MCCLATCHY CO
Form 10-Q
May 11, 2007

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

# FORM 10-Q

(Mark One)

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

For the quarterly period ended: April 1, 2007
**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**

(Exact name of registrant as specified in its charter)

| **Delaware** | **52-2080478** |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| **2100 "Q" Street, Sacramento, CA** | **95816** |
| (Address of principal executive offices) | (Zip Code) |

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

Indicate by check mark whether the registrant has (1) 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:
[X] Yes [ ] No

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

Large accelerated filer [X] Accelerated filer [ ] Non-accelerated filer [ ]

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: May 8, 2007:

Class A Common Stock 56,828,428
Class B Common Stock 25,196,397

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**THE MCCLATCHY COMPANY**

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**PART I - FINANCIAL INFORMATION**

**Item 1 - FINANCIAL STATEMENTS**

**THE MCCLATCHY COMPANY**
CONSOLIDATED BALANCE SHEET (UNAUDITED)
(In thousands, except per share amounts)

| **ASSETS** | **April 1, 2007** | **December 31, 2006** |
|---|---|---|
| CURRENT ASSETS: | | |
| Cash and cash equivalents | $ 10,145 | $ 19,581 |
| Trade receivables – (less allowance of $14,231 in 2007 and $12,732 in 2006) | 271,024 | 311,785 |
| Other receivables | 36,254 | 36,477 |
| Newsprint, ink and other inventories | 43,420 | 52,097 |
| Deferred income taxes | 47,055 | 248,753 |
| Prepaid income taxes | 88,836 | 88,836 |
| Newspaper assets held for sale | - | 563,589 |
| Land and other assets held for sale | 231,050 | 231,029 |
| Other current assets | 22,911 | 23,192 |
| | 750,695 | 1,575,339 |
| PROPERTY, PLANT AND EQUIPMENT: | | |
| Land | 205,033 | 204,692 |
| Building and improvements | 392,515 | 382,206 |
| Equipment | 832,941 | 811,173 |
| Construction in progress | 15,014 | 36,401 |
| | 1,455,503 | 1,434,472 |
| Less accumulated depreciation | (480,405) | (458,496) |
| | 965,098 | 975,976 |
| INTANGIBLE ASSETS: | | |
| Identifiable intangibles - net | 1,354,079 | 1,369,046 |
| Goodwill - net | 3,591,862 | 3,559,828 |
| | 4,945,941 | 4,928,874 |
| | | |
| INVESTMENTS AND OTHER ASSETS: | | |
| Investments in unconsolidated companies | 510,963 | 520,213 |
| Income tax refund | 200,998 | - |
| Prepaid pension assets | 29,878 | 32,457 |
| Other assets | 19,902 | 21,851 |
| | 761,741 | 574,521 |
| TOTAL ASSETS | $ 7,423,475 | $ 8,054,710 |

*See notes to consolidated financial statements.*

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**THE MCCLATCHY COMPANY**
CONSOLIDATED BALANCE SHEET (UNAUDITED)
(In thousands, except per share amounts)

| **LIABILITIES AND STOCKHOLDERS' EQUITY** | **April 1, 2007** | **December 31, 2006** |
|---|---|---|
| CURRENT LIABILITIES: | | |
| Current portion of bank debt | - | $ 530,000 |
| Accounts payable | $ 92,063 | 139,501 |
| Accrued compensation | 109,372 | 135,363 |
| Income taxes | 9,298 | 47,330 |
| Unearned revenue | 84,875 | 82,524 |
| Newspaper liabilities held for sale | - | 83,806 |
| Accrued interest | 36,704 | 33,697 |
| Accrued dividends | 14,756 | 14,727 |
| Other accrued liabilities | 49,495 | 45,166 |
| | 396,563 | 1,112,114 |
| | | |
| NON-CURRENT LIABILITIES: | | |
| Long-term debt | 2,756,386 | 2,746,669 |
| Deferred income taxes | 706,893 | 706,893 |
| Pension and post retirement obligations | 314,966 | 311,127 |
| Other long-term obligations | 101,997 | 74,283 |
| | 3,880,242 | 3,838,972 |
| COMMITMENTS AND CONTINGENCIES | | |
| | | |
| STOCKHOLDERS' EQUITY: | | |
| Common stock $.01 par value: | | |
| Class A - authorized 200,000,000 shares, issued 55,871,236 in 2007 and 55,795,162 in 2006 | 559 | 557 |
| Class B - authorized 60,000,000 shares, issued 26,104,397 in 2007 and 26,116,397 in 2006 | 261 | 261 |
| Additional paid-in capital | 2,188,793 | 2,182,544 |
| Treasury stock, 3,029 shares at cost | (122) | - |
| Retained earnings | 1,007,870 | 1,016,023 |
| Accumulated other comprehensive loss | (50,691) | (95,761) |
| | 3,146,670 | 3,103,624 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | $ 7,423,475 | $ 8,054,710 |

*See notes to consolidated financial statements.*

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**THE MCCLATCHY COMPANY**
CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)
(In thousands, except per share amounts)

| | Three Months Ended | |
|---|---|---|
| | **April 1, 2007** | **March 26, 2006** |
| REVENUES - NET: | | |
| Advertising | $ 477,023 | $ 166,334 |
| Circulation | 71,880 | 23,764 |
| Other | 17,655 | 4,365 |
| | 566,558 | 194,463 |
| OPERATING EXPENSES: | | |
| Compensation | 236,324 | 85,739 |
| Newsprint and supplements | 75,417 | 26,264 |
| Depreciation and amortization | 37,833 | 9,887 |
| Other operating expenses | 129,596 | 37,294 |
| | 479,170 | 159,184 |
| | | |
| OPERATING INCOME | 87,388 | 35,279 |
| | | |
| NON-OPERATING (EXPENSES) INCOME: | | |
| Interest expense | (53,785) | - |
| Interest income | 64 | 13 |
| Equity income (losses) in unconsolidated companies - net | (9,749) | 396 |
| Other - net | (48) | (7) |
| | (63,518) | 402 |
| INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAX PROVISION | 23,870 | 35,681 |
| | | |
| INCOME TAX PROVISION | 9,357 | 13,900 |
| | | |
| INCOME FROM CONTINUING OPERATIONS | 14,513 | 21,781 |
| | | |
| INCOME (LOSS) FROM DISCONTINUED OPERATIONS, NET OF INCOME TAXES | (5,483) | 5,946 |
| | | |
| NET INCOME | $ 9,030 | $ 27,727 |
| | | |
| NET INCOME (LOSS) PER COMMON SHARE: | | |
| Basic: | | |
| Income from continuing operations | $ 0.18 | $ 0.46 |
| Income (loss) from discontinued operations | (0.07) | 0.13 |
| Net income per share | $ 0.11 | $ 0.59 |
| | | |
| Diluted: | | |
| Income from continuing operations | $ 0.18 | $ 0.46 |
| Income (loss) from continuing operations | (0.07) | 0.13 |
| Net income per share | $ 0.11 | $ 0.59 |

| | | |
|---|---|---|
| WEIGHTED AVERAGE NUMBER OF COMMON SHARES: | | |
| Basic | 81,885 | 46,735 |
| Diluted | 81,982 | 46,974 |

*See notes to consolidated financial statements.*

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**THE MCCLATCHY COMPANY**
CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)
(In thousands)

| | Three Months Ended | |
|---|---|---|
| | **April 1, 2007** | **March 26, 2006** |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Income from continuing operations | $ 14,513 | $ 21,781 |
| Reconciliation to net cash provided by continuing operations: | | |
| Depreciation and amortization | 37,833 | 9,887 |
| Contribution to pension plans | - | (31,545) |
| Employee benefit expense | 9,249 | 4,010 |
| Stock compensation expense | 2,182 | 2,020 |
| Deferred income taxes | - | (2,258) |
| Equity loss (income) in unconsolidated companies | 9,749 | (396) |
| Other | 1,210 | 141 |
| Changes in certain assets and liabilities: | | |
| Trade receivables | 40,761 | 9,324 |
| Inventories | 8,677 | (569) |
| Other assets | 876 | (3,258) |
| Accounts payable | (42,911) | (6,628) |
| Accrued compensation | (25,991) | (7,991) |
| Income taxes | (38,032) | 9,839 |
| Other liabilities | (2,779) | 3,587 |
| Net cash provided by operating activities of continuing operations | 15,337 | 7,944 |
| Net cash provided by operating activities of discontinued operations | 2,501 | 12,070 |
| Net cash provided by operating activities | 17,838 | 20,014 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchases of property, plant and equipment | (12,815) | (9,669) |
| Equity investments | (1,200) | - |
| Other - net | 162 | 14 |
| Net cash used by investing activities of continuing operations | (13,853) | (9,655) |
| Proceeds from sale of newspaper, net of transaction costs | 522,922 | - |
| Other | (4,837) | (2,540) |
| Net cash provided (used) by investing activities of discontinued operations | 518,085 | (2,540) |
| Net cash provided (used) by investing activities | 504,232 | (12,195) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Repayments of term bank debt | (350,000) | - |
| Net borrowings (repayments) from revolving bank debt | (170,599) | 77,000 |
| Net repayments of commercial paper | - | (77,900) |
| Payment of cash dividends | (14,739) | (8,415) |
| Other - principally stock issuances | 3,832 | 1,902 |
| Net cash used by financing activities | (531,506) | (7,413) |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | (9,436) | 406 |

| | | | | |
|---|---|---|---|---|
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | | 19,581 | | 3,052 |
| | | | | |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | $ | 10,145 | $ | 3,458 |
| | | | | |
| OTHER CASH FLOW INFORMATION: | | | | |
| Cash paid during the period for: | | | | |
| Income taxes (net of refunds) | $ | 46,656 | $ | 270 |
| Interest (net of capitalized interest) | $ | 51,786 | $ | 1,826 |

