SEC FILE NO 1- 4278 11--06 SIC 483 C 10 18 50 000

CAPITAL CITIES COMMUNICATIONS INC 10-K

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CARD 1 MICROFICHE BY DISCLOSURE INCORPORATED FOR 12/31/76

Capital Cities Communications, Inc. [N.Y.] Co: C101850000
24 East 51st Street
New York, N.Y. 10022
SEC File No: 1-4278 Exch: NYSE/CCB
IRS No: 14-1284013 CUSIP: 1398619
Fiscal Year Ends: 12/31 SIC No: 483
Auditor: Arthur Young & Company

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|---|---|---|---|---|
| ARS | | For: | 12/31/75 | |
| NYL | | Dated: | 05/06/76 | |
| Proxy | | Dated: | 04/02/76 | |
| Prspct | | Eff: | 05/14/76 | |
| Regst | S01 | Filed: | 03/30/76 | |
| 10-K | | For: | 12/31/75 | |
| 10-K | | For: | 12/31/75 | Amendment 1 |
| 10-Q | | For: | 03/31/76 | |
| 10-Q | | For: | 06/30/76 | |
| 10-Q | | For: | 09/30/76 | |
| 8-K | | For: | 05/31/76 | |

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# SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

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## FORM 10-K

ANNUAL REPORT

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

For the fiscal year ended December 31, 1976 — Commission file number 1-4278

# Capital Cities Communications, Inc.

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| New York State | 14-1284013 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S Employer Identification No.) |
| 24 East 51st Street, New York, N. Y. | 10022 |
| (Address of principal executive offices) | (Zip Code) |

Registrant's telephone number, including area code (212) 421-9595

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

| (Title of each class) | (Name of each exchange on which registered) |
|---|---|
| Common stock, $1.00 par value | New York Stock Exchange |

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

(Title of class)

None

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 X. No .

Indicate the number of shares outstanding of the issuer's common stock as of the close of the period covered by this report (December 31, 1976): 7,416,048 shares, excluding 280,700 treasury shares.

## Item 1. *Business*

Capital Cities Communications, Inc. (the "Company") has been engaged in radio broadcasting since 1947, in television broadcasting since 1953 and in publishing since 1968. The Company has approximately 2,023 full-time employees engaged in its publishing operations and 969 engaged in broadcasting.

### Information as to Lines of Business

The Company derives all broadcasting revenues and approximately 80% of publishing revenues from the sale of advertising. Subscription and other circulation receipts from publishing constitute the only other material source of revenue. The following table sets forth the contributions of the Company's two lines of business to its consolidated net revenues and operating income for each of the last five years. Interest and other income and expense have not been allocated because investment and borrowing policies are based upon overall financial considerations, and are not attributable to any particular line of business.

**Consolidated Net Revenues and Operating Income By Line of Business**

(Thousands of dollars)

| | Total | Publishing | Broadcasting |
|---|---|---|---|
| **Net revenues** | | | |
| 1976 | $212,167 | $107,860 | $104,307 |
| 1975 | 174,886 | 88,066 | 86,820 |
| 1974 | 138,[illegible]35 | 60,009 | 78,576 |
| 1973 | 127,498 | 51,432 | 76,066 |
| 1972 | 118,488 | 48,603 | 69,885 |
| **Operating income** | | | |
| 1976 | 73,043 | 24,151 | 48,892 |
| 1975 | 54,135 | 16,313 | 37,822 |
| 1974 | 46,619 | 11,673 | 34,946 |
| 1973 | 44,565 | 9,133 | 35,432 |
| 1972 | 38,086 | 7,505 | 30,581 |

### Publishing

At December 31, 1976, the Company was publishing eighteen business and specialized publications and four consumer newspapers. Following is a summary by type of publication of inches of advertising, advertising revenue and circulation revenue for the last five years:

| | 1976 | 1975 | 1974 | 1973 | 1972 |
|---|---|---|---|---|---|
| Inches of advertising | | | | | |
| Consumer newspapers | 8,521,436 | 7,218,779 | 3,158,202 | 2,432,200 | 2,382,546 |
| Trade publications | 1,446,941 | 1,301,609 | 1,461,583 | 1,473,451 | 1,453,209 |
| Advertising revenue | | | | | |
| Consumer newspapers | $42,493,446 | $34,617,727 | $12,796,635 | $ 9,094,746 | $ 9,348,532 |
| Trade publications | 43,179,913 | 34,841,008 | 35,734,010 | 32,414,697 | 30,702,981 |
| Circulation revenue | | | | | |
| Consumer newspapers | $ 9,592,469 | $ 8,567,624 | $ 3,258,485 | $ 2,288,686 | $ 2,207,553 |
| Trade publications | 9,339,264 | 7,893,824 | 6,577,899 | 6,093,777 | 4,967,251 |

Fairchild Publications ("Fairchild") is primarily engaged in gathering and publishing business news and ideas for industries covered by its various publications, all of which are printed by outside printing contractors. Following are the publications:

| Title | Frequency | Circulation |
|---|---|---|
| NEWSPAPERS: | | |
| *Women's Wear Daily* | Daily | 68,000 |
| *Daily News Record* | Daily | 27,000 |
| *American Metal Market* | Daily | 15,000 |
| *HFD—Retailing Home Furnishings* | Weekly | 37,000 |
| *Energy User News* | Weekly | 22,000 |
| *Footwear News* | Weekly | 25,000 |
| *Supermarket News* | Weekly | 56,000 |
| *Electronic News* | Weekly | 71,000 |
| *Metalworking News* | Weekly | 52,000 |
| *W* | Bi-Weekly | 186,000 |
| MAGAZINES: | | |
| *Men's Wear* | Bi-Weekly | 27,000 |
| *Metal/Center News* | Monthly | 12,000 |

In December 1976, Fairchild purchased the following six controlled circulation medical publications, which are distributed throughout the nation primarily to physicians: *Family Practice News, Internal Medicine News, Ob. Gyn. News, Pediatric News, Skin & Allergy News* and *Clinical Psychiatric News.*

*The Oakland Press,* purchased by the Company in 1969, is a daily evening newspaper with a circulation of approximately 75,000 and serves a suburban area adjacent to Detroit, Michigan.

The *News-Democrat,* a newspaper serving Belleville, Illinois, a suburban area adjacent to St. Louis, Missouri, was acquired in 1972. This paper is published in the afternoon and has a Monday through Friday circulation of approximately 32,000 and a Sunday circulation of 33,000.

The *Fort Worth Star-Telegram,* with a combined morning and evening circulation of 227,000 and a Sunday circulation of 225,000, was acquired in November 1974 together with the *Citizen-Journal* (Arlington, Texas), a suburban newspaper published three times weekly.

On February 15, 1977, the Company purchased all of the outstanding stock of The Kansas City Star Company ("Star") for $125,000,000. Star publishes *The Kansas City Times,* a morning newspaper with a circulation of approximately 331,000, and *The Kansas City Star,* with circulation of approximately 305,000 in the evening and 402,000 on Sunday. See Note 2 to Consolidated Financial Statements for additional information including a description of non-publishing businesses acquired.

**Competition**

Fairchild's business is highly competitive. In its various news publishing activities it competes with almost all other information media, and this competition may become more intense as communications equipment is improved and new techniques are developed. Many metropolitan general newspapers and many small-city or suburban papers carry business news. In addition to special magazines in the fields covered by Fairchild's publications, general news magazines publish substantial amounts of business material. Nearly all of these publications seek to sell advertising space and much of this effort is directly or indirectly competitive with the Fairchild publications.

The Company's consumer newspapers compete with other advertising media such as broadcasting stations, magazines and billboards. Additionally, *The Oakland Press,* the *News-Democrat* and the *Citizen-Journal* serve suburban areas adjacent to metropolitan centers and compete with newspapers published there.

