million outstanding at December 25, 2011, primarily to collateralize its self-insurance obligations.

Other contingent claims- There are libel and other legal actions that have arisen in the ordinary course of business and are pending against the Company. From time to time the Company is involved as a party in various governmental proceedings, including environmental matters. Management believes, after reviewing such actions with counsel, that the expected outcome of pending actions will not have a material effect on the Company's consolidated financial statements taken as a whole, although no assurances can be given. No material amounts for any losses from litigation which may ultimately occur have been recorded in the consolidated financial statements, as management believes that any such losses are not probable.

The Company has certain indemnifications related to workers' compensation claims and multi-employer pension plans of disposed newspaper operations. In 2010 the Company reversed a reserve (and recorded income) of \$6.5 million related to certain of the indemnification obligations as the related newspapers paid current amounts and showed the ability to continue to meet their obligations to the Company. In 2009, the Company reserved amounts totaling \$10.7 million related to these indemnifications. Remaining indemnification obligations related to disposed newspapers are not expected to be material to the Company's financial position or results of operations.

NOTE 9. COMMON STOCK AND STOCK PLANS

The Company's Class A and Class B Common Stock participate equally in dividends. Holders of Class B are entitled to one vote per share and to elect as a class 75% of the Board of Directors, rounded down to the nearest whole number. Holders of Class A Common Stock are entitled to one-tenth of a vote per share and to elect as a class 25% of the Board of Directors, rounded up to the nearest whole number. Class B Common Stock is convertible at the option of the holder into Class A Common Stock on a share-for-share basis.

The holders of shares of Class B Common Stock are parties to an agreement, the intent of which is to preserve control of the Company by the McClatchy family. Under the terms of the agreement, the Class B shareholders have agreed to restrict the transfer of any shares of Class B Common Stock to one or more "Permitted Transferees," subject to certain exceptions. A "Permitted Transferee" is any current holder of shares of Class B Common Stock of the Company; any lineal descendant of Charles K. McClatchy (1858 to 1936); or a trust for the exclusive benefit of, or in which all of the remainder beneficial interests are owned by, one or more lineal descendants of Charles K. McClatchy.

Generally, Class B shares can be converted into shares of Class A Common Stock and then transferred freely (unless, following conversion, the outstanding shares of Class B Common Stock would constitute less than 25% of the total number of all outstanding shares of common stock of the Company). In the event that a Class B shareholder attempts to transfer any shares of Class B Common Stock in violation of the agreement, or upon the happening of certain other events enumerated in the agreement as "Option Events," each of the remaining Class B shareholders has an option to purchase a percentage of the total number of shares of Class B Common Stock proposed to be transferred equal to such remaining Class B shareholder's ownership percentage of the total number of outstanding shares of Class B Common Stock. If all the shares proposed to be transferred are not purchased by the remaining Class B shareholders, the Company has the option of purchasing the remaining shares. The agreement can be terminated by the vote of the holders of 80% of the outstanding shares of Class B Common Stock who are subject to the agreement. The agreement will terminate on September 17, 2047, unless terminated earlier in accordance with its terms.

During fiscal 2011 the Company had five stock-based compensation plans, which are described below.

The Company's Amended Employee Stock Purchase Plan (the Purchase Plan) reserved 4,625,000 shares of Class A Common Stock for issuance to employees. Eligible employees may purchase shares at 85% of "fair market value" (as defined) through payroll deductions. The Purchase Plan can be automatically terminated by the Company at any time. In the third quarter of 2011 the Company issued shares from its Amended Employee Stock purchase Plan that exhausted substantially all of the shares reserved under the plan for issuance and the Company suspended the plan at that time.

The Company has two stock option plans which reserved Class A Common shares for issuance to key employees—the 1994 and 1997 plans (Employee Plans). Terms of each of the Employee Plans are substantially the same. Options are granted at the market price of the Class A Common Stock on the date of grant. The options vest in installments over four years, and once vested are exercisable up to 10 years from the date of grant. Although the plans permit the Company, at its sole discretion, to settle unexercised options by granting stock appreciation rights, the Company does not intend to avail itself of this alternative for option grants made under these plans. Both of these plans (which had 683,000 outstanding grants at December 25, 2011) have expired and have been replaced by the 2004 stock incentive plan (see the discussion below).