*See notes to consolidated financial statements.*

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**THE MCCLATCHY COMPANY**
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (UNAUDITED)
(In thousands, except per share amounts)

| | Par Value Class A | Par Value Class B | Additional Paid-In Capital | Treasury Stock | Retained Earnings | Accumulated Other Comprehensive Loss | Total |
|---|---|---|---|---|---|---|---|
| **BALANCES, DECEMBER 31, 2006** | $ 557 | $ 261 | $ 2,182,544 | $ - | $ 1,016,023 | $ (95,761) | $ 3,103,624 |
| Adoption of FIN 48 | | | | | (2,427) | | (2,427) |
| **ADJUSTED BALANCES, JANUARY 1, 2007** | 557 | 261 | 2,182,544 | | 1,013,596 | (95,761) | 3,101,197 |
| Net income | | | | | 9,030 | | 9,030 |
| Total comprehensive income | | | | | | | 9,030 |
| Adjustment to eliminate minimum pension liability related to *Star Tribune* | | | | | | 45,070 | 45,070 |
| Dividends declared ($.18 per share) | | | | | (14,756) | | (14,756) |
| Conversion of 12,000 Class B shares to Class A shares | | | | | | | - |
| Issuance of 67,103 Class A shares under stock plans | 2 | | 3,219 | | | | 3,221 |
| Stock compensation expense | | | 2,297 | | | | 2,297 |
| Tax benefit from stock plans | | | 733 | | | | 733 |
| Purchase of treasury stock | | | | (122) | | | (122) |
| **BALANCES, APRIL 1, 2007** | $ 559 | $ 261 | $ 2,188,793 | $ (122) | $ 1,007,870 | $ (50,691) | $ 3,146,670 |

*See notes to consolidated financial statements.*

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**THE MCCLATCHY COMPANY**
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

**NOTE 1. SIGNIFICANT ACCOUNTING POLICIES**

The McClatchy Company (the "Company") is the third largest newspaper company in the United States, with 31 daily newspapers and approximately 50 non-dailies. Twenty of its daily newspapers were acquired on June 27, 2006 in the Knight Ridder acquisition (the "Acquisition") – see Note 2. The Company's newspapers include *The Miami Herald*, *The Sacramento Bee*, the (Fort Worth*) Star-Telegram*, *The Kansas City Star*, *The Charlotte Observer*, and *The* (Raleigh) *News & Observer*. In addition, McClatchy has a robust network of internet assets, including leading local websites in each of its daily newspaper markets, offering users information, comprehensive news, advertising, e-commerce and other services. The Company also owns and operates McClatchy Interactive, an interactive operation that provides websites with content, publishing tools and software development; Real Cities, the largest national advertising network of local news websites and 14.4% of CareerBuilder, the nation's largest online job site. Effective May 9, 2007, the Company's ownership interest in CareerBuilder decreased to 14.4% from 15.0% due to a minority equity purchase in CareerBuilder by Microsoft Corporation. McClatchy also owns 25.6% of Classified Ventures, a newspaper industry partnership that offers classified websites such as cars.com and apartments.com.

The consolidated financial statements include the Company and its subsidiaries. Significant 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.

In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments necessary (consisting of normal recurring items, except as discussed in Note 2) to present fairly the Company's financial position, results of operations, and cash flows for the interim periods presented. The financial statements contained in this report are not necessarily indicative of the results to be expected for the full year.

**Discontinued operations** - On March 5, 2007, the Company sold the *Star Tribune* newspaper of Minneapolis, MN and other publications and websites related to the newspaper to an entity affiliated with Avista Capital Partners for $530.0 million. In addition, the Company expects a cash income tax refund equal to approximately $201 million related to the sale in 2008. The results of *Star Tribune*'s operations, including interest expense directly attributable to the *Star Tribune*, have been recorded as discontinued operations in all periods presented.

**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 incentive offerings including special pricing agreements, promotions and other volume-based incentives. Revisions to these estimates are charged to income in the period in which the facts that give rise to the revision become known.

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**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. 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.

**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** is stated at cost. Major improvements, as well as interest incurred during construction, are capitalized. 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

**Stock-based compensation** - All share-based payments to employees, including grants of employee stock options, stock appreciation rights, restricted stock and purchases under the employee stock purchase plan ("ESPP"), are recognized in the financial statements based on their fair values. At April 1, 2007, the Company had six stock-based compensation plans. Total stock-based compensation expense from continuing operations was $2.1 million in the first fiscal quarter of 2007 and $2.0 million in the first fiscal quarter of 2006.

The Company has issued a total of 65,000 shares of restricted Class A Common Stock to its Chief Executive Officer: (1) 40,000 shares on January 25, 2005, at the Company's closing stock price of $70.55, which vest on January 25, 2009, subject to certain performance criteria and (2) 25,000 shares on January 24, 2006, at the Company's closing stock price of $58.05, which vest over four annual installments, subject to certain performance criteria, beginning on January 24, 2007. On January 24, 2007, 6,250 shares vested. At this time, the Company expects such performance criteria to be met and is expensing the related stock-based compensation over the respective four-year periods.

**Deferred income taxes** result from temporary differences between amounts of assets and liabilities reported for financial and income tax reporting purposes. Determination of deferred income taxes related to the Acquisition is preliminary and is subject to change based upon further review (see Note 2).

**Comprehensive income (loss)** - The Company records changes in its net assets from non-owner sources in its Statement of Stockholders' Equity.

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**Treasury stock** - The Company accounts for treasury stock under the cost method.

**Segment reporting** - The Company's primary business is the publication of newspapers. The Company aggregates its newspapers into a single reportable segment because each has similar economic characteristics, products, customers and distribution methods.

**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 and are computed using the treasury stock method. The anti-dilutive stock options that could potentially dilute basic EPS in the future, but were not included in the weighted average share calculation, were 3,837,725 in the first fiscal quarter of 2007 and 2,108,138 in the first fiscal quarter of 2006.

**Reclassifications-** Certain prior period amounts have been reclassified to conform to the 2007 presentation.

**Income Taxes -** On July 13, 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – An Interpretation of FASB Statement No. 109* ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes* and prescribes a recognition threshold and measurement attributes for financial statement disclosure of tax positions taken or expected to be taken on a tax return. Under FIN 48, the impact of an uncertain income tax position on the income tax return must be recognized at the largest amount that is more-likely-than-not to be sustained upon audit by the relevant taxing authority. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained. Additionally, FIN 48 provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006.

The Company adopted the provisions of FIN 48 on January 1, 2007. The total amount of unrecognized tax benefits as of the date of adoption was $66.7 million. As a result of the implementation of FIN 48, the Company recognized a $25.2 million increase in the liability of unrecognized tax benefits which was accounted for as follows (in thousands):

| | |
|---|---|
| Reduction in retained earnings (cumulative effect) | $ 2,427 |
| Additional goodwill | 22,736 |
| Increase in liability for unrecognized tax benefits | $ 25,163 |

Of the $66.7 million of unrecognized tax benefits at January 1, 2007, $8.5 million are tax benefits that, if recognized, would favorably affect the effective income tax rate in future periods. The other $58.2 million of unrecognized tax benefits would, if recognized, result in a decrease to goodwill previously recorded related to acquisitions.

With few exceptions, the Company is no longer subject to examination by U.S. federal, state, or foreign tax authorities for years before 2002.

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## NOTE 2. ACQUISITION AND DIVESTITURES

*Acquisition Transaction:*

On June 27, 2006 (the second day of the Company's third fiscal quarter), the Company completed the purchase of Knight-Ridder, Inc. ("Knight Ridder") pursuant to a definitive merger agreement entered into on March 12, 2006, under which the Company paid Knight Ridder shareholders a per share price consisting of $40.00 in cash and .5118 of a Class A McClatchy common share (the "Acquisition"). The Company issued approximately 35.0 million Class A common shares in connection with the Acquisition. The total purchase price was approximately $4.6 billion. In addition, the Company assumed $1.9 billion in Knight Ridder long-term debt at closing.