### Raw Materials

The primary raw material used by the publishing division is newsprint. Newsprint for the Fairchild publications is furnished by the contract printers. Newsprint is readily available from numerous suppliers. The Company's consumer newspapers purchase their newsprint from various suppliers as follows:

| | Number of suppliers | Share furnished by largest supplier |
|---|---|---|
| *Fort Worth Star-Telegram* | 5 | 38% |
| *The Oakland Press* | 3 | 37% |
| *News-Democrat* | 2 | 55% |
| *Citizen-Journal* | 3 | 80% |

## Broadcasting

The Company presently owns and operates five very high frequency (VHF) television stations, one ultra high frequency (UHF) television station, seven standard (AM) radio stations and six frequency modulation (FM) radio stations. Market locations, frequencies, transmitter power and other station details are set forth in tables under "Item 3—Properties".

### Competition

The Company's television and radio stations are in competition with other television and radio stations, as well as other advertising media such as newspapers, magazines and billboards.

Competition in the television broadcasting industry occurs primarily in individual market areas. Generally, a television broadcasting station in one market does not compete with other stations in other market areas, nor does a group of stations, such as those owned by the Company, compete with any other group of stations as such. While the pattern of competition in the radio broadcasting industry is basically the same, it is not uncommon for radio stations outside of a market area to place a signal of sufficient strength within that area to gain a share of the audience.

In addition to management and experience, factors which are material to competitive position include authorized power allowance, assigned frequency, network affiliation, and local program acceptance, as well as strength of local competition.

Under present regulations of the Federal Communications Commission ("FCC") no additional VHF television commercial stations may be constructed or operated in any of the cities where the Company's television stations are located. See, however, "Licenses—Federal Regulation of Broadcasting—Allocation Matters" below. While at the present time the Company's VHF television stations receive only limited competition from UHF television stations located within the coverage areas of the respective stations, the FCC is endeavoring to increase utilization of UHF stations. Moreover, television set manufacturers are required to produce only all-wave receivers capable of receiving both VHF and UHF signals.

There are sources of television service other than conventional television stations. The most common at present is Community Antenna Television ("CATV"). CATV can provide more competition for a station by making additional signals available to its audience. In 1972, the FCC adopted rules intended to facilitate the development of CATV while avoiding undue competitive impact on the basic structure of television broadcasting. No prediction can be made as to the extent to which CATV systems bringing additional signals into the markets of the Company's stations will develop. In addition some CATV systems have begun supplying programming that is not available on conventional television stations. See "Licenses—Federal Regulation of Broadcasting—Cable and Subscription Television" for a discussion of CATV, pay cable and subscription television.

**Licenses—Federal Regulation of Broadcasting**

Television and radio broadcasting are subject to the jurisdiction of the FCC under the Communications Act of 1934, as amended (the "Communications Act"). The Communications Act empowers the FCC, among other things, to issue, revoke or modify broadcasting licenses, to determine the location of stations, to regulate the equipment used by stations, to adopt such regulations as may be necessary to carry out the provisions of the Communications Act and to impose certain penalties for violation of such regulations.

The FCC, other Federal agencies and Congressional committees periodically conduct hearings and inquiries relating to various facets of the communications industry. Some of these hearings and inquiries could result in legislation or regulatory action that would affect the Company's stations.

*Renewal Matters*

Broadcasting licenses may be granted for a maximum period of three years and are renewable for additional three-year periods upon application for renewal. During certain periods when a renewal application is pending, competing applicants may file for the frequency in use by the renewal applicant. Competing applicants may be entitled to a comparative hearing in competition with the renewal applicant. No competing applications have been filed against any of the Company's stations.

In addition, petitions to deny applications for renewal of license may be filed during certain periods following the filing of such applications. In recent years, representatives of various community groups and others have filed increasing numbers of petitions to deny renewal applications of broadcasting stations, including some of the Company's stations. At present, no petitions to deny are pending against any of the Company's stations.

Regular renewal of the licenses of three of the Company's stations has been delayed, and the relevant applications for renewal of those licenses are presently pending at the FCC. WPAT-AM's application for renewal has been placed on deferred status pending completion of work pursuant to the construction permit allowing it to relax restrictions on its nighttime radiation pattern. Regular renewal of the license of KPOL-AM has been delayed pending completion of comparable technical changes to its facilities. Finally, regular renewal of the license of WPRO-FM has been delayed pending FCC resolution of a dispute concerning interference to a television station, allegedly caused by a power increase granted to WPRO-FM in 1972. It is not possible to predict how these engineering matters will be resolved, however, it is believed to be improbable that any of them would be resolved in a way that would have serious adverse effects on the operations of those stations.

*Ownership Matters*

The Communications Act prohibits the assignment of a license or the transfer of control of a licensee without prior approval of the FCC and prohibits the Company from having any officer or director who is an alien and from having more than one-fifth of its stock owned by aliens or a foreign government.

The FCC's "multiple ownership" rules provide, in general, that a license for a radio or television station will not be granted if the applicant owns, or has a substantial interest in, another station of the same type which provides service to areas already served by the station operated or controlled by the applicant. These rules further provide that a broadcast license to operate a radio or television station will not be granted if the grant of the license would result in a concentration of control of broadcasting. The rules provide that a presumption of such concentration of control arises in the event that an entity directly or indirectly owns or has an interest in more than seven AM radio stations, more than seven FM radio stations, or more than seven television stations, of which no more than five may be VHF. The Company now owns seven AM radio stations, six FM radio stations and six television stations, of which five are VHF.

In addition, the FCC will not grant applications for station acquisitions which would result in the creation of new AM-VHF or FM-VHF combinations in the same market under common ownership. New combinations of AM-FM in the same market under common ownership are permitted. Combinations of

UHF television stations with AM stations, FM stations or AM-FM combinations in the same market will be considered by the FCC on a case-by-case basis. Furthermore, under the FCC's rules, radio and/or television licensees may not acquire new ownership interests in daily newspapers published in the same markets served by their broadcast stations. Under these rules, the Company would generally be barred from making acquisitions or sales which would result in the creation of new combinations, or maintenance of existing combinations, inconsistent with the rules.

The Company presently owns one AM-VHF combination, WKBW-AM and WKBW-TV, Buffalo. In addition, the Company presently owns daily newspapers in two markets in which it also holds radio licenses. For purposes of these rules, *The Oakland Press* and WJR-AM and WJR-FM, licensed to Detroit, are treated as in the same market, as are the *Fort Worth Star-Telegram* and WBAP-AM and KSCS-FM, licensed to Fort Worth. Under the rules, therefore, these commonly owned broadcast and broadcast/newspaper combinations could not be transferred together.

The FCC's AM-FM-TV rule applies prospectively only. A recent decision of the United States Court of Appeals for the District of Columbia Circuit would have the effect of requiring the FCC to order the divestiture of existing commonly owned broadcast/newspaper combinations serving the same markets. Further judicial proceedings challenging the decision, legislative action modifying its result, and waivers in particular cases are all possible. The decision of the Court of Appeals in its present form would appear to require the FCC to order the Company to break up the broadcast/newspaper combinations described above. The FCC has announced its intention to appeal this decision. There is no way to predict whether legislative action may also be sought; whether judicial or legislative action would result in modification of the Court's decision or its effects; what form any modifications might take; what standard, if any, for individual waiver might be adopted; or the time period in which, or the terms under which, any divestiture of existing broadcast/newspaper combinations might be required.

The FCC has issued a press release indicating that it has adopted a rule prohibiting acquisitions that would result in common ownership of three broadcast stations in the same region. The prohibition would be based on a formula consisting of mileage and signal contour computations. For purposes of this rule, commonly owned AM and FM stations in the same market would be treated as one station. The precise terms of the rule have not been released, but the rule could affect the ability of the Company to acquire broadcast stations located near markets in which it presently owns broadcast stations.

Except as discussed below, the FCC's rules specify that power to vote or control the vote of 1% or more of the stock of a publicly-held broadcast licensee (*i.e.*, a licensee with 50 or more stockholders) is the test for determining whether an entity should have the licensee's broadcast stations or newspapers attributed to it for purposes of the multiple ownership rules. However, the FCC's rules permit a qualifying mutual fund to vote or control the vote of up to 5% of the stock of a publicly-held broadcast licensee before the licensee's stations will be attributed to the mutual fund. The rules also permit insurance companies or banks holding stock in their trust departments to vote or control the vote of up to 5% of the stock of a publicly-held licensee before the licensee's stations are attributed to them, provided that such insurance companies or banks do not exercise any control over the management or policies of the publicly-held broadcast company or companies in which they hold in excess of 1% of the stock. The FCC has also indicated that it is considering rules which would permit certain categories of passive shareholders to own up to 10% of the shares of broadcast stations and newspapers which could not be commonly controlled under the rules.