The Company's amended and restated stock option plan for outside directors (the 2001 Director Plan) provided for the issuance of shares of Class A Common Stock. Generally, under this plan each non-employee director was granted, at the conclusion of each regular annual meeting of stockholders, an option to purchase shares of Class A Common Stock at fair market value on the date of the grant. Terms of the 2001 Director Plan are similar to the terms of the Employee Plans. This plan (which had 157,000 outstanding grants at December 25, 2011) expired and was replaced by the 2004 stock incentive plan (see the discussion below).

The Company has a stock incentive plan (the 2004 plan) that reserves 9,000,000 Class A Common shares for issuance to key employees and outside directors. Terms of the 2004 plan are similar to the former employee and directors' plans, except that the 2004 plan permits the following type of incentive awards in addition to common stock, stock options and stock appreciation rights: restricted stock, unrestricted stock, stock units and dividend equivalent rights. Beginning in fiscal 2005, the Company awarded stock-settled stock appreciation rights (SARs) in lieu of stock options. The SARs were granted at fair market value, have a 10-year term and generally vest in four equal annual installments beginning on March 1 following the year for which the award was made.

In 2011 and 2010, the Company granted 15,000 and 10,000 shares of Class A Common Stock to each non-employee director at the conclusion of the regular annual meeting of stockholders in each year, respectively, resulting in the issuance of 150,000 shares in 2011 and 110,000 shares in 2010 from the 2004 plan.

The Company granted restricted stock units (RSUs) at fair market value on the date of grant to certain key employees from the 2004 plan as summarized below. The RSUs vest on March 1 two years after the date of grant.

	<u>RSU's</u>	<u>Weighted Average Price</u>
Granted December 15, 2009	845,000	\$3.42
Granted February 23, 2011	740,000	\$4.08
Forfeited	<u>(140,000)</u>	\$3.70
Outstanding December 25, 2011	<u>1,445,000</u>	\$3.73

As of December 25, 2011, there were \$1.8 million of unrecognized compensation costs for non-vested RSUs, which are expected to be recognized over 1.06 years.

Outstanding options and SARs are summarized as follows:

	<u>Options/ SARs</u>	<u>Weighted Average Exercise Price</u>	<u>Aggregate Intrinsic Value (in thousands)</u>
Outstanding December 28, 2008	6,557,350	\$30.97	\$ —
Granted	1,136,000	\$ 3.41	
Forfeited	(312,000)	\$11.95	
Expired	<u>(341,500)</u>	\$27.93	
Outstanding December 26, 2009	7,039,850	\$26.79	\$3,086
Granted	10,000	\$ 4.96	
Exercised	(119,250)	\$ 1.70	
Forfeited	(44,250)	\$ 7.07	
Expired	<u>(254,150)</u>	\$40.53	
Outstanding December 26, 2010	6,632,200	\$26.82	\$6,060
Granted	1,078,500	\$ 4.08	
Exercised	(152,750)	\$ 1.73	
Forfeited	(132,250)	\$ 3.99	
Expired	<u>(702,450)</u>	\$47.86	
Outstanding December 25, 2011	<u>6,723,250</u>	\$22.01	\$ 874
Vested and Expected to Vest December 25, 2011	<u>6,494,902</u>	\$22.65	\$ 848
Options exercisable:			
December 27, 2009	2,987,725		\$ 2
December 26, 2010	3,572,450		\$ 869
December 25, 2011	4,082,500		\$ 397

As of December 25, 2011, there were \$4.3 million of unrecognized compensation costs related to options and SAR's granted under the Company's plans. The cost is expected to be recognized over a weighted average period of 1.8 years.