Prior to the Acquisition, Knight Ridder published 32 daily newspapers in 29 U.S. markets, operated websites in all of its markets and owned a variety of internet and other investments which consisted of: 33.3% of each of CareerBuilder LLC ("CareerBuilder") and ShopLocal LLC ("ShopLocal"), 25.0% of Topix.net ("Topix"), 21.5% of Classified Ventures LLC ("Classified Ventures"), 33.3% interest in SP Newsprint Company ("SP"), 13.5% interest in the Ponderay Newsprint Company ("Ponderay") and 49.5% of The Seattle Times Company which owns *The Seattle Times* newspaper and weekly newspapers in the Puget Sound area, and daily newspapers located in Walla Walla and Yakima, Washington and in Portland, Maine and various other smaller investments. Knight Ridder was the founder and operator of Real Cities, the largest national advertising network of local news websites.

To consummate the Acquisition, the Company borrowed $3.076 billion under a new bank debt facility (see Note 5) and used the proceeds from the sales of four Knight Ridder newspapers in order to pay Knight Ridder shareholders ($2.7 billion) and refinance its and Knight Ridder's bank debt ($498.0 million). The after-tax proceeds from the sales of the eight Knight Ridder newspapers sold after the Acquisition closed were used to reduce debt.

*Acquisition Accounting:*

Pursuant to Emerging Issues Task Force No. 99-12, *Determination of the Measurement Date for the Market Price of Acquirer Securities Issued in a Purchase Business Combination*, the McClatchy common stock issued on June 27, 2006 was valued based upon the average closing price of McClatchy common stock from March 8, 2006 through March 14, 2006 (two business days before and after the terms of the Acquisition were agreed to and announced), or $52.06 per share. As a result, the fair value of the 35.0 million shares of McClatchy common stock issued in the Acquisition was recorded at $1.821 billion, which was included in the total Acquisition purchase price of approximately $4.6 billion. The fair value of such shares declined to approximately $1.398 billion as of the Acquisition closing date (June 27, 2006), however the decline of $423.0 million in valuation had no effect on the total Acquisition purchase price recorded. The difference is included in the allocation to goodwill in the allocation of the purchase price below.

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The Acquisition was accounted for as a purchase. Pursuant to SFAS 141, *Business Combinations*, the purchase price was allocated to the assets acquired and liabilities assumed based upon their estimated fair values as of June 27, 2006, the date of the Acquisition. The purchase price allocation was primarily based upon an independent valuation. The purchase price allocation, while substantially complete, is subject to further adjustments based upon completion of analyses of deferred income tax assets and liabilities and other items. See Note 4 to the Consolidated Financial Statements for adjustments made in the first fiscal quarter of 2007.

The following table summarizes, on an unaudited pro forma basis, the combined results of continuing operations of the Company for the first fiscal quarter of 2006 as though the Acquisition had taken place on the first day of the fiscal quarter (in thousands):

| | | **March 26, 2006** |
|---|---|---|
| Revenues | $ | 596,295 |
| Income from continuing operations | $ | 18,880 (1) |
| Income from continuing operations per diluted share | $ | 0.23 |

(1) Excludes $18.1 million of income tax benefits related to the Company's recalculation of its deferred tax liabilities and assets.

*Disposition Transactions:*

In conjunction with the Acquisition, the Company divested 12 Knight Ridder newspapers for strategic and antitrust reasons. The divested newspapers were the *Philadelphia Inquirer;Philadelphia Daily News;San Jose Mercury News*; *St. Paul Pioneer Press*; *Akron Beacon Journal* (OH); Wilkes Barre *Times Leader* (PA); Aberdeen *American News* (SD); Grand Forks *Herald* (ND); Ft. Wayne *News-Sentinel* (IN); *Contra Costa Times* (CA); *Monterey Herald* (CA); and *Duluth News Tribune* (MN). The Company received cash proceeds of approximately $2.0 billion (net of transaction costs) from these divestitures. In addition, the buyers assumed approximately $77 million of Knight Ridder retirement obligations related to certain newspapers. Four of the 12 newspapers were sold concurrently with the closing of the Acquisition. The remaining eight newspapers were owned for periods ranging from two days to 36 days following the closing of the Acquisition. The operating results of these eight divested newspapers for the periods they were owned by the Company, including interest expense and debt issuance costs related to bank debt incurred until their respective sales, are included in discontinued operations in the Company's Consolidated Statement of Income in 2006. No accounting gain or loss was recognized on the sale of the 12 newspapers.

In July 2006, the Company sold 18.3% of its interest in each of CareerBuilder and ShopLocal, and 13.8% of its interest in Topix for an aggregate of $309.7 million in cash and used the after-tax proceeds to reduce debt. The Company retained a 15.0% interest in CareerBuilder and ShopLocal, and an 11.3% interest in Topix. No accounting gain or loss was recognized on the sale of these investments.

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On March 5, 2007, the Company sold the *Star Tribune* newspaper of Minneapolis, MN and other publications and websites related to the newspaper to an entity affiliated with Avista Capital Partners for $530.0 million. The Company expects to receive an income tax refund equal to approximately $201 million related to the sale in 2008. This amount has been recorded as a long-term receivable on the consolidated balance sheet. In the first fiscal quarter of 2007, the Company recorded income tax expense of approximately $40 million caused by the sale of *Star Tribune*-related intellectual property from the Company's intellectual property subsidiary when the transaction closed. However, this income tax expense was offset by an additional $41 million income tax benefit from updated estimates of the Company's tax basis in the *Star Tribune* subsidiary. Including the income tax refund, total proceeds of the sale of *Star Tribune* is estimated to be $731 million instead of the $690 million previously estimated.

The results of *Star Tribune*'s operations, including interest on debt incurred to purchase it, have been recorded as discontinued operations in all periods presented. The Company used the proceeds from the sale of the *Star Tribune* to reduce debt.

Revenues and loss from discontinued operations, net of income taxes, for the first fiscal quarters of 2007 and 2006 were as follows (in thousands):

| | Three Months Ended | |
|---|---|---|
| | **April 1, 2007** | **March 26, 2006** |
| Revenues | $ 52,903 | $ 87,541 |
| | | |
| Income (loss) from discontinued operations before income taxes (1) | (4,783) | $ 10,257 |
| Income tax expense | 700 | 4,311 |
| Income (loss) from discontinued operations | $ (5,483) | $ 5,946 |

(1) Includes interest expense allocated to discontinued operations of $1.2 million and $2.1 million in the first fiscal quarters of 2007 and 2006, respectively.

## NOTE 3. INVESTMENTS IN UNCONSOLIDATED COMPANIES

The following is the Company's ownership interest and carrying value of investments in unconsolidated companies and joint ventures (dollars in thousands):

| **Company** | **% Ownership Interest** | **April 1, 2007** | **December 31, 2006** |
|---|---|---|---|
| CareerBuilder | 15.0(1) | $ 226,083 | $ 230,506 |
| Seattle Times Company | 49.5 | 99,142 | 102,228 |
| Classified Ventures | 25.6 | 98,033 | 98,259 |
| SP Newsprint | 33.3 | 39,997 | 40,666 |
| Ponderay Newsprint | 27.0 | 24,874 | 26,162 |
| ShopLocal | 15.0 | 11,461 | 10,993 |
| Topix | 11.3 | 9,718 | 9,956 |
| McClatchy Tribune Information Services | 50.0 | 861 | 773 |
| Other | Various | 794 | 670 |
| | | $ 510,963 | $ 520,213 |

(1) See Note 1 on change in ownership interest.

The Company primarily uses the equity method of accounting for these investments.