Finally, in 1965, the FCC proposed a rule that would prohibit the acquisition of more than two television stations located in the 50 largest television markets. The proposed rule was not adopted, but the FCC announced that as a matter of policy it would require applicants seeking interests in the top 50 markets in excess of those which would have been permitted under the rule to show that the grant of their application would serve a compelling public interest. Four of the Company's stations are in the top 50 markets.

*Cable and Subscription Television*

FCC rules basically require CATV systems to carry the signals of the stations in whose service areas they operate or which are viewed by significant numbers of persons in the area served by the system (as defined by the rules); permit systems operating in the largest 50 markets to supplement the signals of the stations they are required to carry with a sufficient number of other signals so that they can supply their customers with the programs of three network-affiliated stations and three non-network, independent stations and, in any event, not less than two independent signals not available in the market; permit systems operating in the second 50 markets to supplement the signals they are required to carry with signals that would allow them to supply three full network services plus two non-network independent services and, in any event, not less than two independent signals not available in the market; and protect the right of stations in the largest 50 markets—and to a lesser extent in the second 50 markets—to retain exclusive rights to the exhibition of program material licensed to them by requiring CATV systems to delete programs offered on more distant stations when the nearer station holds the exclusive right to their broadcast. As noted above, four of the Company's stations are in the top 50 markets. Two are in the second 50 markets. In each case, the effect of the rules is to permit CATV systems operating in those markets to import the signals of non-network, independent stations from larger, distant markets that are not presently available in the stations' markets.

Some CATV systems have begun supplying additional programming to subscribers that is not originated on, or transmitted from, conventional television broadcasting stations. In addition, there have been attempts to develop television service that emphasizes the origination and/or distribution for a fee of programming not available as part of a conventional free television service. FCC rules currently restrict the extent to which such subscription television operations or cable operations may provide programming of a sports, feature film or entertainment series nature, with a view to preventing the siphoning of program material from the advertiser-supported television system. The FCC has adopted revised rules which would relax these restrictions in some respects. Judicial review of this action has been sought by proponents and opponents of such cable and subscription operations. There is no way to predict how the Court will act, the way any future regulation of these operations will develop, or the competitive impact these services may have on broadcasting.

*Allocation Matters*

The FCC initiated a proceeding looking into the feasibility and desirability of allocating additional VHF television stations to a substantial number of the top 100 television markets in the United States. Among the proposals it considered were those for additional allocations that could add seven VHF television signals to the Fresno market, which presently has five UHF stations, including KFSN-TV. In connection with this proceeding, the Company filed comments with the FCC opposing the proposal, and arguing that its adoption could have serious disruptive effects on the existing UHF stations and on the quality of television service available to the Fresno area audience. The FCC has now decided that additional VHF drop-ins are feasible in four markets, not including Fresno or any other market in which the Company has a television station. Accordingly, unless the decision is reconsidered or the matter appealed, there is no likelihood that VHF channels will be allocated to the Fresno market. It is not possible to predict whether petitions seeking FCC reconsideration of this decision, or judicial review of the decision, will be filed.

In addition, the FCC has initiated a proceeding looking toward providing new radio service in those parts of the country which presently do not receive primary radio service. Among the possible alternatives proposed are an increase in the power of certain radio stations operating on "clear channel" frequencies which would considerably extend their service range, or, conversely, permitting new stations to operate on these clear channel frequencies and thereby reducing the range of the clear channel stations. WJR-AM and WBAP-AM both operate on clear channels and, depending on the outcome of the proceeding, could either qualify for extension of their service range or have their service range reduced. Moreover, the Company's other radio stations could be faced with additional competition from new radio signals that might become available in their service areas as a result of FCC action in this proceeding. There is no way to predict the outcome of this proceeding or the possible consequences which FCC action might have on the Company's stations.

The FCC had initiated a proceeding looking toward increasing commercial VHF television service to the State of New Jersey, which has no VHF television stations licensed to it. Among the proposals which the FCC considered were the dropping in of a new VHF allocation, the move of an existing VHF allocation from either New York City or Philadelphia to a New Jersey community, or the creation of a dual-city licensing scheme whereby stations presently licensed to New York City or Philadelphia would also be licensed to one or more New Jersey communities. WPVI-TV, which is licensed to Philadephia, participated in this proceeding.

The FCC did not adopt any of these proposals, and instead concluded that the plans of the Philadelphia and New York City VHF licensees for future service to New Jersey would constitute a satisfactory alternative. The New Jersey Coalition for Fair Broadcasting, which participated in the proceeding before the FCC, has appealed the FCC's decision to the United States Court of Appeals for the Third Circuit, primarily on the ground that the relief granted by the FCC was inadequate. The Governor of New Jersey has intervened in this judicial proceeding on the side of the Coalition. The Company, and the licensees of other New York City and Philadelphia VHF Stations, have intervened in the proceeding on the side of the FCC. It is not possible to predict the likely outcome of this proceeding, or the possible consequences to WPVI-TV which could result from FCC adoption of any of the various alternatives described above.

*Network Proceeding*

The FCC has also initiated a proceeding investigating the acquisition and distribution of television programming by the three national television networks. Among other matters, the investigation will encompass the relationship between the networks and their program suppliers and between the networks and their affiliates—particularly as to such subjects as the degree of affiliate reliance on network programming, the opportunities of affiliates to review network programs prior to broadcast, and the nature and effects of network-station compensation plans. All six of the Company's television stations are affiliated with national television networks. It is not possible to predict the outcome of this proceeding or the effects on network-station relationships which any FCC action might have.

**Canadian Television**

The Company's television station WKBW-TV, Buffalo, New York, like other television stations near the Canadian border, derives revenue from Canadian advertisers who seek to reach the station's United States and Canadian audiences. Approximately 1% of the Company's 1976 revenues were from such Canadian advertisers.

In September 1976, Canadian legislation was made effective that would prevent Canadian advertisers from obtaining a tax deduction for the cost of advertising placed on United States television stations to reach primarily Canadian audiences. Deductions for the cost of advertising placed through contracts signed prior to the effective date of the legislation will be allowed for up to 52 weeks after the date.

In addition, the Canadian Radio-Television Commission had sought to require Canadian cable television systems that carry the signals of United States stations to delete the commercials of those stations and substitute either public service announcements or commercials supplied and sold by Canadian television stations. The Canadian Radio-Television Commission has agreed to a delay in the "further implementation" of this proposal for purposes of further study, but it has not taken any steps to withdraw previously-issued authority to certain cable systems to engage in such deletions.

Litigation concerning the commercial deletion matter, in which there had been an initial ruling adverse to the position of the Company, is still pending in the Canadian courts (see "Item 5—Legal Proceedings").

**Item 2. Summary of Operations**

The following consolidated statement of income of Capital Cities Communications, Inc. for the two years ended December 31, 1976 has been examined by Arthur Young & Company, certified public accountants, whose report with respect thereto appears elsewhere in this Form 10-K. The three years ended December 31, 1974 are not reported upon herein by certified public accountants. The consolidated statement for the two years ended December 31, 1976 should be read in conjunction with the consolidated financial statements and the notes thereto appearing elsewhere herein.