The following tables summarize information about stock options and SARs outstanding in the stock plans at December 25, 2011:

<u>Range of Exercise Prices</u>	<u>Options/ SARs Outstanding</u>	<u>Average Remaining Contractual Life</u>	<u>Weighted Average Exercise Price</u>	<u>Options/ SARs Exercisable</u>	<u>Weighted Average Exercise Price</u>
\$1.5 - \$3.42	2,361,500	6.94	\$ 2.47	937,750	\$ 2.33
\$3.63 - \$42.5	2,869,250	6.42	\$16.65	1,652,250	\$24.47
\$47.22 - \$73.36	<u>1,492,500</u>	2.29	\$63.21	<u>1,492,500</u>	\$63.21
\$1.5 - \$73.36	<u>6,723,250</u>	5.69	\$22.01	<u>4,082,500</u>	\$33.55

The weighted average remaining contractual life on options exercisable at December 25, 2011, was 4.64 years. The weighted average remaining contractual life of options vested and expected to vest at December 25, 2011, was 5.86 years. The fair value of the stock options and SARs granted was estimated on the date of grant using a Black-Scholes option valuation model that uses the assumptions noted in the following table. The expected life of the options represents the period of time that options granted are expected to be outstanding using the historical exercise behavior of employees. The expected dividend yield is based on historical dividends declared per year, giving consideration for any anticipated change and the estimated stock price over the expected life of the options based on historical experience. Expected volatility was based on historical volatility

for a period equal to the stock option's expected life for shares granted. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Expected life in years	6.16	6.10	6.06
Dividend yield	NIL	NIL	NIL
Volatility	0.87	0.83	0.82
Risk-free interest rate	2.53%	2.77%	2.72%
Weighted average exercise price of options/SARs granted	\$4.08	\$4.96	\$3.41
Weighted average fair value of options/SARs granted	\$3.03	\$3.57	\$2.43

The Company also offered eligible employees the option to purchase Class A Common Stock under the Purchase Plan through its third fiscal quarter of 2011. The expense associated with the plan was computed using a Black-Scholes option valuation model with similar assumptions to those described for stock options, except that volatility is computed using a one-year look back given the short-term nature of this option. Expense associated with the Purchase Plan is included in the stock-related compensation.

NOTE 10. QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

The Company's business is somewhat seasonal with peak revenues and profits generally occurring in the second and fourth quarters of each year as a result of increased advertising activity during the holiday seasons. The first and third quarters are historically the slowest quarters for revenues and profits. The Company's quarterly results are summarized as follows (in thousands, except per share amounts):

<u>2011</u>	<u>1st Quarter</u>	<u>2nd Quarter</u>	<u>3rd Quarter</u>	<u>4th Quarter</u>
Net revenues	\$303,734	\$314,250	\$300,219	\$351,437
Operating income	20,455	45,133	45,443	90,284
Income (loss) from continuing operations	(1,962)	4,947	9,399	42,005
Income (loss) from continuing operations per common share	(0.02)	0.06	0.11	0.49
<u>2010</u> ⁽¹⁾				
Net revenues	\$335,565	\$342,030	\$327,710	\$369,927
Operating income	46,591	57,097	50,339	84,856
Income (loss) from continuing operations ⁽¹⁾	(1,958)	7,278	12,081	15,699
Income (loss) from discontinued operations	2,203	—	(161)	(917)
Income (loss) from continuing operations per common share	(0.02)	0.09	0.14	0.19
Loss from discontinued operations per common share	0.05	—	—	(0.01)

⁽¹⁾ Income from continuing operations in the fourth quarter of 2010 was restated as discussed in Note 12 and is \$90,000 lower than previously reported.

NOTE 11. SUBSEQUENT EVENT

On January 24, 2012, the Company entered into a contract to purchase approximately 6.1 acres of land located in Doral, Fla., for approximately \$3.1 million. McClatchy intends to build a new production facility on this site for *The Miami Herald* and *El Nuevo Herald* newspaper operations. On the same day, the Company entered into an agreement to lease a two-story office building adjacent to the future production facility. The newspapers plan to relocate their operations from their current location to the new site in May 2013.

The lease on the office building is an operating lease with initial annual base lease payments of \$1.8 million beginning in May 2013 when the building is expected to be occupied. Total costs related to relocating the newspapers' operations and for constructing the new production facility, including the purchase of the property, construction costs, accelerated depreciation, and moving expenses is estimated to be as follows:

- Capital expenditures related to the new facilities are estimated to be \$32 million.
- Cash expenses to relocate the Miami newspapers' operations are expected to be \$12 million.
- In addition, the Company will incur \$13 million in accelerated depreciation on existing assets expected to be retired or decommissioned.
- \$6 million of the cash costs will be reimbursed from an escrow account established for this purpose by the purchaser of the existing Miami facilities.