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**NOTE 4. INTANGIBLE ASSETS AND GOODWILL**

Intangible assets and goodwill, along with their weighted-average amortization periods consisted of the following (dollars in thousands):

| | April 1, 2007 | | | |
|---|---|---|---|---|
| | Gross Amount | Accumulated Amortization | Net Amount | Weighted Average Amortization Period |
| Intangible assets subject to amortization: | | | | |
| Advertiser and subscriber lists | $ 817,701 | $ (162,815) | $ 654,886 | 14 years |
| Other | 26,186 | (9,993) | 16,193 | 8 years |
| Total | $ 843,887 | $ (172,808) | 671,079 | |
| | | | | |
| Other intangible assets not subject to amortization: | | | | |
| Newspaper mastheads | | | 683,000 | |
| Total | | | 1,354,079 | |
| Goodwill - net | | | 3,591,862 | |
| Total intangible assets and goodwill | | | $ 4,945,941 | |

| | December 31, 2006 | | | |
|---|---|---|---|---|
| | Gross Amount | Accumulated Amortization | Net Amount | Weighted Average Amortization Period |
| Intangible assets subject to amortization: | | | | |
| Advertiser and subscriber lists | $ 817,701 | $ (148,427) | $ 669,274 | 14 years |
| Other | 26,161 | (9,389) | 16,772 | 8 years |
| Total | $ 843,862 | $ (157,816) | 686,046 | |
| | | | | |
| Other intangible assets not subject to amortization: | | | | |
| Newspaper mastheads | | | 683,000 | |
| Total | | | 1,369,046 | |
| Goodwill - net | | | 3,559,828 | |
| Total intangible assets and goodwill | | | $ 4,928,874 | |

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The following is a summary of the changes in the identifiable intangible assets and goodwill in the first fiscal quarter of 2007 (in thousands):

| | December 31, 2006 | Additions | Disposals/ Adjustments | Amortization Expense | April 1, 2007 |
|---|---|---|---|---|---|
| Intangible assets subject to amortization | $ 843,862 | $ 25 | - | - | $ 843,887 |
| Accumulated amortization | (157,816) | - | - | $ (14,992) | (172,808) |
| Total | 686,046 | 25 | - | (14,992) | 671,079 |
| Mastheads and other | 683,000 | | - | - | 683,000 |
| Goodwill - net | 3,559,828 | 32,034 | - | - | 3,591,862 |
| Total | $ 4,928,874 | $ 32,059 | $ - | $ (14,992) | $ 4,945,941 |

The additional $32.0 million in goodwill related to purchase price adjustments for the Acquisition. The most significant individual items related to the increase in income tax reserves ($29.0 million) and working capital adjustments related to the sale of the 12 newspapers ($2.9 million).

Amortization expense for continuing operations was $15.0 million and $1.2 million in the first fiscal quarter 2007 and 2006, respectively. The estimated amortization expense for the remainder of fiscal year 2007 and the five succeeding fiscal years is as follows (in thousands):

| Year | Amortization Expense |
|---|---|
| 2007 (Remaining) | $ 44,958 |
| 2008 | 59,941 |
| 2009 | 59,910 |
| 2010 | 59,232 |
| 2011 | 57,837 |
| 2012 | 57,368 |

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**NOTE 5. LONG-TERM DEBT**

As of April 1, 2007 and December 31, 2006, long-term debt consisted of the following (in thousands):

| | April 1, 2007 | December 31, 2006 |
|---|---|---|
| Term A bank debt, interest at 6.11% in 2007 and 6.12% in 2006 | $ 750,000 | $ 1,100,000 |
| Revolving bank debt, interest at 6.08% in 2007 and 6.10% in 2006 | 494,923 | 665,795 |
| Publicly-traded notes: | | |
| $100 million 6.625% debentures due in 2007 | 100,019 | 100,025 |
| $200 million 9.875% debentures due in 2009 | 211,545 | 212,950 |
| $300 million 7.125% debentures due in 2011 | 304,259 | 304,512 |
| $200 million 4.625% debentures due in 2014 | 173,573 | 172,705 |
| $400 million 5.750% debentures due in 2017 | 360,786 | 359,848 |
| $100 million 7.150% debentures due in 2027 | 90,828 | 90,717 |
| $300 million 6.875% debentures due in 2029 | 270,453 | 270,117 |
| | | |
| Total debt | 2,756,386 | 3,276,669 |
| Less current portion | - | 530,000 |
| Long-term debt | $ 2,756,386 | $ 2,746,669 |

The publicly-traded notes are stated net of unamortized discounts and premiums (totaling $88.5 million and $89.1 million of net discounts as of April 1, 2007 and December 31, 2006, respectively) resulting from recording such assumed liabilities at fair value as of the June 27, 2006, Acquisition date. The notes due in 2007 are expected to be refinanced on a long-term basis by drawing on the Company's revolving credit facility and accordingly, are included in long-term debt.

Until June 27, 2006, the Company used its senior unsecured revolving credit facility, which was initially put into place in 1998 to finance the purchase of The Star Tribune Company, as a back-up facility for commercial paper. This senior unsecured revolving credit facility provided borrowings of up to $500 million and was refinanced with a new $3.2 billion senior unsecured credit facility ("Credit Agreement") entered into in connection with the Acquisition. At closing, the Company’s new Credit Agreement consisted of a $1 billion five-year revolving credit facility and $2.2 billion five-year Term A loan. Both the Term A loan and the revolver are due on June 27, 2011.

On June 27, 2006, McClatchy borrowed $2.2 billion under the Term A loan and $876.0 million under the revolving credit facility. The Company has repaid $1.45 billion of the Term A loan and $381.1 million of the revolving credit facility, primarily from proceeds received in the sale of the eight newspapers, net of income taxes paid on the tax gain on the sale (see Note 2). A total of $449.9 million of funds were available under the revolving credit facility at April 1, 2007. Under the Company's covenant for debt to cash flow, the Company had incremental borrowing capacity of approximately $188.9 million as of April 1, 2007.

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Debt under the Credit Agreement bears interest at the London Interbank Offered Rate ("LIBOR") plus a spread ranging from 37.5 basis points to 125.0 basis points. Applicable rates are based upon the Company's ratings on its long-term debt from Moody's Investor Services ("Moody's") and Standard & Poor's. A commitment fee for the unused revolving credit ranges from 10.0 basis points to 20.0 basis points depending on the Company's ratings. Standard & Poor's has rated the facility "BB+" and Moody's has rated the facility "Baa3". According to the Credit Agreement, the Company will pay interest at LIBOR plus 75.0 basis points on outstanding debt and its commitment fees are currently at 15.0 basis points.

The Credit Agreement contains financial covenants including a minimum interest coverage ratio (as defined in the Credit Agreement) of 3:00 to 1:00 and a maximum leverage ratio (as defined in the Credit Agreement) of 4.75 to 1.00 through September 30, 2008, declining to 4.25 to 1.00 on December 28, 2008 and to 4.00 to 1.00 on December 27, 2009 and thereafter. At April 1, 2007, the Company was in compliance with all debt covenants.

As a result of a downgrade by Standard & Poor's of the Company's credit rating to "BB+" from "BBB" on April 26, 2007, a provision was triggered in the Credit Agreement that requires the Company to cause its Material Subsidiaries (as defined in the Credit Agreement) to guarantee the Company's obligations under the Credit Agreement if at any time the ratings on the Company's bank debt from Moody's and Standard & Poor's are not investment grade. These guarantees were effected on May 4, 2007, and will be in effect upon the earlier of the termination of the Credit Agreement and the date which is one year after the date both ratings agencies have rated the Company's bank debt as investment grade.

At April 1, 2007, the Company had outstanding letters of credit totaling $55.2 million, securing estimated obligations stemming from workers compensation claims and other contingent claims.

The following table presents the approximate annual maturities of debt, based upon the Company's required payments (adjusted for management's expectations regarding the notes due in 2007 as discussed above), for the next five years and thereafter (in thousands):

| Year | | Payments |
|---|---|---|
| 2008 | | - |
| 2009 | $ | 200,000 |
| 2010 | | - |
| 2011 | | 1,644,923 |
| 2012 | | - |
| Thereafter | | 1,000,000 |
| | | 2,844,923 |
| Less discount | | (88,537) |
| Total debt | $ | 2,756,386 |

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**NOTE 6. EMPLOYEE BENEFITS**

The Company sponsors defined benefit pension plans ("retirement plans"), which cover a majority of its employees. Benefits are based on years of service and compensation. Contributions to the retirement plans are made by the Company in amounts deemed necessary to provide the required benefits. The Company made $40.0 million in voluntary contributions to its retirement plans in early fiscal 2006 (including $8.5 million to *Star Tribune* plans). No contributions to the Company's retirement plans are currently planned for fiscal 2007.

The Company also has a limited number of supplemental retirement plans to provide key employees with additional retirement benefits. The terms of the plans are generally the same as those of the retirement plans, except that the supplemental retirement plans are limited to key employees and provide an enhanced pension benefit. 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 elements of pension costs for continuing operations are as follows (in thousands):

| | Three Months Ended | |
|---|---|---|
| | **April 1, 2007** | **March 26, 2006** |
| Service Cost | $ 7,939 | $ 3,793 |
| Interest Cost | 24,217 | 5,796 |
| Expected return on plan assets | (28,226) | (7,751) |
| Prior service cost amortization | 80 | 44 |
| Actuarial loss | 4,009 | 2,119 |
| Net pension expense | $ 8,019 | $ 4,001 |

No material contributions were made to the Company's multi-employer plans for continuing operations for the first fiscal quarters of 2007 and 2006.

The Company also provides or subsidizes for post-retirement healthcare and certain life insurance benefits for employees. The elements of post-retirement benefits for continuing operations are as follows (in thousands):

| | Three Months Ended | |
|---|---|---|
| | **April 1, 2007** | **March 26, 2006** |
| Service cost | $ 221 | - |
| Interest cost | 1,009 | $ 9 |
| Net post-retirement benefit expense | $ 1,230 | $ 9 |

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**NOTE 7. COMMON STOCK AND STOCK PLANS**

On June 27, 2006 the Company increased the authorized number of its Class A Common shares from 100,000,000 to 200,000,000 shares and issued 34,988,009 new Class A Common shares in connection with the Acquisition (see Note 2). 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.