## Consolidated Statement of Income

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 1976 | 1975 | 1974 | 1973 | 1972 |
| | (in thousands of dollars, except per share data) | | | | |
| Net revenues | $212,167 | $174,886 | $138,585 | $127,498 | $118,488 |
| Operating expenses: | | | | | |
| Broadcasting and publishing | 78,809 | 71,375 | 53,590 | 48,027 | 46,067 |
| Selling, general and administrative | 53,764 | 43,458 | 35,017 | 32,031 | 31,552 |
| Depreciation | 5,731 | 5,098 | 3,212 | 2,842 | 2,750 |
| Amortization of intangible assets | 820 | 820 | 147 | 33 | 33 |
| | 139,124 | 120,751 | 91,966 | 82,933 | 80,402 |
| Operating income | 73,043 | 54,135 | 46,619 | 44,565 | 38,086 |
| Other income (expense): | | | | | |
| Interest and financing expense | (3,992) | (5,352) | (5,724) | (5,405) | (4,356) |
| Interest income | 3,167 | 2,749 | 4,119 | 2,333 | 1,310 |
| Miscellaneous, net | 432 | 470 | 231 | 43 | 553 |
| | (393) | (2,133) | (1,374) | (3,029) | (2,493) |
| Income before income taxes | 72,650 | 52,002 | 45,245 | 41,536 | 35,593 |
| Income taxes: | | | | | |
| State and local | 3,970 | 3,570 | 3,380 | 3,420 | 3,198 |
| Federal | 33,060 | 23,030 | 19,840 | 17,970 | 15,380 |
| | 37,030 | 26,600 | 23,220 | 21,390 | 18,578 |
| Net income | $ 35,620 | $ 25,402 | $ 22,025 | $ 20,146 | $ 17,015 |
| Net income per share: | | | | | |
| Common stock and common stock equivalents | $4.60 | $3.28 | $2.86 | $2.61 | $2.29 |
| Fully diluted | $4.60 | $3.28 | $2.86 | $2.61 | $2.21 |
| Dividends declared on Common Stock | $ .20 | $ .05 | — | — | — |

Shares of stock used in calculation of net income per share are as follows (000's omitted):

| | 1976 | 1975 | 1974 | 1973 | 1972 |
|---|---|---|---|---|---|
| Common stock and common stock equivalents | | | | | |
| Average common shares outstanding during the period | 7,666 | 7,508 | 7,190 | 7,124 | 6,731 |
| Average common share equivalents attributable to convertible preferred shares outstanding during the period | — | 177 | 493 | 555 | 654 |
| Average incremental common share equivalents attributable to stock options issued after May 31, 1969 | 73 | 48 | 5 | 38 | 57 |
| Total common stock and common stock equivalents | 7,739 | 7,733 | 7,688 | 7,717 | 7,442 |
| Additional incremental shares attributable to common stock options and warrants | 12 | 23 | — | 2 | 255 |
| Total number of shares assuming full dilution | 7,751 | 7,756 | 7,688 | 7,719 | 7,697 |

## Management's Discussion and Analysis of the Summary of Operations

### 1976 Compared to 1975

*Net Revenues*

All major segments of the Company contributed to an increase in net revenues in 1976 of $37,281,000 or 21%. The broadcasting division revenue increase of 20% over 1975 included a 22% gain in television revenues (caused to a great degree by an unprecedented 35% increase in revenues from national advertisers) and a 16% gain by the Company's radio stations.

Publishing revenues gained 22% over the prior year, of which 2% was accounted for by the inclusion in the consolidated financial statements of the *Citizen-Journal*, which was not consolidated in 1975. Excluding the *Citizen-Journal*, consumer newspaper advertising and circulation revenues increased 18% and 11%, respectively, resulting in an aggregate 17% growth in revenues. The advertising growth resulted from 7% more lineage and increased advertising rates, while higher subscription rates caused the circulation increase. Business and specialized publications showed a gain of 22%, based on advertising and circulation increases of 24% and 18%, respectively. Lineage was up 11%.

*Operating Expenses*

Operating expenses increased $18,373,000 or 15% in 1976 over the previous year. Broadcasting division expenses were up 13%, reflecting substantial increases in revenue related costs, together with higher programming and administrative expenses. Excluding the effect of the *Citizen-Journal*, publishing division expenses were up 14% over 1975, principally due to higher volume related production and selling expenses, significantly higher circulation promotion costs for Fairchild's business publications and the start up of *Energy User News* and a Sunday edition of the *News-Democrat*.

*Other Income and Expense*

Interest expense decreased $1,360,000 from 1975 primarily due to a $16,275,000 reduction in long-term debt during the year. Interest income increased $418,000 due to a substantially larger average short-term investment portfolio, offset by lower interest rates.

*Net Income*

Net income for 1976 increased by $10,218,000 or $1.32 per share, a gain of 40% over the previous year. Substantial profit improvement in all major segments of the Company led to an increase in operating income margins from 31% to 34%. The Company's effective income tax rate remained constant, at approximately 51%.

### 1975 Compared to 1974

*Net Revenues*

Net revenues for 1975 increased $36,301,000 or 26% over 1974. The major portion of the revenue gain is attributable to the inclusion of the operations of the *Fort Worth Star-Telegram* and WBAP-AM/KSCS-FM for the full year in 1975, compared to a less than two-month period in 1974. Revenues of these operations for the full year 1975 amounted to $33,798,000, an increase of $28,967,000 over the $4,831,000 included for the 1974 period of ownership. The balance of the revenue improvement resulted from a 7% gain in other broadcasting revenues and a 4% increase in the Company's other publishing operations, due principally to a greater demand for television time and circulation rate increases.

*Operating Expenses*

Operating expenses for 1975 rose $28,785,000 or 31% over the previous year. The largest portion of the increase in expenses, $23,111,000 (including increases in depreciation of $1,519,000 and amortization of intangibles of $673,000), resulted from the inclusion for a full year of the newspaper and radio station operations acquired in November 1974. A major part of the remaining increase results from selling and promotion cost increases of the other operations, reflecting the Company's continuing efforts to expand its broadcasting audiences and publishing readership.

*Other Income and Expense*

Net financing costs (interest expense less interest income) for 1975 increased by $998,000 over 1974. Additional net financing costs of $3,687,000 in 1975, which resulted from the 1974 acquisition of the operations of Carter Publications, Inc. ("Carter"), were partially offset by a $2,689,000 reduction in other net financing costs, due primarily to lower effective interest rates in 1975.

*Net Income*

Net income increased by $3,377,000 or $.42 per share (after an increase in the amortization of acquisition related intangibles of $673,000 or $.09 per share), a gain of 15% over 1974. $655,000 of this additional net income resulted from the Carter operations acquired in 1974, net of the related increase in net financing costs. The balance was attributable to profit gains in television and continuing publishing operations and reduced financing costs, partially offset by lower earnings of continuing radio station operations. Operating income margins, excluding the effect of the Carter acquisition, remained constant at 33% of net revenues. The Company's effective income tax rate decreased slightly due to somewhat higher investment tax credits in 1975.

**Item 3. *Properties***

The Company occupies executive offices at 24 East 51st Street in New York City under a month-to-month lease. The principal executive and editorial offices of Fairchild are located in New York City and are owned by the Company. All of Fairchild's offices in other cities are leased. All of the premises occupied by the consumer newspapers are owned by the Company.

The Company owns all its broadcast transmitter sites except those of WBAP-AM, KSCS-FM, WPAT-FM and WJR-FM, which are under lease through July 1, 2019, November 17, 1979, December 31, 1979 and June 30, 1985, respectively. Studios and offices at Buffalo, Clifton (WPAT), Providence, Fresno, Durham, Houston, Philadelphia and Los Angeles are owned and those in Albany, Fort Worth, Detroit and New Haven are leased (1).

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(1) Such leases expire on June 30, 1986, November 8, 1979, June 30, 1985 and July 31, 1979, respectively.