The relocation is expected to be completed in May 2013, and accordingly, the costs and expenses are expected to be incurred over the next approximately 16 months.

NOTE 12. RESTATEMENT OF CONSOLIDATED FINANCIAL STATEMENTS

The Company has restated its historical consolidated financial statements for fiscal 2010 and 2009 for the impact of errors in accounting for the value of the land held for sale in Miami, Florida. Subsequent to the issuance of the Company's consolidated financial statements for the years ended December 26, 2010, and December 27, 2009, the Company determined that a \$6.0 million parking easement asset related to a contract to sell certain land in Miami entered into in 2005 by Knight-Ridder, Inc. (KRI) prior to the Company's purchase of KRI (the original contract) should have been considered in the carrying value of the land. See Note 2 for an expanded discussion of the original contract.

The carrying value of the land was recorded in other assets on the Company's balance sheet, while the parking easement was recorded in intangible assets. Accordingly, the carrying value of the Miami land should have been higher (and intangible assets lower) by \$6.0 million, resulting in additional impairment charges of \$3.0 million in both 2009 and 2010 that were not previously recorded.

Selling costs of \$2.9 million related to the original contract were recorded in the year ended December 26, 2010 and should have been recorded in the year ended December 27, 2009. Additionally, \$16.5 million of nonrefundable deposits associated with the original contract were offset against the carrying value of the land at December 26, 2010. Such offset should not have been reflected until termination of the original contract on January 31, 2011.

As a result, the Company has corrected in its previously presented consolidated balance sheet as of December 26, 2010, and the consolidated statements of operations and cash flows for the years ended December 26, 2010, and December 27, 2009. Management believes the effects of these errors are not material to its previously issued consolidated financial statements. The impact of the restatements on specific line items in its December 26, 2010, balance sheet, statements of operations and statements of cash flows for the years ended December 26, 2010, and December 27, 2009, are presented below (in thousands, except per share amounts):

	Year Ended Dec. 26, 2010		Year Ended Dec. 27, 2009	
	As Previously Reported	Restated	As Previously Reported	Restated
Statement of Operations Items:				
Write down of investments & land	\$(24,297)	\$(24,447)	\$(28,322)	\$(34,172)
Income from continuing operations before income tax	38,851	38,701	89,411	83,561
Income tax provision	5,661	5,601	29,147	26,800
Income from continuing operations	33,190	33,100	60,264	56,761
Net Income	\$ 36,273	\$ 36,183	\$ 54,090	\$ 50,587
Income from continuing operations per share—basic	\$ 0.39	\$ 0.39	\$ 0.72	\$ 0.68
Income from continuing operations per share —diluted	\$ 0.39	\$ 0.39	\$ 0.72	\$ 0.68
Net income per share—basic	\$ 0.43	\$ 0.43	\$ 0.65	\$ 0.61
Net income per share—diluted	\$ 0.43	\$ 0.43	\$ 0.65	\$ 0.61

	As of Dec. 26, 2010	
	As Previously Reported	Restated
Balance Sheet Items:		
Identifiable intangibles—net	\$ 653,225	\$ 647,225
Total intangibles assets	1,667,482	1,661,482
Other assets	152,501	169,001
Total investment and other assets	459,382	475,882
Total assets	3,136,359	3,146,859
Other current accrued liabilities	14,750	31,250
Total current liabilities	267,285	283,785
Deferred income taxes	232,566	230,159
Total non-current liabilities	2,649,729	2,647,322
Accumulated deficit	(1,746,828)	(1,750,421)
Stockholders' equity	219,345	215,752
Total liability & stockholders' equity	\$ 3,136,359	\$ 3,146,859

	Year Ended Dec. 26, 2010		Year Ended Dec. 27, 2009	
	As Previously Reported	Restated	As Previously Reported	Restated
Statements of Cash Flows Items:				
Net income	\$ 36,273	\$ 36,183	\$ 54,090	\$ 50,587
Net income operations	33,190	33,100	60,264	56,761
Write-down of investments and land	24,297	24,447	28,322	34,172
Other current assets	5,201	(11,299)	(6,110)	(6,110)
Other current liabilities	24,144	40,644	(42,348)	(42,348)
Deferred income taxes	\$(25,963)	\$(26,023)	\$ 4,415	\$ 2,068