At April 1, 2007, the Company had six stock-based compensation plans, which are described below. The Company applied APB Opinion 25 and related interpretations in accounting for its plans in fiscal 2005 and prior years. The Company has adopted SFAS No. 123R for its stock plans effective December 26, 2005, the first day of fiscal 2006 (see Note 1).

The Company has a stock incentive plan (the "2004 plan") under which the Company has reserved 3,000,000 Class A common shares for issuance to key employees and outside directors. Terms of the 2004 plan are similar to the Employee and Directors' Plans, except that the 2004 plan permits the following type of incentive awards in addition to stock options and stock appreciation rights: restricted stock, unrestricted stock, stock units and dividend equivalent rights.

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Beginning in fiscal 2005, the Company awarded stock-settled stock appreciation rights ("SARs") in lieu of stock options to its employees. The SARs were granted at fair market value, have a ten-year term and vest in four equal annual installments beginning on March 1 following the year for which the award was made.

Outstanding options and SARs are summarized as follows:

| | Options/ SARs | Weighted Average Exercise Price | Aggregate Intrinsic Value (in thousands) |
|---|---|---|---|
| Outstanding December 31, 2006 | 4,064,075 | $ 52.78 | $ 4,857 |
| Granted | 36,000 | $ 39.45 | |
| Exercised | (64,000) | $ 26.63 | |
| Forfeited | (92,000) | $ 63.97 | |
| Expired | (31,000) | $ 51.13 | $ 117 |
| Outstanding April 1, 2007 | 3,913,075 | $ 52.83 | |
| Options exercisable: | | | |
| April 1, 2007 | 2,331,450 | $ 53.70 | |

As of April 1, 2007, there were $12.8 million of unrecognized compensation costs related to non-vested stock-based compensation arrangements granted under the Company's plans. The cost is expected to be recognized over a weighted average period of 2.2 years.

The following tables summarize information about stock options and SARs outstanding in the stock plans at April 1, 2007:

| Range of Exercise Prices | Options/ SARs Outstanding | Average Remaining Contractual Life | Weighted Average Exercise Price | Options/ SARs Exercisable | Weighted Average Exercise Price |
|---|---|---|---|---|---|
| $ 25.75 - $42.50 | 1,517,750 | 6.95 | $ 40.72 | 619,750 | $ 38.32 |
| $ 45.98 - $59.09 | 1,352,950 | 6.54 | $ 54.34 | 992,575 | $ 52.96 |
| $ 59.58 - $73.36 | 1,042,375 | 7.07 | $ 68.51 | 719,125 | $ 67.95 |
| $ 25.75 - $73.36 | 3,913,075 | 6.84 | $ 52.83 | 2,331,450 | $ 53.70 |

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The weighted average remaining contractual life on options exercisable at April 1, 2007 was 5.37 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. Expected volatility was based on historical volatility for a period equal to the stock option's expected life for shares granted in the first fiscal quarters of 2007 and 2006, and for a one-year look back period for shares granted prior to fiscal 2006. 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.

| | Three Months Ended | |
|---|---|---|
| | **April 1, 2007** | **March 26, 2006** |
| Dividend yield | 1.96 | 1.35 |
| Expected life in years | 5.41 | 5.33 |
| Volatility | 0.19 | 0.19 |
| Risk-free interest rate | 4.74% | 4.61% |
| Weighted average fair value of options/SARs granted | $ 8.40 | $ 12.80 |

The Company also offers eligible employees the option to purchase common stock under its ESPP. The expense associated with the plan is 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 ESPP is included in the stock-related compensation discussed in Note 1.

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## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Overview

The McClatchy Company (the "Company") is the third largest newspaper company in the United States, with 31 daily newspapers and approximately 50 non-dailies. Twenty of its daily newspapers were acquired on June 27, 2006 in the Knight Ridder acquisition (the "Acquisition") – see Note 2 to the Consolidated Financial Statements. The Company's newspapers include *The Miami Herald*, *The Sacramento Bee*, the (Fort Worth*) Star-Telegram*, *The Kansas City Star*, *The Charlotte Observer*, and *The* (Raleigh) *News & Observer*. In addition, McClatchy has a robust network of internet assets, including leading local websites in each of its daily newspaper markets, offering users information, comprehensive news, advertising, e-commerce and other services. The Company also owns and operates McClatchy Interactive, an interactive operation that provides websites with content, publishing tools and software development; Real Cities, the largest national advertising network of local news websites and 14.4% of CareerBuilder, the nation's largest online job site. Effective May 9, 2007, the Company's ownership interest in CareerBuilder decreased to 14.4% from 15.0% due to a minority equity purchase in CareerBuilder by Microsoft Corporation. McClatchy also owns 25.6% of Classified Ventures, a newspaper industry partnership that offers classified websites such as cars.com and apartments.com.

The Company's primary source of revenue is advertising, which accounts for roughly 84% of the Company's revenue. While percentages vary from year to year and from newspaper to newspaper, retail advertising carried as a part of newspapers ("run-of-press" or "ROP" advertising) or in advertising inserts placed in newspapers (preprint advertising) generally contributes roughly 36% of advertising revenues at the Company's newspapers. Recent trends have been for certain national or regional retailers to use greater preprint and online advertising and less ROP advertising, although that trend shifts from time to time. Nonetheless, ROP advertising still makes up the majority of retail advertising. Classified advertising (including online classified advertising), primarily in automotive, employment and real estate categories, generally contributes about 33% of advertising revenue and national advertising generally contributes about 8% of total advertising revenue. Direct marketing and other advertising make up the remainder of the Company's advertising revenues. Circulation revenues contribute roughly 13% of the Company's newspaper revenues, depending upon the size and locale of the newspaper. Most 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 the first fiscal quarter of 2007 and the first fiscal quarter of 2006.

### Recent Events and Trends

*Acquisition Transaction:*

On June 27, 2006 (the second day of the Company's third fiscal quarter), the Company completed the purchase of Knight-Ridder, Inc. ("Knight Ridder") pursuant to a definitive merger agreement entered into on March 12, 2006, under which the Company paid Knight Ridder shareholders a per share price consisting of $40.00 in cash and .5118 of a Class A McClatchy common share (the "Acquisition"). The Company issued approximately 35.0 million Class A common shares in connection with the Acquisition. The total purchase price was approximately $4.6 billion. In addition, the Company assumed $1.9 billion of Knight Ridder's long-term debt at closing.

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Prior to the Acquisition, Knight Ridder published 32 daily newspapers in 29 U.S. markets, operated websites in all of its markets and owned a variety of internet and other investments which consisted of: 33.3% of each of CareerBuilder LLC ("CareerBuilder") and ShopLocal LLC ("ShopLocal"), 25.0% of Topix.net ("Topix"), 21.5% of Classified Ventures LLC ("Classified Ventures"), 33.3% interest in SP Newsprint Company ("SP"), 13.5% interest in the Ponderay Newsprint Company ("Ponderay") and 49.5% of The Seattle Times Company which owns *The Seattle Times* newspaper and weekly newspapers in the Puget Sound area, and daily newspapers located in Walla Walla and Yakima, Washington and in Portland, Maine and various other smaller investments. Knight Ridder was the founder and operator of Real Cities, the largest national advertising network of local news websites.

To consummate the Acquisition, the Company borrowed $3.076 billion under a new bank debt facility (see Note 5 to the Consolidated Financial Statements) and used the proceeds from the sales of four Knight Ridder newspapers (see Disposition Transactions below) in order to pay Knight Ridder shareholders ($2.7 billion) and refinance its and Knight Ridder's bank debt ($498.0 million). The after-tax proceeds from the sales of the eight Knight Ridder newspapers sold after the Acquisition closed were used to reduce debt.

The Acquisition was accounted for as a purchase. The purchase price was allocated to the assets acquired and liabilities assumed based upon their estimated fair values as of June 27, 2006, Acquisition date. The purchase price allocation was primarily based upon an independent valuation. The purchase price allocation, while substantially completed, is subject to further adjustments based upon completion of analyses of deferred income tax assets and liabilities and other items.

*Disposition Transactions:*

In conjunction with the Acquisition, the Company divested 12 Knight Ridder newspapers for strategic and antitrust reasons. The divested newspapers were the *Philadelphia Inquirer;Philadelphia Daily News;San Jose Mercury News*; *St. Paul Pioneer Press*; *Akron Beacon Journal* (OH); Wilkes Barre *Times Leader* (PA); Aberdeen *American News* (SD); Grand Forks *Herald* (ND); Ft. Wayne *News-Sentinel* (IN); *Contra Costa Times* (CA); *Monterey Herald* (CA); and *Duluth News Tribune* (MN). The Company received cash proceeds of approximately $2.0 billion (net of transaction costs) from these divestitures. In addition, the buyers assumed approximately $77 million of Knight Ridder retirement obligations related to certain newspapers. Four of the 12 newspapers were sold concurrently with the closing of the Acquisition. The remaining eight newspapers were owned for periods ranging from two days to 36 days following the closing of the Acquisition. The operating results of these eight divested newspapers for the periods they were owned by the Company, including interest expense and debt issuance costs related to bank debt incurred until their respective sales, are included in discontinued operations in the Company's Consolidated Statement of Income in 2006. No accounting gain or loss was recognized on the sale of the 12 newspapers.