*Television stations owned*

| Stations and locations | Channel | Expiration date of FCC authorization | Network affiliation | Expiration date of network affiliation(1) |
|---|---|---|---|---|
| WPVI-TV, Philadelphia, Pennsylvania | 6 | Aug. 1, 1978 | ABC | Aug. 15, 1977 |
| WKBW-TV, Buffalo, New York | 7 | June 1, 1978 | ABC | July 2, 1978 |
| KTRK-TV, Houston, Texas | 13 | Aug. 1, 1977 | ABC | Apr. 2, 1977 |
| WTNH-TV, New Haven, Connecticut | 8 | Apr. 1, 1978 | ABC | Jan. 1, 1979 |
| WTVD, Durham, North Carolina | 11 | Dec. 1, 1978 | CBS | Sept. 11, 1977 |
| KFSN-TV, Fresno, California | 30 | Dec. 1, 1977 | CBS | Feb. 28, 1978 |

*Radio stations owned*

| Stations and locations | Frequency AM-Kilohertz FM-Megahertz | Power AM-Watts FM-Kilowatts | Expiration date of FCC authorization | Network affiliation(1) |
|---|---|---|---|---|
| KPOL<br>Los Angeles, California | 1540 K | 50,000 Day<br>10,000 Night | (2) | None |
| WJR<br>Detroit, Michigan | 760 K | 50,000 | Oct. 1, 1979 | NBC(3) |
| WPAT<br>Paterson, New Jersey<br>(Metropolitan New York) | 930 K | 5,000 | (2) | None |
| WBAP<br>Fort Worth, Texas | 820 K | 50,000 | Aug. 1, 1977 | NBC(4) |
| WKBW<br>Buffalo, New York | 1520 K | 50,000 | June 1, 1978 | None |
| WPRO<br>Providence, Rhode Island | 630 K | 5,000 | April 1, 1978 | None |
| WROW<br>Albany, New York | 590 K | 5,000 Day<br>1,000 Night | June 1, 1978 | CBS(5) |
| WPAT-FM<br>Paterson, New Jersey<br>(Metropolitan New York) | 93.1 M | 12.6 | June 1, 1978 | None |
| WJR-FM<br>Detroit, Michigan | 96.3 M | 50 | Oct. 1, 1979 | None(6) |
| KSCS-FM<br>Fort Worth, Texas | 96.3 M | 100 | Aug. 1, 1977 | None(6) |
| WPRO-FM<br>Providence, Rhode Island | 92.3 M | 15 | (7) | None |
| WROW-FM<br>Albany, New York | 95.5 M | 9.4 | June 1, 1978 | None(6) |
| KPOL-FM<br>Los Angeles, California | 93.9 M | 100 | Dec. 1, 1977 | None |

(1) Although FCC regulations prevent network contracts from having terms of more than two years, such regulations permit successive renewals which are routinely granted.

(2) Regular renewal of these licenses have been delayed pending satisfactory completion of changes to the stations' technical facilities.

(3) Affiliation agreement expires December 29, 1977.

(4) Affiliation agreement expires January 1, 1979.

(5) Affiliation agreement expires December 30, 1978.

(6) CBS and NBC permit an FM station to duplicate programming covered under agreement with an associated AM station.

(7) Regular renewal of this license has been delayed pending FCC resolution of a dispute concerning interference to a television station, allegedly caused by a power increase granted to WPRO-FM in 1972.

**Item 4.** ***Parents and Subsidiaries***

Subsidiaries 100% owned by the Registrant at December 31, 1976 and included in the consolidated *financial statements:*

| | State of incorporation |
|---|---|
| Capital Cities Media, Inc. | New York |
| Oakland Press Company | Michigan |

**Item 5.** ***Legal Proceedings***

Litigation to which the Company is a party, concerning the commercial deletion matter referred to in "Item 1—Business—Canadian Television", is pending in the Canadian courts. That litigation includes suits against a Toronto cable company which has engaged in deletion of some commercials on the channels of WKBW-TV and two other Buffalo television stations, as well as an appeal from an order of the Canadian Radio-Television Commission which authorized the deletion. In the latter case, Canada's Federal Court of Appeal ruled in favor of the Canadian Radio-Television Commission and against the position of the Company, and the case is now pending in the Supreme Court of Canada.

**Item 6.** ***Increases and Decreases in Outstanding Securities***

| | Common stock, $1.00 par value (number of shares) | | |
|---|---|---|---|
| | Issued | Treasury | Outstanding |
| Balance at December 31, 1975 | 7,686,737 | — | 7,686,737 |
| Transactions on various dates during the year: | | | |
| Purchase of treasury stock | | 281,800 | (281,800) |
| Exercise of employee stock options: | | | |
| Issuance of authorized shares | 10,011 | | 10,011 |
| Issuance of treasury shares | | (1,100) | 1,100 |
| Balance at December 31, 1976 | 7,696,748 | 280,700 | 7,416,048 |

**Item 7.** ***Number of Equity Security Holders***

| Title of class | Number of record holders as of December 31, 1976 |
|---|---|
| Common stock, $1.00 par value | 2,351 |

**Item 8.** ***Executive Officers of the Registrant***

| Name | Age | Director since | Officer since | Title |
|---|---|---|---|---|
| Thomas S. Murphy | 51 | 1957 | 1958 | Chairman of the Board of Directors (Chief Executive Officer) |
| Daniel B. Burke | 48 | 1967 | 1962 | President and Director (Chief Operating Officer) |
| Joseph P. Dougherty | 52 | 1967 | 1959 | Executive Vice President, President of Broadcasting Division and Director |
| John B. Fairchild | 49 | 1968 | 1968 | Executive Vice President, Chairman of the Board of Fairchild Publications and Director |
| John B. Sias | 50 | | 1975 | Executive Vice President, President of Publishing Division |
| John E. Shuff, Jr. | 36 | | 1977 | Vice President (Chief Financial Officer) |

| Name | Age | Director since | Officer since | Title |
|---|---|---|---|---|
| Ronald J. Doerfler ........................ | 35 | | 1977 | Treasurer |
| Gerald Dickler .............................. | 64 | 1954 | 1954 | Secretary and Director |
| Robert W. Gelles ........................... | 53 | | 1963 | Controller, Assistant Secretary and Assistant Treasurer |

Messrs. Murphy, Burke, Dougherty, Fairchild, Sias, Shuff, Doerfler and Gelles have all been actively associated with the Company for more than five years and such association has been their principal occupation. Mr. Dickler has been actively associated with the Company for more than five years and has concurrently been actively engaged in the practice of law as a partner in the law firm of Hall, Dickler, Lawler, Kent & Howley, general counsel for the Company.

**Item 9.** ***Indemnification of Directors and Officers***

No provision is made for the indemnification of directors or officers of the Company in its certificate of incorporation or bylaws or any contracts or policies of insurance. However, the Business Corporation Law of the State of New York does provide generally for indemnification against judgments, fines, amounts paid in settlement and reasonable expenses where the director or officer was acting on behalf of the Company, in its best interests, and had no reasonable cause to believe that his conduct was unlawful.

**Item 10.** ***Financial Statements and Exhibits***

**(a) Financial statements**

The financial statements listed in the accompanying index are filed as part of this annual report.

**(b) Exhibits**

None.

## Part II

**Items 11. to 15., Inclusive**

Registrant will file with the Commission not later than 120 days after the close of the fiscal year a definitive proxy statement pursuant to Regulation 14A involving the election of directors. Accordingly, the information required in Items 11. to 15., inclusive, which will be set forth in the proxy statement, is not included herein.

### SIGNATURE

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

CAPITAL CITIES COMMUNICATIONS, INC.
**(Registrant)**

Robert W. Gelles

By ROBERT W. GELLES
**Controller (Acting Chief Financial Officer)**

Dated: March 25, 1977

## CAPITAL CITIES COMMUNICATIONS, INC.
## AND SUBSIDIARIES

## INDEX TO FINANCIAL STATEMENTS
## COVERED BY REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

**(Item 10(a))**



All other schedules have been omitted since the required information is not present or is not present in amounts sufficient to require submission of the schedule, or because the information required is included in the consolidated financial statements, including the notes thereto.

Financial statements and schedules of Capital Cities Communications, Inc. (not consolidated) are omitted since the Company is primarily an operating company, and all subsidiaries included in the consolidated financial statements are wholly-owned subsidiaries and have no outstanding debt.

## REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

The Board of Directors
CAPITAL CITIES COMMUNICATIONS, INC.