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures. The Company's management evaluated, with the participation of its Chief Executive Officer (CEO) and Chief Financial Officer (CFO), the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rules 13a—15(e) or 15d—15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this Annual Report on Form 10-K. Based on this evaluation, the Company's management, including the CEO and CFO, concluded that the Company's disclosure controls and procedures were effective at that time to ensure that information it is required to disclose in reports that it files or submits under the Securities Exchange Act of 1934 is accumulated and communicated to its management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure and that such information is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission Rules and Forms.

Changes in internal control over financial reporting. There was no change in the Company's internal control over financial reporting that occurred during the last fiscal quarter of fiscal 2011 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

MANAGEMENT REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. The Company's internal control system over financial reporting is designed to provide reasonable assurance regarding the preparation and fair presentation of the Company's financial statements presented in accordance with generally accepted accounting principles in the United States of America.

An internal control system over financial reporting has inherent limitations and may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Management of the Company assessed the effectiveness of the Company's internal control over financial reporting as of December 25, 2011. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control – Integrated Framework. Based on management's assessment and those criteria, management believes that the Company's internal control over financial reporting was effective as of December 25, 2011.

The McClatchy Company's independent registered public accounting firm has issued an attestation report on the Company's internal control over financial reporting. This report appears on page 39.

ITEM 9B. OTHER INFORMATION

Not Applicable.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Biographical information for Class A Directors, Class B Directors and executive officers contained under the captions “Nominees for Class A Directors,” “Nominees for Class B Directors” and “Other Executive Officers” under the heading “Election of Directors” in the definitive Proxy Statement for the Company’s 2012 Annual Meeting of Shareholders (the Proxy Statement) is incorporated herein by reference.

In addition, the names of each member of, as well as other information about, the Company’s standing Audit Committee contained under the caption “Audit Committee” under the heading “Corporate Governance and Board Matters” in the Proxy Statement is incorporated herein by reference.

Audit Committee Financial Experts—The Board of Directors of McClatchy has determined that S. Donley Ritchey, Chair of the Audit Committee, and Leroy Barnes Jr., Audit Committee member, are audit committee financial experts as defined by Item 407(d)(5) of Regulation S-K of the Securities and Exchange Act of 1934, as amended (the Exchange Act) and are independent as defined by the listing standards of the New York Stock Exchange.

Codes of Conduct—The Board of Directors of McClatchy has adopted a Senior Officers Code of Ethics for the Company’s senior financial and accounting officers and the CEO. In addition, the Board has adopted a Code of Business Conduct and Ethics for all officers, directors and employees. The Code of Business Conduct and Ethics and the Senior Officers Code of Ethics are available on the Company’s website at www.mcclatchy.com and are also available in print to any shareholder requesting copies by sending an email to our investor relations department at rkimball@mcclatchy.com. The Company will disclose on its website when there have been any waivers of, or amendments to, the Senior Officers Code of Ethics.

Corporate Governance Guidelines—The Board of Directors of McClatchy has adopted Corporate Governance Guidelines which are available on the Company’s website at www.mcclatchy.com. The Guidelines are also available in print to any shareholder requesting a copy.

Policy Regarding Director Recommendations by Security Holders—Information contained under the caption “Consideration of Director Nominees” under the heading “Corporate Governance and Board Matters” in the Proxy Statement is incorporated herein by reference.

Section 16(a) Beneficial Ownership Reporting Compliance—Information contained under the heading “Section 16(a) Beneficial Ownership Reporting Compliance” in the Proxy Statement is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information (including tables and footnotes) contained under the headings “Director Compensation” and “Executive Compensation,” in the Proxy Statement is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information contained under the heading “Principal Shareholders” and under the sub-heading “Securities Authorized for Issuance Under Equity Compensation Plans” of the section entitled “Executive Compensation” in the Proxy Statement is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information contained under the headings “Certain Relationships and Related Transactions” and under subheading “Board Independence” of the section entitled “Corporate Governance and Board Matters” in the Proxy Statement is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information regarding principal accounting fees and services is set forth under the headings “Fees Billed to McClatchy by Deloitte & Touche LLP” and “Audit Committee Pre-Approval Policy” under the section entitled “Ratification of Deloitte & Touche LLP as McClatchy’s Independent Registered Public Accounting Firm” in the Proxy Statement, which information is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