In July 2006, the Company sold 18.3% of its interest in each of CareerBuilder and ShopLocal, and 13.8% of its interest in Topix for an aggregate of $309.7 million in cash and used the after-tax proceeds to reduce debt. The Company retained a 15.0% interest in CareerBuilder and ShopLocal and an 11.3% interest in Topix. No accounting gain or loss was recognized on the sale of these investments.

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On March 5, 2007, the Company sold the *Star Tribune* newspaper of Minneapolis, MN and other publications and websites related to the newspaper to an entity affiliated with Avista Capital Partners for $530.0 million. The Company expects to receive an income tax refund equal to approximately $201 million related to the sale in 2008. This amount has been recorded as a long-term receivable on the consolidated balance sheet. In the first fiscal quarter of 2007, the Company recorded income tax expense of approximately $40 million caused by the sale of *Star Tribune*-related intellectual property from the Company's intellectual property subsidiary when the transaction closed. However, this income tax expense was offset by an additional $41 million income tax benefit from updated estimates of the Company's tax basis in the *Star Tribune* subsidiary. Including the tax refund, total proceeds of the sale of *Star Tribune* is estimated to be $731 million instead of the $690 million previously estimated.

The results of *Star Tribune*'s operations, including interest on debt incurred to purchase it, have been recorded as discontinued operations in all periods presented. The Company used the proceeds from the sale of the *Star Tribune* to reduce debt.

*Advertising Revenues:*

Classified advertising revenues have continued to decline from the third fiscal quarter of 2006. The decline in classified advertising partially reflected an industry-wide decline in automotive advertising that began in 2004. Employment advertising has continued to decline in most markets from the third fiscal quarter of 2006. Real estate advertising has continued to decline from the fourth fiscal quarter of 2006. The Company has seen significant declines in California and Florida, where real estate values and thus advertising were strong in the first fiscal quarter of 2006. The Company expects declines in this revenue category to continue because of the difficult trends in these states. National advertising also declined in the first fiscal quarter of 2007 reflecting a slowdown in a number of segments including telecommunications and national automotive advertising, an industry-wide trend. These declines were partially offset by growth in retail, direct marketing and online advertising. See the revenue discussions in management's review of "Results of Operations".

*Newsprint:*

Newsprint prices began to decline in the first fiscal quarter of 2007 after a sustained period of increasing prices from 2002 through early 2006. Newsprint expense was 10.5% lower than pro forma newsprint expense in the first fiscal quarter of 2006, primarily reflecting lower newsprint usage. Newsprint pricing is dependent on global demand and supply for newsprint. Significant changes in newsprint prices can increase or decrease the Company's operating expenses. However, because the Company has ownership interests in newsprint producers (Ponderay and SP), the recent trend of falling newsprint prices, while favorably affecting operating expenses, is reducing its earnings from these investments. Ponderay and SP are also currently impacted by the higher cost of energy and fiber used in the papermaking process. The impact of newsprint price increases on the Company's financial results is discussed under "Results of Operations".

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**RESULTS OF OPERATIONS**

The Company noted the following items related to the Acquisition and other matters that impacted the 2007 first fiscal quarter results:

- The Company issued approximately 35.0 million Class A shares in connection with the Acquisition. As a result, the weighted average diluted shares used to calculate earnings per share in the first fiscal quarter of 2007 increased to 82.0 million shares compared to 47.0 million in first fiscal quarter of 2006.
- On March 5, 2007, the Company sold the (Minneapolis) *Star Tribune* newspaper for $530.0 million in proceeds and is expected to receive a tax refund of approximately $201 million related to the sale in 2008. The results of *Star Tribune*'s operations have been recorded as discontinued operations in all periods presented.
- The purchase price for the Acquisition has been allocated to the assets acquired and liabilities assumed based upon their estimated fair values as of June 27, 2006, the date of the Acquisition. The purchase price allocation, while substantially complete, is subject to further adjustments based upon completion of analyses of deferred income tax assets and liabilities and other items.

The Company's results from continuing operations since the close of the Acquisition (and all pro forma amounts for prior periods discussed) include the operations of the 20 retained former Knight Ridder newspapers and all of the Company's previously owned newspaper operations except for the (Minneapolis) *Star Tribune* newspaper.

The growth in revenues and expenses in the first fiscal quarter of 2007 compared to the same period in the first fiscal quarter of 2006 resulted from the Acquisition. To facilitate an analysis of operating results, the first fiscal quarter of 2006 has been prepared to include pro forma results from continuing operations. Pro forma amounts reflect the results of continuing operations of the Company as defined in the preceding paragraph. The financial results for Knight Ridder and the 20 newspapers retained by the Company included in the pro forma information were derived from the historical unaudited financial statements of Knight Ridder. The Company believes that the use of pro forma reporting of operating results enhances measurement of performance by permitting comparisons with prior historical data. Such supplemental pro forma data is not necessarily indicative of the operating results that would have occurred if the Acquisition had been completed as of the date indicated.

**First Fiscal Quarter of 2007 Compared to First Fiscal Quarter of 2006**

The Company reported first fiscal quarter of 2007 income from continuing operations of $14.5 million or $0.18 per share, compared to $21.8 million or $0.46 per share in the first fiscal quarter of 2006. The Company recorded a loss from discontinued operations of $5.5 million or $0.07 per share relating to the results of the (Minneapolis) *Star Tribune*. The Company’s total net income was $9.0 million or $0.11 per share including discontinued operations in the first fiscal quarter of 2007, compared to net income of $27.7 million or $0.59 per share in the first fiscal quarter of 2006.

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*Revenues:*

Revenues from continuing operations of the Company in the first fiscal quarter of 2007 were $566.6 million, up $372.1 million or 191.3% from the first fiscal quarter of 2006 revenues from continuing operations of $194.5 million, due to the addition of the 20 former Knight Ridder newspapers and the sale of the (Minneapolis) *Star Tribune*. Advertising revenues totaled $477.0 million and circulation revenues were $71.9 million.

The following summarizes the Company's revenue by category on a pro forma basis, which compares first fiscal quarter of 2007 with pro forma first fiscal quarter of 2006 (dollars in thousands):

| | | As Reported | | Pro Forma | |
|---|---|---|---|---|---|
| | **April 1, 2007** | **March 26, 2006** | **% Change** | **March 26, 2006** | **% Change** |
| Advertising: | | | | | |
| Retail | $ 206,028 | $ 64,688 | 218.5 | $ 204,345 | 0.8 |
| National | 45,150 | 13,758 | 228.2 | 50,399 | (10.4) |
| Classified: | | | | | |
| Auto | 42,135 | 18,499 | 127.8 | 50,221 | (16.1) |
| Employment | 69,646 | 25,127 | 177.2 | 75,713 | (8.0) |
| Real estate | 55,150 | 26,463 | 108.4 | 64,214 | (14.1) |
| Other | 21,604 | 6,193 | 248.8 | 21,528 | 0.4 |
| Total classified | 188,535 | 76,282 | 147.2 | 211,676 | (10.9) |
| Direct marketing and other | 37,310 | 11,606 | 221.5 | 37,353 | (0.1) |
| Total advertising | 477,023 | 166,334 | 186.8 | 503,773 | (5.3) |
| Circulation | 71,880 | 23,764 | 202.5 | 74,585 | (3.6) |
| Other | 17,655 | 4,365 | 304.5 | 17,937 | (1.6) |
| Total revenues | $ 566,558 | $ 194,463 | 191.3 | $ 596,295 | (5.0) |

Retail advertising increased $141.3 million in the first fiscal quarter of 2007 or 218.5% from the first fiscal quarter of 2006 reflecting the Acquisition. On a pro forma basis, retail advertising, including online and preprint advertising, increased $1.7 million or 0.8% from the first fiscal quarter of 2006. On a pro forma basis, online retail advertising increased $2.7 million or 85.1% from the first fiscal quarter of 2006, while print ROP advertising decreased $3.1 million or 2.5% from the first fiscal quarter of 2006. On a pro forma basis, preprint advertising increased $2.0 million or 2.6% from the first fiscal quarter of 2006.