We have examined the consolidated financial statements of Capital Cities Communications, Inc. listed in the accompanying index to financial statements. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements listed in the accompanying index to financial statements present fairly the consolidated financial position of Capital Cities Communications, Inc. at December 31, 1976 and 1975 and the consolidated results of operations and changes in financial position for the two years ended December 31, 1976, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

Arthur Young & Company
ARTHUR YOUNG & COMPANY

New York, New York
February 28, 1977

## CAPITAL CITIES COMMUNICATIONS, INC.

**CONSOLIDATED BALANCE SHEET**
**(Thousands of Dollars)**

| | December 31, 1976 | December 31, 1975 |
|---|---|---|
| **ASSETS** | | |
| Current Assets | | |
| Cash | $ 5,015 | $ 4,049 |
| Short-term cash investments | 52,296 | 43,676 |
| Accounts and notes receivable (less allowance for doubtful accounts of $1,751 in 1976 and $1,296 in 1975) (Schedule XII) | 30,947 | 27,637 |
| Film contract rights | 3,313 | 3,579 |
| Prepaid expenses | 4,393 | 3,691 |
| Total current assets | 95,964 | 82,632 |
| Property, Plant and Equipment, at cost (Schedules V and VI) | | |
| Land and land improvements | 8,984 | 8,587 |
| Buildings | 23,853 | 22,681 |
| Broadcasting, printing and other equipment | 52,194 | 50,200 |
| | 85,031 | 81,468 |
| Less accumulated depreciation | 34,297 | 30,573 |
| Property, plant and equipment, net | 50,734 | 50,895 |
| Intangible Assets (net of accumulated amortization of $1,853 in 1976 and $1,033 in 1975) (Schedule VII) | 164,520 | 159,593 |
| Marketable Equity Securities (Note 5) | 7,147 | 6,971 |
| Notes Receivable and Other Investments, at cost | 7,936 | 11,363 |
| Film Contract Rights | 2,221 | 3,674 |
| | $328,522 | $315,128 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| Current Liabilities | | |
| Accounts payable | $ 4,659 | $ 4,920 |
| Accrued compensation | 3,531 | 2,756 |
| Accrued expenses | 7,710 | 5,622 |
| Film contracts | 3,828 | 3,944 |
| Taxes on income | 21,903 | 14,568 |
| Notes payable due within one year | 16,275 | 16,275 |
| Total current liabilities | 57,906 | 48,085 |
| Deferred Compensation | 1,420 | 1,179 |
| Deferred Income Taxes (Note 4) | 8,436 | 8,011 |
| Unearned Subscription Revenue | 6,859 | 5,476 |
| Film Contracts | 2,271 | 4,052 |
| Notes Payable Due After One Year (Note 6) | 43,129 | 59,404 |
| Total liabilities | 120,021 | 126,207 |
| Stockholders' Equity (Note 7) | | |
| Convertible preferred stock, $1 par value (600,000 shares authorized) | | |
| Common stock, $1 par value (20,000,000 shares authorized) | 7,697 | 7,687 |
| Additional paid-in capital | 8,597 | 8,320 |
| Retained earnings | 207,010 | 172,914 |
| | 223,304 | 188,921 |
| Less common stock in treasury, at cost (280,700 shares) | 14,803 | — |
| Total stockholders' equity | 208,501 | 188,921 |
| | $328,522 | $315,128 |

See accompanying notes

## CAPITAL CITIES COMMUNICATIONS, INC.

### CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

*(Thousands of Dollars)*

| | Year Ended December 31, 1976 | 1975 |
|---|---|---|
| Funds Provided | | |
| Operations | | |
| Net income | $35,620 | $25,402 |
| Depreciation and amortization | 6,551 | 5,918 |
| Other non-cash expense | 1,138 | 778 |
| Total from operations | 43,309 | 32,098 |
| Common stock issued under stock options (Note 7) | 299 | 72 |
| Decrease in notes receivable | 1,531 | — |
| Increase in unearned subscription revenue | 1,383 | 690 |
| | 46,522 | 32,860 |
| Funds Applied | | |
| Acquisition of publishing properties (Note 2) | 6,099 | — |
| Purchase of common stock for treasury | 14,858 | — |
| Additions to fixed assets | 4,049 | 5,546 |
| Reduction of long-term notes payable (Note 6) | 16,275 | 16,275 |
| Dividends | 1,524 | 413 |
| Other, net | 206 | (57) |
| | 43,011 | 22,177 |
| Increase in Working Capital | $ 3,511 | $10,683 |
| Working Capital Changes—increase (decrease) | | |
| Cash and short-term cash investments | $ 9,586 | $14,980 |
| Accounts and notes receivable | 3,310 | 753 |
| Other current assets | 436 | (1,108) |
| Taxes on income | (7,335) | 278 |
| Notes payable due within one year | — | (4,612) |
| Other current liabilities | (2,486) | 392 |
| Increase in Working Capital | $ 3,511 | $10,683 |

*See accompanying notes*

# CAPITAL CITIES COMMUNICATIONS, INC.

## CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(Thousands of Dollars)

### Years Ended December 31, 1976 and 1975

| | Preferred Stock | Common Stock | Additional Paid-in Capital | Retained Earnings | Treasury Stock | Total |
|---|---|---|---|---|---|---|
| Balance at January 1, 1975 | $238 | $7,208 | $8,489 | $147,925 | $ — | $163,860 |
| Net income for 1975 | — | — | — | 25,402 | — | 25,402 |
| 2,750 shares of common stock issued on exercise of employee stock options | — | 3 | 69 | — | — | 72 |
| 475,824 shares of common stock issued on conversion of preferred stock | (238) | 476 | (238) | — | — | — |
| Cash dividends | | | | | | |
| Preferred stock | — | — | — | (29) | — | (29) |
| Common stock ($.05 per share) | — | — | — | (384) | — | (384) |
| Balance at December 31, 1975 | — | 7,687 | 8,320 | 172,914 | — | 188,921 |
| Net income for 1976 | — | — | — | 35,620 | — | 35,620 |
| 281,800 shares of common stock purchased for treasury | — | — | — | — | (14,858) | (14,858) |
| *Exercise of employee stock options* | | | | | | |
| 10,011 shares of common stock issued | — | 10 | 304 | — | — | 314 |
| 1,100 shares of common stock issued from treasury | — | — | (27) | — | 55 | 28 |
| Cash dividends ($.20 per share) | — | — | — | (1,524) | — | (1,524) |
| *Balance at December 31, 1976* | $ — | $7,697 | $8,597 | $207,010 | $(14,803) | $208,501 |

See accompanying notes

# CAPITAL CITIES COMMUNICATIONS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 1. Accounting Policies

*Principles of Consolidation*—The consolidated financial statements include the accounts of all significant subsidiaries.

*Property, Plant and Equipment-Depreciation*—Depreciation has generally been computed on the straight-line method for financial accounting purposes and on accelerated methods (declining balance at 150% and 200% of straight-line rates) for tax purposes. Estimated useful lives are as follows:

| | Years |
|---|---|
| Land improvements | 5-20 |
| Buildings | 10-50 |
| Broadcasting equipment | 4-20 |
| Printing machinery and equipment | 5-20 |
| Program tapes and records | 10 |
| Furniture and fixtures | 8-20 |
| Automotive equipment | 3-5 |

Leaseholds and improvements are amortized over the terms of the leases. Maintenance and repairs are charged to income as incurred and expenditures for renewals and betterments are capitalized.

The cost of property retired or otherwise disposed of and the accumulated depreciation thereon are eliminated from the property and related accumulated depreciation accounts; the resulting gain or loss is reflected in income.

*Intangible Assets*—Intangible assets consist of amounts by which the cost of acquisitions exceeded the values assigned to net tangible assets. In the opinion of management there has been no diminution of value of the related properties. However, certain intangible assets are being amortized over forty-year periods in accordance with *Accounting Principles Board Opinion No. 17.* Intangible assets of $127,799,000, arising from earlier purchases, are not being amortized.

*Marketable Equity Securities*—Marketable equity securities are carried at the lower of cost or aggregate market value. Any unrealized decline in aggregate market value below cost would be charged to stockholders' equity.

*Film Contract Rights*—Film contract rights and the related liabilities are recorded at full contract prices when available for use. The costs are charged to income on accelerated bases related to the terms of the contracts or the usage of the films. Payments on film contracts are due in varying amounts through 1981.