- (a)&(c) Financial Statements and Financial Statement Schedules filed as a part of this Report are listed in the Index to Financial Statements and Financial Statement Schedules on page 38 hereof.
- (b) Exhibits filed as part of this Report are listed in the Exhibit Index beginning on page 78 hereof.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

The McClatchy Company

By: /s/ GARY B. PRUITT
 Gary B. Pruitt, Chairman,
 President and Chief Executive Officer

Date March 2, 2012

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Principal Executive Officer:

By: /s/ GARY B. PRUITT
 Gary B. Pruitt, Chairman of the Board,
 President, Chief Executive Officer and Director

Date: March 2, 2012

Principal Financial Officer:

By: /s/ PATRICK J. TALAMANTES
 Patrick J. Talamantes, Vice President,
 Finance and Chief Financial Officer

Date: March 2, 2012

Principal Accounting Officer:

By: /s/ HAI NGUYEN
 Hai Nguyen, Controller

Date: March 2, 2012

Directors:

By: /s/ ELIZABETH BALLANTINE
 Elizabeth Ballantine, Director

Date: March 2, 2012

By: /s/ LEROY BARNES, JR.
 Leroy Barnes, Jr., Director

Date: March 2, 2012

By: /s/ MOLLY MALONEY EVANGELISTI
 Molly Maloney Evangelisti, Director

Date: March 2, 2012

Directors (continued):

