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CAPITAL CITIES COMMUNICATIONS INC 10-K

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CARD 1 DISCLOSURE INC BETHESDA MARYLAND 20014 FOR 12/31/77

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
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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

RECEIVED APR 07 1978

SECURITIES AND EXCHANGE COMMISSION FEE RECEIVED MAR 31 1978 OFFICE OF REGISTRATIONS & REPORTS

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, 1977 | **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.)**
485 Madison Avenue, 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, 1977): 7,105,867 shares, excluding 590,881 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 3,570 employees engaged in its publishing operations and 1,020 engaged in broadcasting.

Information as to Lines of Business

The Company derives all broadcasting revenues and more than 80% of publishing revenues from the sale of advertising. Subscription and other circulation receipts from publishing constitute the only other material source of revenue. See the Ten Year Financial Summary on pages 12 and 13 of the Annual Report to Stockholders for the year ended December 31, 1977, for net revenues and operating income by lines of business for the five years ended December 31, 1977, incorporated herein by reference.

Publishing

At December 31, 1977, the Company was publishing eighteen business and specialized publications and six consumer newspapers. Following is a summary by type of publication of inches or pages of advertising, advertising revenue and circulation revenue for the last five years (000's omitted):

	Actual					Pro Forma(a)	
	1977	1976	1975	1974	1973	1977	1976
Inches or pages of Advertising							
Consumer newspapers (inches)(b)	12,048	8,054	6,927	2,907	2,243	12,447	11,668
Specialized newspapers (inches)	1,488	1,366	1,231	1,381	1,387	1,488	1,366
Specialized magazines (pages)	5	2	2	2	2	5	5
Advertising revenue							
Consumer newspapers(c)	$102,643	$42,493	$34,618	$12,797	$ 9,095	$108,635	$96,473
Specialized newspapers	45,785	39,666	30,084	32,786	29,491	45,785	39,666
Specialized magazines	10,320	3,514	2,757	2,948	2,923	10,320	9,102
Circulation revenue							
Consumer newspapers	$ 18,761	$ 9,592	$ 8,568	$ 3,258	$ 2,289	$ 20,007	$19,034
Specialized publications	10,985	9,339	7,893	6,578	6,094	10,985	9,339

(a) Includes *Kansas City Star/Times* and International Medical News Group publications for the twelve months of 1977 and 1976.

(b) Does not include linage for inserts.

(c) Includes net revenue from inserts.

Specialized Publications

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	67,000
Daily News Record	Daily	27,000
American Metal Market	Daily	15,000
HFD—Retailing Home Furnishings	Weekly	40,000
Energy User News	Weekly	18,000
Footwear News	Weekly	25,000
Supermarket News	Weekly	57,000
Electronic News	Weekly	71,000
Metalworking News	Weekly	35,000
W	Bi-Weekly	186,000
Magazines		
Men's Wear	Bi-Weekly	27,000
Metal/Center News	Monthly	12,000
International Medical News Group*		
Family Practice News	Semi-Monthly	67,000
Internal Medicine News	Semi-Monthly	57,000
Ob. Gyn. News	Semi-Monthly	25,000
Pediatric News	Monthly	24,000
Clinical Psychiatry News	Monthly	25,000
Skin & Allergy News	Monthly	25,000

* Controlled circulation medical publications purchased in December 1976, which are distributed throughout the nation primarily to physicians.

Consumer Newspapers

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 and Sunday circulation of approximately 32,000.

The *Fort Worth Star-Telegram*, with a combined morning and evening circulation of 229,000 and a Sunday circulation of 231,000, 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 $125,002,000. Star publishes *The Kansas City Times*, a morning newspaper with a circulation of approximately 321,000, and *The Kansas City Star*, with circulation of approximately 293,000 in the evening and 397,000 on Sunday. See Note 2 to Consolidated Financial Statements of the Company's Annual Report to Stockholders for the year ended December 31, 1977 for additional information including a description of non-publishing properties 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 and other paper stock for the Fairchild publications is mostly 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
Kansas City Star/Times	9	27%
Fort Worth Star-Telegram	5	45%
The Oakland Press	3	42%
News-Democrat	4	54%
Citizen-Journal	4	51%

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 (particularly during nighttime hours) 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.

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.