*Unearned Subscription Revenue*—Subscription revenue is recorded as earned over the life of the subscriptions. Costs in connection with the procurement of subscriptions are charged to expense as incurred.

*Investment Tax Credit*—The investment tax credit is taken into income currently as a reduction of the provision for Federal income taxes.

### 2. Acquisitions

*Purchase—1976*—On December 13, 1976, the Company acquired a group of six medical publications for a cash payment of $6,500,000. An additional payment, not to exceed $2,250,000, may be payable to the sellers depending upon earnings of the purchased properties during the five-year period ending December 31, 1981. The consolidated financial statements include the accounts of these properties for the period of ownership.

*Purchase—1977*—On February 15, 1977, the Company acquired all of the outstanding stock of The Kansas City Star Company for an aggregate consideration of $125,002,000, consisting of a cash payment of $114,752,000 and $10,250,000 in 6¼% notes, payable in three equal annual installments with the final payment due February 15, 1980. The acquisition will be accounted for as a purchase, with the results of operations of Star to be included in the consolidated results of the Company for periods subsequent to the date of acquisition.

The Company obtained a $72,000,000 term bank loan on February 15, 1977, payable in 26 equal quarterly installments of $2,700,000 each, commencing August 15, 1978 and a final installment of $1,800,000 on February 15, 1985, with interest at 8.2% per annum. Under terms of the loan agreement the Company is restricted from paying cash dividends exceeding, in the aggregate, 33⅓% of consolidated income before extraordinary gains from January 1, 1977. The Company must also maintain certain minimum working capital ratios and stockholders' equity of at least $200,000,000.

Star is principally engaged in the business of publishing daily newspapers in Kansas City, Missouri, *The Kansas City Times* (morning) and *The Kansas City Star* (evening and Sunday). Star is also engaged in the manufacture and sale of fine papers through its wholly-owned subsidiary, Flambeau Paper Company and in the distribution of paper and paper products through its 91%-owned subsidiary, Graham Paper Company. Unaudited consolidated revenues and net income of The Kansas City Star Company for the nine months ended September 30, 1976 were $135,528,000 and $4,269,000, respectively.

3. Employees' Profit-Sharing and Pension Plans

The Company has a qualified profit-sharing plan for certain employees. The plan provides for contributions by the Company in such amounts as the Board of Directors may annually determine. Such contributions charged to expense in 1976 and 1975 were $1,753,000 and $1,163,000, respectively. Other employees of the Company and its subsidiaries, not covered by the profit-sharing plan, are covered by pension plans. In connection with these plans, contributions of $622,000 and $512,000 were charged to expense in 1976 and 1975, respectively. Provision is made for normal cost and amortization of prior service cost over a period of 30 years. The market value of the pension funds is in excess of the actuarially computed value of vested benefits. At the latest valuation date, January 1, 1976, unfunded past service costs aggregated $1,500,000.

4. Income Taxes

Pursuant to Section 1071 of the Internal Revenue Code, the Federal Communications Commission issued a tax certificate to the Company in connection with the 1971 sale of television station WTEN, Albany, New York, deferring taxes of approximately $5,125,000 until disposition of the replacement television station. Deferred income taxes result primarily from this and from the excess of tax over financial accounting depreciation. The Company's effective Federal income tax rates (Federal income tax expense divided by income before income taxes less state and local income taxes) did not vary materially from the statutory rate in 1976 and 1975.

5. Marketable Equity Securities

Marketable equity securities were carried at an aggregate cost of $7,147,000 and $6,971,000 and had an aggregate market value of $11,758,000 and $8,569,000 at December 31, 1976 and 1975, respectively. At December 31, 1976 there were aggregate unrealized gains of $4,667,000 and unrealized losses of $56,000.

## 6. Notes Payable

Notes payable at December 31, 1976 are due as follows (000's omitted):

| | Total | To Triangle Financial, Inc. | To former Carter shareholders |
|---|---|---|---|
| Payable during: | | | |
| 1977 (current year) | $16,275 | $10,125 | $ 6,150 |
| 1978 | 16,275 | 10,125 | 6,150 |
| 1979 | 12,492 | 6,342 | 6,150 |
| 1980 | 6,150 | | 6,150 |
| 1981 | 5,512 | | 5,512 |
| 1982 | 2,700 | | 2,700 |
| | $59,404 | $26,592 | $32,812 |
| Date of final payment | | Jan. 5, 1979 | Aug. 1, 1982 |

The Triangle notes payable relate to the purchase of broadcasting properties and bear interest at prime rate (6¼% at year end) or 5%, whichever is higher. The Carter notes payable relate to the purchase of newspaper and radio broadcasting properties and bear interest at 6%. At December 31, 1976, broadcasting licenses and other intangibles with net book values of approximately $111,000,000 and fixed assets and other assets with net book values of approximately $46,000,000 were pledged as collateral under agreements related to the Triangle and Carter notes.

## 7. Stock Options

The Company has stock option plans under which certain key personnel have been given the right to purchase shares of common stock over an eleven-year period from the date of grant at prices equal to market value on the grant date. Each option is cumulatively exercisable as to 25% of the total shares represented thereby for each of the first four years after grant, provided that the individual remains in the employ of the Company.

The following information pertains to the Company's stock option plans:

| | Shares available for grant | Options granted | | | Market value at date of grant and when exercised(a) | |
|---|---|---|---|---|---|---|
| | | Option price | | Number of shares | | |
| | | Per share | In total | | Per share | In total |
| Balance January 1, 1975 | 24,200 | $18.25 to $36.13 | $7,435,391 | 223,495 | $18.25 to $36.13 | $7,435,391 |
| Authorized | 25,000 | | | — | | |
| Granted | (31,450) | $25.50 to $38.19 | | 31,450 | | |
| Cancelled | 1,700 | $24.75 to $36.13 | | (7,350) | | |
| Exercised | — | $21.38 to $28.75 | 71,469 | (2,750) | $36.25 to $40.75 | 107,531 |
| Balance December 31, 1975 | 19,450 | $18.25 to $38.19(c) | 7,245,050 | 244,845(b) | $18.25 to $38.19 | 8,137,047 |
| Authorized | 40,000 | | | — | | |
| Granted | (37,350) | $46.88 to $51.06 | | 37,350 | | |
| Cancelled | 4,788 | $25.00 to $38.19 | | (8,538) | | |
| Exercised | — | $18.25 to $30.25 | 299,156 | (11,111) | $46.88 to $54.75 | 558,130 |
| Balance December 31, 1976 | 26,888 | $18.25 to $51.06 | 8,503,528 | 262,546(b) | $18.25 to $51.06 | 9,280,391 |

(a) The proceeds received by the Company from exercise of options are credited directly to stockholders' equity. No charges have been made against income in accounting for the options, except as described in (c) below.

(b) At December 31, 1976 and 1975, options were exercisable for 128,495 and 93,759 shares, respectively.

(c) On approval of stockholders in 1975, stock options for 95,275 shares with exercise prices of $36.13, as modified, were further modified to permit exercise at $25.00 for a term of eleven years from the 1975 modification date. As a result of this modification $184,000 and $187,000 were charged to income in 1976 and 1975, respectively.