By: /s/ KATHLEEN FOLEY FELDSTEIN
 Kathleen Foley Feldstein, Director

Date: March 2, 2012

By: /s/ BROWN MCCLATCHY MALONEY
 Brown McClatchy Maloney, Director

Date: March 2, 2012

By: /s/ KEVIN S. MCCLATCHY
 Kevin S. McClatchy, Director

Date: March 2, 2012

By: /s/ WILLIAM MCCLATCHY
 William McClatchy, Director

Date: March 2, 2012

By: /s/ THEODORE R. MITCHELL
 Theodore R. Mitchell, Director

Date: March 2, 2012

By: /s/ S. DONLEY RITCHEY
 S. Donley Ritchey, Director

Date: March 2, 2012

By: /s/ FREDERICK R. RUIZ
 Frederick R. Ruiz, Director

Date: March 2, 2012

TABLE OF EXHIBITS

<u>Exhibit</u>	<u>Description</u>
2.1*	Agreement and Plan of Merger, dated March 12, 2006, between the Company and Knight-Ridder, Inc., included as Exhibit 2.1 in the Company's Current Report on Form 8-K filed March 12, 2006.
3.1*	The Company's Restated Certificate of Incorporation dated June 26, 2006, included as Exhibit 3.1 in the Company's Quarterly Report on Form 10-Q for the quarter ended June 25, 2006.
3.2*	The Company's Bylaws as amended and restated effective July 23, 2008, included as Exhibit 3.2 in the Company's Current Report on Form 8-K filed July 28, 2008.
10.1*	Amended and Restated Credit Agreement, dated as of February 11, 2010, among the Company, the lenders from time to time party thereto, Bank of America, N.A., Administrative Agent, Swing Line Lender and L/C Issuer included as Exhibit 10.1 in the Company's Form 8-K filed on February 17, 2010.
10.2*	Amendment No 1 to the Amended and Restated Credit Agreement, dated as of February 11, 2010, among the Company, the lenders from time to time party thereto, Bank of America, N.A., Administrative Agent, Swing Line Lender and L/C Issuer included as Exhibit 10.1 in the Company's Form 8-K filed on December 20, 2010.
10.3*	Amended and Restated Guaranty dated as of September 26, 2008, executed by certain subsidiaries of The McClatchy Company in favor of the lenders under the Credit Agreement, included as Exhibit 10.3 to the Company's Current Report on Form 8-K filed on September 30, 2008.
10.4*	Security Agreement dated as of September 26, 2008, executed by The McClatchy Company and certain of its subsidiaries in favor of Bank of America, N.A., as Administrative Agent, included as Exhibit 10.2 to the Company's Current Report on Form 8-K filed on September 30, 2008.
10.5*	Second Supplemental Indenture dated June 27, 2006, between the Company and Knight-Ridder, Inc. included as Exhibit 10.3 in the Company's Quarterly Report on Form 10-Q filed for the quarter ending on June 25, 2006.
10.6*	Fourth Supplemental Indenture dated June 27, 2006, between the Company and Knight-Ridder, Inc. included as Exhibit 10.4 in the Company's Quarterly Report on Form 10-Q filed for the quarter ending on June 25, 2006.
10.7*	Purchase Agreement, dated February 4, 2010, by and among the Company, certain of the Company's subsidiaries and J.P. Morgan Securities Inc. as Representative of the several Initial Purchasers included as Exhibit 10.1 in the Company's Current Report on Form 8-K filed on February 9, 2010.
10.8*	Indenture, dated February 11, 2010, among The McClatchy Company, the subsidiary guarantors party thereto and The Bank of New York Mellon Trust Company, N.A. relating to the 11.50% Senior Secured Notes due 2017 included as Exhibit 4.1 in the Company's Current Report on Form 8-K filed on February 17, 2010.
10.9*	Registration Rights Agreement, dated February 11, 2010, between The McClatchy Company and J.P. Morgan Securities Inc., relating to the 11.50% Senior Secured Notes due 2017 included as Exhibit 4.2 in the Company's Current Report on Form 8-K filed on February 17, 2010.
10.10*	The McClatchy Company Management by Objective Plan Description included as Exhibit 10.4 in the Company's Report filed on Form 10-K for the Year ending December 30, 2000.
10.11*	The Company's Amended and Restated CEO Bonus Plan, included as Exhibit 10.27 in the Company's Quarterly Report on Form 10-Q for the quarter ending June 29, 2008.

<u>Exhibit</u>	<u>Description</u>
**10.12*	The Company's Amended and Restated Long-Term Incentive Plan included as Exhibit 99.1 to the Company's Current Report on Form 8-K filed May 23, 2005.
**10.13*	Amendment No. 1 to the Company's Amended and Restated Long-Term Incentive Plan, included as Exhibit 10.26 in the Company's Quarterly Report on Form 10-Q for the quarter ending June 29, 2008.
**10.14*	Amended and Restated Supplemental Executive Retirement Plan included as Exhibit 10.4 to the Company's Report on Form 10-K for the year ending December 29, 2002.
**10.15*	Amendment Number 1 to The McClatchy Company Supplemental Executive Retirement Plan included as Exhibit 10.1 on the Company's Current Report on Form 8-K filed on February 10, 2009.
**10.16*	Amended and Restated McClatchy Company Benefit Restoration Plan included as Exhibit 10.1 on the Company's Current Report on Form 8-K filed on July 29, 2011.
**10.17*	Amended and Restated McClatchy Company Bonus Recognition Plan included as Exhibit 10.2 on the Company's Current Report on Form 8-K filed on July 29, 2011.
**10.18*	Amended and Restated 1994 Stock Option Plan included as Exhibit 10.15 to the Company's Quarterly Report on Form 10-Q filed for the Quarter Ending on July 1, 2001.
**10.19*	The Company's 2004 Stock Incentive Plan, as amended and restated included as Exhibit 10.25 in the Company's Quarterly Report on Form 10-Q filed for the quarter ending June 29, 2008.
**10.20*	Form of Chief Executive Stock Appreciation Rights Agreement related to the Company's 2004 Stock Incentive Plan included as Exhibit 10.25 in the Company's Report on Form 10-K for the year ending December 30, 2007.
**10.21*	Form of 2004 Stock Incentive Plan Nonqualified Stock Option Agreement included as Exhibit 99.1 to the Company's Current Report on Form 8-K filed December 16, 2004.
**10.22*	Form of Restricted Stock Agreement related to the Company's 2004 Stock Incentive Plan, included as Exhibit 99.1 to the Company's Current Report on Form 8-K filed January 28, 2005.
**10.23*	Form of Restricted Stock Unit Agreement related to the Company's 2004 Stock Incentive Plan, included as Exhibit 10.1 to the Company's Current Report on Form 8-K dated December 18, 2009.
**10.24*	Amended and Restated Employment Agreement between the Company and Gary B. Pruitt dated October 22, 2003, included as Exhibit 10.10 to the Company's Form 10-K for the year ending December 28, 2003.
**10.25*	Second Amendment to Amended and Restated Employee Agreement for Mr. Pruitt included as Exhibit 10.2 on the Company's Current Report on Form 8-K filed on February 10, 2009.
**10.26*	Form of Indemnification Agreement between the Company and each of its officers and directors, included as Exhibit 99.1 to the Company's Current Report on Form 8-K filed on May 23, 2005.
**10.27*	Amended and Restated 1997 Stock Option Plan included as Exhibit 10.7 to the Company's Report on Form 10-K for the year ending December 29, 2002.
**10.28*	Amendment 1 to The McClatchy Company 1997 Stock Option Plan dated January 23, 2007, included as Exhibit 10.16 to the Company's Report on Form 10-K for the year ending December 31, 2006.
**10.29*	The Company's Amended and Restated 1990 Directors' Stock Option Plan dated February 1, 1998, included as Exhibit 10.12 to the Company's Report on Form 10-K for the year ending December 31, 1997.