National advertising increased $31.4 million or 228.2% from the first fiscal quarter of 2006 reflecting the Acquisition. On a pro forma basis, national advertising decreased $5.2 million or 10.4% from the first fiscal quarter of 2006. The declines in total national advertising were primarily in the telecommunications and automotive advertising categories, reflecting an industry-wide trend. Online national advertising increased $1.4 million from the first fiscal quarter of 2006 and declined $0.8 million on a pro forma basis.

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Classified advertising increased $112.3 million or 147.2% from the first fiscal quarter of 2006 reflecting the Acquisition. On a pro forma basis, classified advertising decreased $23.1 million or 10.9% from the first fiscal quarter of 2006. Online classified advertising increased $25.0 million or 282.6% from the first fiscal quarter of 2006. On a pro forma basis, online classified advertising increased $0.3 million or 0.8% from the first fiscal quarter of 2006.

- Automotive advertising increased $23.6 million or 127.8% from the first fiscal quarter of 2006. On a pro forma basis, automotive advertising declined $8.1 million or 16.1% from the first fiscal quarter of 2006, reflecting an industry-wide trend.
- Employment advertising increased $44.5 million or 177.2% from the first fiscal quarter of 2006. On a pro forma basis, employment advertising decreased $6.1 million or 8.0% from the first fiscal quarter of 2006. Employment advertising was affected by the new affiliate agreement with CareerBuilder for online employment advertising. This agreement is helping to grow online employment revenues at the legacy McClatchy newspapers. However, under the new affiliate agreement selected products are no longer available to be sold by the 20 acquired Knight Ridder newspapers, which are depressing their internet revenues. The Company will begin cycling through this change in August 2007.
- Real estate advertising was up $28.7 million or 108.4% from the first fiscal quarter of 2006. On a pro forma basis, real estate advertising decreased $9.1 million or 14.1% from the first fiscal quarter of 2006. The Company has seen dramatic declines in California and Florida, where real estate values and thus advertising were exceptionally strong in 2006. The Company expects declines in this revenue category to continue because of the difficult trends in these states.
- Online classified advertising increased $25.0 million or 282.6% from the first fiscal quarter of 2006. On a pro forma basis, online classified advertising increased $0.3 million or 0.8% from the first fiscal quarter of 2006.

Online advertising, which is included in each of the advertising categories discussed above, totaled $41.2 million in the first fiscal quarter of 2007, an increase of $30.7 million or 292.4% over the first fiscal quarter of 2006 reflecting the Acquisition and the new affiliate agreement with CareerBuilder for online employment advertising, discussed above. On a pro forma basis, online advertising increased $2.1 million or 5.4% from the first fiscal quarter of 2006.

Direct marketing revenues increased $25.9 million or 233.0% from the first fiscal quarter of 2006 reflecting the Acquisition. On a pro forma basis, direct marketing revenues increased $0.1 million or 0.3% from the first fiscal quarter of 2006, slower than traditional growth rates as the Company evaluates and discards some niche publications at the acquired newspapers. The Company extends its newspaper franchises by supplementing the mass reach of the newspaper with direct marketing and direct mail products so that advertisers can both achieve broad appeal and capture targeted audiences with one-stop shopping.

Circulation revenues increased $48.1 million or 202.5% from the first fiscal quarter of 2006 reflecting the Acquisition. On a pro forma basis, consolidated circulation revenues decreased $2.7 million or 3.6% from the first fiscal quarter of 2006.

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*Operating Expenses:*

Operating expenses increased $320.0 million or 201.0% in the first fiscal quarter of 2007 related to expenses added by the Acquisition.  On a pro forma basis, operating expenses were down $29.2 million or 5.7% from the first fiscal quarter of 2006, as the Company continued to reduce costs and realized synergies from the Acquisition.  On a pro forma basis, compensation costs were down 8.7%, with payroll down 8.8%, and a 5.6% reduction in staffing.  On a pro forma basis, fringe benefits were down 8.6%.  On a pro forma basis, newsprint and supplement expense was down 10.5% with newsprint expense down 8.0% and supplement expense down 23.9%.  On a pro forma basis, other operating costs were up 1.3%, reflecting higher bad debt.  On a pro forma basis, depreciation and amortization expense increased by 1.7% due primarily to the purchase price accounting related to the Acquisition.

*Interest:*

Interest expense for continuing operations was $53.8 million for the first fiscal quarter of 2007 reflecting the service costs on debt incurred to finance the Acquisition.  While the Company used the proceeds of the *Star Tribune* sale to reduce debt, it carried interest on this debt for the first two months of the year, which equated to about $5.7 million in interest expense included in continuing operations. Interest expense also included $1.3 million related to the liability for unrecognized tax benefit. Excluding these two items, the Company's interest expense was $46.8 million.  The Company's effective interest rate in the first fiscal quarter of 2007 was approximately 6.4%.  In the first fiscal quarter of 2007, a total of $1.2 million of interest expense was allocated to discontinued operations related to debt used to acquire the (Minneapolis) *Star Tribune* newspaper, which was sold on March 5, 2007.

*Equity Income (Loss):*

Loss from unconsolidated companies resulted from operating results of the Company's newsprint investments and from seasonally low profitability at CareerBuilder, Classified Ventures and the Seattle Times Company.

*Income Taxes:*

The income tax rate from continuing operations in the first fiscal quarter of 2007 was 39.2%, compared to 39.0% in the first fiscal quarter of 2006.  The effective tax rate for the current fiscal year is expected to be in the 39.0% to 39.5% range, but the tax rate is preliminary and may change when the purchase price allocation and related deferred taxes are finalized.

*Discontinued Operations*:

Loss from discontinued operations, (related to the *Star Tribune* newspaper of Minneapolis, MN-- see Note 2 to the Consolidated Financial Statements) in the first fiscal quarter of 2007 was $5.5 million or $0.07 per share. Income from discontinued operations was $5.9 million or $0.13 per share in the first quarter of 2006.  Additionally, $1.2 million and $2.1 million in interest incurred on the debt used to finance the purchase of the *Star Tribune* was recorded in discontinued operations in the first fiscal quarters of 2007 and 2006, respectively.

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## LIQUIDITY AND CAPITAL RESOURCES

*Sources and Uses of Liquidity and Capital Resources:*

The Company's cash and cash equivalents were $10.1 million as of April 1, 2007. The Company generated $17.8 million of cash from operating activities in the first fiscal quarter of 2007.

The Company generated $504.2 million of cash from investing activities largely from the $530.0 million proceeds from the sale of the *Star Tribune* newspaper (see Note 2 to the Consolidated Financial Statements) in the first fiscal quarter of 2007. These sources of funds were offset by $12.8 million purchases of property, plant and equipment

The Company used $531.5 million of cash from financing sources in the first fiscal quarter of 2007, primarily for repayment of bank debt. The Company paid $14.7 million in dividends in the first fiscal quarter of 2007 and also received $3.2 million in proceeds from issuing Class A stock under employee stock plans in the first fiscal quarter of 2007.

At April 1, 2007, the Company had $231.1 million of land and other assets held for sale. The Company expects to sell its Miami land within the next twelve months, San Jose land in the third fiscal quarter of 2007 and certain property, plant and equipment in the second fiscal quarter of 2007. Gross proceeds (before transaction fees) from these sales will be $190.0 million, $25.0 million and $19.5 million, respectively.

*Debt and Related Matters:*

Until June 27, 2006, the Company used its senior unsecured revolving credit facility, which was initially put into place in 1998 to finance the purchase of The Star Tribune Company, as a back-up facility for commercial paper. This senior unsecured revolving credit facility provided borrowings of up to $500 million and was refinanced with a new $3.2 billion senior unsecured credit facility ("Credit Agreement") entered into in connection with the Acquisition. At closing, the Company's new Credit Agreement consisted of a $1 billion five-year revolving credit facility and $2.2 billion five-year Term A loan. Both the Term A loan and the revolver are due on June 27, 2011.

On June 27, 2006, McClatchy borrowed $2.2 billion under the Term A loan and $876.0 million under the revolving credit facility. The Company has repaid $1.45 billion of the Term A loan and $381.1 million of the revolving credit facility, primarily from proceeds received in the sale of the eight newspapers, net of income taxes paid on the tax gain on the sale (see Note 2 the to Consolidated Financial Statements). A total of $449.9 million of funds were available under the revolving credit facility at April 1, 2007. Under the Company's covenant for debt to cash flow, the Company had incremental borrowing capacity of approximately $188.9 million as of April 1, 2007.

Debt under the Credit Agreement bears interest at the London Interbank Offered Rate ("LIBOR") plus a spread ranging from 37.5 basis points to 125.0 basis points. Applicable rates are based upon the Company's ratings on its long-term debt from Moody's Investor Services ("Moody's") and Standard & Poor's. A commitment fee for the unused revolving credit ranges from 10.0 basis points to 20.0 basis points depending on the Company's ratings. Standard & Poor's has rated the facility "BB+" and Moody's has rated the facility "Baa3". According to the Credit Agreement, the Company will pay interest at LIBOR plus 75.0 basis points on outstanding debt and its commitment fees are currently at 15.0 basis points.