(d) Information as to options which became exercisable was as follows:

| | Number of shares | Option price | | Market value at date options became exercisable | |
|---|---|---|---|---|---|
| | | Per share | In total | Per share | In total |
| Year ended December 31, | | | | | |
| 1975 | 14,687 | $18.25 to $36.13 | $ 504,726 | $30.69 to $41.44 | $ 519,743 |
| 1976 | 45,642 | $18.25 to $38.19 | $1,363,650 | $49.19 to $53.38 | $2,299,362 |

## 8. Quarterly Financial Data (Unaudited)

1976 quarterly results are as follows (000's omitted):

| | Net revenues | Operating income | Net income | Net income per share |
|---|---|---|---|---|
| First quarter | $ 46,207 | $14,472 | $ 6,848 | $ .88 |
| Second quarter | 56,220 | 21,761 | 10,723 | 1.38 |
| Third quarter | 51,448 | 15,623 | 7,667 | .99 |
| Fourth quarter | 58,292 | 21,187 | 10,382 | 1.35 |
| Year | $212,167 | $73,043 | $ 35,620 | $4.60 |

## CAPITAL CITIES COMMUNICATIONS, INC. AND SUBSIDIARIES

### SCHEDULE V—PROPERTY, PLANT AND EQUIPMENT

| | Balance at beginning of period | | | | | |
|---|---|---|---|---|---|---|
| | As previously reported | Citizen-Journal(A) | Additions at cost(B) | Retirements or sales | Other changes—reclassification | Balance at close of period |
| Year ended December 31, 1976: | | | | | | |
| Land and land improvements | $ 8,586,569 | $ 156,540 | $ 393,160 | $ (150,000) | $ (2,343) | $ 8,983,926 |
| Buildings | 22,681,350 | 889,748 | 297,334 | (18,228) | 2,343 | 23,852,547 |
| Broadcasting equipment | 24,791,874 | — | 1,761,116 | (905,116) | (6,000) | 25,641,874 |
| Printing machinery and equipment | 17,468,864 | 1,254,794 | 994,553 | (440,995) | 58,475 | 19,335,691 |
| Program tapes, records and libraries | 2,005,108 | — | 820 | (1,371,628) | 1,171 | 635,471 |
| Furniture and fixtures | 4,076,758 | 76,963 | 307,012 | (103,456) | (56,646) | 4,300,631 |
| Automotive equipment | 477,584 | 17,731 | 308,186 | (133,904) | 3,000 | 672,597 |
| Leaseholds and leasehold improvements | 1,056,940 | — | 8,913 | (91,662) | — | 974,191 |
| Construction in progress | 322,785 | — | 311,689 | — | — | 634,474 |
| | $81,467,832 | $2,395,776 | $4,382,783 | $(3,214,989) | $ — | $85,031,402 |
| Year ended December 31, 1975: | | | | | | |
| Land and land improvements | $ 8,512,794 | | $ 101,850 | $ (28,075) | $ — | $ 8,586,569 |
| Buildings | 21,607,218 | | 929,983 | (176,500) | 320,649 | 22,681,350 |
| Broadcasting equipment | 22,580,765 | | 2,535,887 | (324,778) | — | 24,791,874 |
| Printing machinery and equipment | 16,257,920 | | 1,528,340 | (317,396) | — | 17,468,864 |
| Program tapes, records and libraries | 2,008,152 | | — | (3,044) | — | 2,005,108 |
| Furniture and fixtures | 3,804,569 | | 285,679 | (13,490) | — | 4,076,758 |
| Automotive equipment | 374,424 | | 142,786 | (39,626) | — | 477,584 |
| Leaseholds and leasehold improvements | 1,360,212 | | 23,987 | (6,610) | (320,649) | 1,056,940 |
| Construction in progress | 325,374 | | (2,589) | — | — | 322,785 |
| | $76,831,428 | | $5,545,923 | $ (909,519) | $ — | $81,467,832 |

(A) The *Citizen-Journal* was acquired in 1974 as a part of Carter Publications, Inc. but was not included in the Consolidated Financial Statements prior to January 1, 1976.

(B) Includes assets of $333,900 related to medical publications acquired on December 13, 1976. See Note 2 to Consolidated Financial Statements.

## CAPITAL CITIES COMMUNICATIONS, INC. AND SUBSIDIARIES

### SCHEDULE VI—ACCUMULATED DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT

| | Balance at beginning of period | | | | | |
|---|---|---|---|---|---|---|
| | As previously reported | Citizen-Journal(A) | Charged to income | Retirements, renewals and replacements | Other changes—reclassification | Balance at close of period |
| Year ended December 31, 1976: | | | | | | |
| Land improvements | $ 276,718 | $ — | $ 46,103 | $ (59) | $ — | $ 322,762 |
| Buildings | 6,260,877 | 111,524 | 760,532 | (14,559) | — | 7,118,374 |
| Broadcasting equipment | 14,590,455 | — | 2,378,190 | (805,082) | (134) | 16,163,429 |
| Printing machinery and equipment | 4,314,132 | 368,579 | 1,917,222 | (78,361) | 40,081 | 6,561,653 |
| Program tapes, records and libraries | 1,577,559 | — | 80,353 | (1,372,634) | 134 | 285,412 |
| Furniture and fixtures | 2,503,491 | 43,577 | 322,589 | (96,689) | (40,081) | 2,732,887 |
| Automotive equipment | 200,444 | 14,446 | 164,360 | (85,859) | — | 293,391 |
| Leaseholds and leasehold improvements | 849,205 | — | 61,396 | (91,662) | — | 818,939 |
| | $30,572,881 | $538,126 | $5,730,745 | $(2,544,905) | $ — | $34,296,847 |
| Year ended December 31, 1975: | | | | | | |
| Land improvements | $ 236,003 | | $ 40,715 | $ — | $ — | $ 276,718 |
| Buildings | 5,478,161 | | 669,993 | (85,659) | 198,382 | 6,260,877 |
| Broadcasting equipment | 12,688,005 | | 2,185,376 | (282,926) | — | 14,590,455 |
| Printing machinery and equipment | 2,878,150 | | 1,592,461 | (156,479) | — | 4,314,132 |
| Program tapes, records and libraries | 1,496,842 | | 83,760 | (3,043) | — | 1,577,559 |
| Furniture and fixtures | 2,202,540 | | 310,314 | (9,363) | — | 2,503,491 |
| Automotive equipment | 110,398 | | 125,079 | (35,033) | — | 200,444 |
| Leaseholds and leasehold improvements | 961,326 | | 90,362 | (4,101) | (198,382) | 849,205 |
| | $26,051,425 | | $5,098,060 | $ (576,604) | $ — | $30,572,881 |

(A) The *Citizen-Journal* was acquired in 1974 as a part of Carter Publications, Inc. but was not included in the Consolidated Financial Statements prior to January 1, 1976.

# CAPITAL CITIES COMMUNICATIONS, INC. AND SUBSIDIARIES

## SCHEDULE VII—INTANGIBLE ASSETS

(Thousands of Dollars)

| | Balance at beginning of period | Additions at cost | Deductions charged to income | Balance at close of period |
|---|---|---|---|---|
| Excess of cost over net tangible assets of businesses acquired: | | | | |
| Year ended December 31, 1976 | $159,593 | $5,747(A) | $(820) | $164,520 |
| Year ended December 31, 1975 | $160,396 | $ 17 | $(820) | $159,593 |

(A) Acquisition of medical publications on December 13, 1976. See Note 2 to Consolidated Financial Statements.

## CAPITAL CITIES COMMUNICATIONS, INC. AND SUBSIDIARIES

### SCHEDULE XII—ALLOWANCE FOR DOUBTFUL ACCOUNTS

| | Balance at beginning of period | Charged to income | Deductions from reserves(A) | Balance at close of period |
|---|---|---|---|---|
| *Deducted from accounts and notes receivable:* | | | | |
| Year ended December 31, 1976 .......... | $1,296,149 | $1,190,603 | $ (735,435) | $1,751,317 |
| Year ended December 31, 1975 .......... | $1,193,857 | $1,143,031 | $(1,040,739) | $1,296,149 |

(A) Accounts written-off, net

# CAPITAL CITIES COMMUNICATIONS, INC. AND SUBSIDIARIES

## SCHEDULE XVI—SUPPLEMENTARY PROFIT AND LOSS INFORMATION

(Thousands of Dollars)

| | Year ended December 31, | |
|---|---|---|
| | 1976 | 1975 |
| Maintenance and repairs | $1,568 | $1,311 |
| Depreciation of property, plant and equipment | 5,731 | 5,098 |
| Amortization of intangible assets | 820 | 820 |
| Taxes other than income taxes: | | |
| Payroll taxes | 2,643 | 2,341 |
| Real estate and other local taxes | 1,930 | 1,505 |
| Rents | 762 | 740 |
| Royalties | 2,092 | 1,817 |
| Advertising costs | 2,234 | 1,862 |



END