<u>Exhibit</u>	<u>Description</u>
**10.30*	The Company's Amended and Restated 2001 Director Stock Option Plan, included as Exhibit 10.13 to the Company's Report on Form 10-K for the year ending December 25, 2005.
**10.31*	Amendment 1 to The McClatchy Company 2001 Director Option Plan dated January 23, 2007, included as Exhibit 10.18 to the Company's Report on Form 10-K for the year ending December 31, 2006.
**10.32*	The Company's Amended and Restated Employee Stock Purchase Plan, included as Exhibit 10.28 in the Company's Quarterly Report on Form 10-Q for the quarter ending June 29, 2008.
10.33*	Purchase and Sale Agreement Between the Company, a Delaware corporation, and Richwood, Inc., a Florida corporation and Bayfront 2011 Property, LLC dated May 26, 2011, included as Exhibit 10.42 in the Company's Quarterly Report on Form 10-Q for the quarter ending June 26, 2011.
12	Computation of Earnings to Fixed Charges.
21	Subsidiaries of the Company.
23	Consent of Deloitte & Touche LLP.
23.1	Consent of PricewaterhouseCoopers LLP.
31.1	Certification of the Chief Executive Officer of The McClatchy Company pursuant to Rule 13a-14(a) under the Exchange Act.
31.2	Certification of the Chief Financial Officer of The McClatchy Company pursuant to Rule 13a-14(a) under the Exchange Act.
32.1	Certification of the Chief Executive Officer of The McClatchy Company pursuant to 18 U.S.C. Section 1350.
32.2	Certification of the Chief Financial Officer of The McClatchy Company pursuant to 18 U.S.C. Section 1350.
99.1	Consolidated balance sheets of Classified Ventures, LLC as of December 31, 2011 and December 31, 2010 and the related consolidated statements of operations, changes in members' equity, and statements of cash flows for each of the three years in the period ended December 31, 2011 and Report of Independent Auditors as it relates to 2011.
101.INS ***	XBRL Instance Document
101.SCH***	XBRL Taxonomy Extension Schema
101.CAL***	XBRL Taxonomy Extension Calculation
101.DEF***	XBRL Extension Definition
101.LAB***	XBRL Taxonomy Extension Label
101.PRE ***	XBRL Taxonomy Extension Presentation
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*	Incorporated by reference
**	Compensation plans or arrangements for the Company's executive officers and directors
***	The following materials from The McClatchy Company Report on Form 10-K for the year ended December 25, 2011, are formatted in Extensible Business Reporting Language (XBRL): (i) the Condensed Consolidated Statements of Operations, (ii) the Condensed Consolidated Balance Sheets, (iii) the Condensed Consolidated Statements of Cash Flows and (iv) the Condensed Consolidated Statement of Stockholders' Equity

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the quarterly report of The McClatchy Company (the “Company”) on Form 10-K for the fiscal year ended December 25, 2011 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Patrick J. Talamantes, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 2, 2012

By: /s/ PATRICK J. TALAMANTES
Patrick J. Talamantes
Chief Financial Officer