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The Credit Agreement contains financial covenants including a minimum interest coverage ratio (as defined in the Credit Agreement) of 3:00 to 1:00 and a maximum leverage ratio (as defined in the Credit Agreement) of 4.75 to 1.00 through September 30, 2008, declining to 4.25 to 1.00 on December 28, 2008 and to 4.00 to 1.00 on December 27, 2009 and thereafter. At April 1, 2007, the Company was in compliance with all debt covenants.

As a result of a downgrade by Standard & Poor's of the Company's credit rating to "BB+" from "BBB" on April 26, 2007, a provision was triggered in the Credit Agreement that requires the Company to cause its Material Subsidiaries (as defined in the Credit Agreement) to guarantee the Company's obligations under the Credit Agreement if at any time the ratings on the Company's bank debt from Moody's and Standard & Poor's are not investment grade. These guarantees were effected on May 4, 2007, and will be in effect upon the earlier of the termination of the Credit Agreement and the date which is one year after the date both ratings agencies have rated the Company's bank debt as investment grade.

At April 1, 2007, the Company had outstanding letters of credit totaling $55.2 million, securing estimated obligations stemming from workers compensation claims and other contingent claims.

*Contractual Obligations:*

As of April 1, 2007, the Company had purchase obligations primarily related to capital expenditures for property, plant and equipment expiring at various dates through 2008, totaling approximately $18.7 million.

Significant changes in the Company's contractual obligations since fiscal year-end 2006 include the reduction of current-portion of long-term debt of $530.0 million (see Note 2 to the Consolidated Financial Statements) and an increase of $32.3 million in income tax reserves, of which $25.2 million related to the adoption of FIN 48 (see Note 1 to the Consolidated Financial Statements).

## ITEM 3. QUANTITIVE AND QUALITIVE DISCLOSURES ABOUT MARKET RISK

A hypothetical 25 basis point change in LIBOR for a fiscal year would increase or decrease in the annual net income by $2.0 million to $2.5 million.

See the discussion at "Recent Events and Trends - Operating Expenses" in Management's Discussion and Analysis of Financial Condition and Results of Operations for the impact of market changes on the Company's newsprint and pension costs.

## ITEM 4. CONTROLS AND PROCEDURES

*Evaluation of disclosure controls and procedures.* Our management evaluated, with the participation of our 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 Quarterly Report on Form 10-Q. 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 we are required to disclose in reports that we file or submit under the Securities Exchange Act of 1934 is accumulated and

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communicated to our management, including our 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 our internal control over financial reporting that occurred during the first fiscal quarter of 2007 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**PART II - OTHER INFORMATION**

Item 1. Legal Proceedings - None.

Item 1A. Risk Factors

**Forward-Looking Information:**

This quarterly report on Form 10-Q contains forward-looking statements regarding the Company's actual and expected financial performance and operations. These statements are based upon our current expectations and knowledge of factors impacting our business, including, without limitation, statements about litigation, disposition of the (Minneapolis) *Star Tribune* newspaper, tax and other benefits from the sale of the *Star Tribune,* advertising revenues, return on pension plan assets and assumed salary increases, newsprint costs, amortization expense, stock option expenses, prepayment of debt, capital expenditures, sufficiency of capital resources and possible acquisitions and investments. 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, we claim 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 and in the documents which we incorporate by reference, could affect the future results of McClatchy and could cause those future results to differ materially from those expressed in our forward-looking statements: general economic, market or business conditions, especially in any of the markets where we operate newspapers; impact of any litigation or any potential litigation; geo-political uncertainties including the risk of war; changes in newsprint prices and/or printing and distribution costs from anticipated levels; changes in interest rates; changes in pension assets and liabilities; increased competition from newspapers, internet sites or other forms of media reaching the markets we serve; increased consolidation among major retailers in our markets or other events depressing the level of advertising; changes in our ability to negotiate and obtain favorable terms under collective bargaining agreements with unions; competitive action by other companies; difficulties in servicing our debt obligations; other occurrences leading to decreased circulation and diminished revenues from retail, classified and national advertising; and other factors, many of which are beyond our control.

See McClatchy's 2007 Form 10-K filed with the Securities and Exchange Commission on March 1, 2007 for further discussion of risk factors that could affect operating results.

Item 6. Exhibits filed as part of this Report as listed in the Index of Exhibits, on page 31 hereof.

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## SIGNATURES

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

The McClatchy Company
Registrant

| | |
|---|---|
| May 11, 2007 | /s/ Gary B. Pruitt |
| Date | Gary B. Pruitt |
| | Chief Executive Officer |
| May 11, 2007 | /s/ Patrick J. Talamantes |
| Date | Patrick J. Talamantes |
| | Chief Financial Officer |

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## INDEX OF EXHIBITS

| Exhibit | Description |
|---|---|
| 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 By-laws as amended as of June 22, 2006, included as Exhibit 3.2 in the Company's Current Report on Form 8-K filed June 28, 2006. |
| 4.1* | Form of Physical Note for Commercial Paper Program included as Exhibit 4.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 27, 2004. |
| 10.1* | Credit Agreement dated June 27, 2006 by and among the Company, lenders party thereto, Bank of America, N.A., as Administrative Agent, Swing Line Lender and Letter of Credit Issuer, JPMorgan Chase Bank as Syndication Agent and Banc of America Securities LLC and JPMorgan Securities Inc. as Joint Lead Arrangers and Joint Book Managers, included as Exhibit 10.2 in the Company's Current Report on Form 10-Q filed for the quarter ending on June 25, 2006. |
| 10.2* | Amendment 1 to Credit Agreement dated March 28, 2007 by and between The McClatchy Company and Bank of America, N.A., as Administrative Agent, included as Exhibit 99.1 in the Company's Current Report on Form 8-K filed April 2, 2007. |
| 10.3 | General Continuing Guaranty dated May 4, 2007 by each Material Subsidiary in favor of the Lenders party to the Credit Agreement dated June 27, 2006 by and between The McClatchy Company, the Lenders and Bank of America, N.A., as Administrative Agent. |
| 10.4* | Second Supplemental Indenture dated June 27, 2006, between the Company and Knight-Ridder, Inc. included as Exhibit 10.3 in the Company's Current Report on Form 10-Q filed for the quarter ending on June 25, 2006. |
| 10.5* | Fourth Supplemental Indenture dated June 27, 2006, between the Company and Knight-Ridder, Inc. included as Exhibit 10.4 in the Company's Current Report on Form 10-Q filed for the quarter ending on June 25, 2006. |
| **10.6* | 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 31, 2000. |
| **10.7* | The Company's Amended and Restated Long-Term Incentive Plan included as Exhibit 99.1 to the Company's Report on Form 8-K filed May 23, 2005. |
| **10.8* | Amended and Restated Supplemental Executive Retirement Plan included as Exhibit 10.4 to the Company's 2001 Form 10-K. |
| **10.9* | The Company's Amended and Restated 1990 Directors' Stock Option Plan dated February 1, 1998 included as Exhibit 10.12 to the Company's 1997 Form 10-K. |

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| **10.10* | Amended and Restated 1994 Stock Option Plan included as Exhibit 10.15 to the Company's Report on Form 10-Q filed for the Quarter Ending on July 1, 2001. |

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| **10.11* | 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. |
| **10.12* | Amendment 1 to The McClatchy Company 2004 Stock Incentive Plan dated January 23, 2007, included as Exhibit 10.10 to the Company's 2006 Report on Form 10-K. |
| **10.13* | 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 dated January 28, 2005. |
| **10.14* | The Company's Amended and Restated Chief Executive Bonus Plan, included as Exhibit 10.12 to the Company's Report on Form 10-Q for the Quarter Ending June 29, 2003. |
| **10.15* | 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 2003 Form 10-K. |
| 10.16* | 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. |
| **10.17* | Amended and Restated 1997 Stock Option Plan included as Exhibit 10.7 to the Company's 2002 Report on Form 10-K. |
| **10.18* | Amendment 1 to The McClatchy Company 1997 Stock Option Plan dated January 23, 2007, included as Exhibit 10.16 to the Company's 2006 Report on Form 10-K. |
| **10.19* | The Company's Amended and Restated 2001 Director Stock Option Plan, included as Exhibit 10.13 to the Company's 2004 Report on Form 10-K. |
| **10.20* | Amendment 1 to The McClatchy Company 2001 Director Option Plan dated January 23, 2007, included as Exhibit 10.18 to the Company's 2006 Report on Form 10-K. |
| 10.21* | Stock Purchase Agreement by and between The McClatchy Company and Snowboard Acquisition Corporation, dated December 26, 2006, included as Exhibit 2.1 to the Company's Report on Form 8-K filed December 26, 2006. |
| 21* | Subsidiaries of the Company. |
| 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. |
| * | Incorporated by reference |

** Compensation plans or arrangements for the Company's executive officers and directors