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, petitions to deny are pending against the renewal applications of KTRK-TV, KPOL (AM & FM) and KFSN-TV. In each case, the petitioners make allegations regarding the station's employment and programming practices. The Company has filed oppositions to each petition contending that none raises any question which would warrant a hearing on the renewal application.

Regular renewal of the licenses of two other 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 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. Moreover, renewal of the license of KPOL-AM has also been delayed pending completion of technical changes to its facilities. 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 had the effect of requiring the FCC to order the divestiture of existing commonly owned broadcast/newspaper combinations serving the same markets, and would have appeared to require the FCC to order the Company to break up the broadcast/newspaper combinations described above. The Court's decision was appealed to the Supreme Court, which has heard the case, and the matter is now pending before that Court. The Company cannot predict whether the Supreme Court will affirm, reverse or modify the decision of the Court of Appeals. Nor can it predict the events or consequences that will follow from any particular Supreme Court decision.

The FCC has now adopted a rule prohibiting acquisitions that would result in common ownership of three broadcast stations, any two of which are licensed in cities within 100 miles of the third, if the service contours of the stations (as defined by the FCC) overlap. For purposes of this rule, commonly owned AM and FM stations licensed in cities no more than 15 miles apart are treated as one entity. Moreover, combinations otherwise covered by the rule that include UHF television stations are not prohibited, but will be considered by the FCC on a case-by-case basis. The Company's broadcast interests are consistent with the rule, but the rule could affect subsequent acquisitions.

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 restricting the extent to which such subscription television operations or cable operations may provide programming of a sports, feature film or entertainment series nature have been eliminated by the FCC as the result of a court decision. The Company cannot predict the future competitive impact of such subscription services.

The Commission recently considered the need for a rule which would limit or prohibit television stations and television networks from obtaining exclusive rights as against the exhibition of feature films by others during periods when such films are contractually available for broadcast by the stations or networks. The Commission concluded that there was no need to adopt rules going beyond the limitations currently appearing in its rules. Several companies engaged in the pay cable business have sought review of the Commission's refusal to adopt new restrictions in the United States Court of Appeals. The Company cannot predict how that proceeding may be resolved or the impact, if any, that would result from a court decision leading to the FCC's adoption of rules preventing television stations from obtaining the exclusive rights to broadcast feature films as against pay cable operations in their service areas during the times when the films are licensed to them.

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. If the FCC's decision is not reconsidered or overturned by a reviewing court, there will be no likelihood of a VHF drop-in in the Company's markets. It is not possible to predict what action the FCC may take on the petitions seeking reconsideration of its action that have been filed, or whether appeals from any FCC action on reconsideration will be taken.

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 also initiated a proceeding looking toward increasing commercial VHF television service to the State of New Jersey, which has no commercial VHF television stations licensed to communities within 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 enhanced 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 and in violation of the Communications Act. 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. The case has been argued before the Court, and the matter is pending. It is not possible to predict the likely outcome of this proceeding, or the possible consequences to WPVI-TV which could result from a Court decision leading to 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 encompasses 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.

* * * * *

Investigations, hearings and studies are periodically conducted by Congressional committees and by the FCC and other government agencies with respect to problems and practices of, and conditions in, the broadcasting industry. The Company cannot predict whether new legislation or regulations may result from any such studies or hearings or the adverse impact, if any, upon the Company's operations which might result therefrom.

The information contained under this heading does not purport to be a complete summary of all the provisions of the Communications Act and the rules and regulations of the FCC thereunder or of pending proposals for other regulation of broadcasting and related activities. For a complete statement of such provisions, reference is made to the Communications Act, to such rules and regulations and to such pending proposals.

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. Beginning in 1976 those revenues have been reduced as a result of certain actions taken by the Canadian Government.

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. While the law contained certain transitional provisions, in September 1977, it became fully applicable to all contracts for the purchase of time on American stations.

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 challenging the Canadian Radio-Television Commission's authorization of commercial deletion was brought in the Canadian courts, which have now upheld the Commission's action. WKBW-TV and two other Buffalo television stations are parties to suits pending in the Canadian courts against a Toronto cable company which has engaged in deletion of some commercials on the channels of these stations.

Item 2. *Summary of Operations*

The Summary of Operations of the Company for the five years ended December 31, 1977, and management's discussion thereof, set forth beginning on page 14 and ending on page 16 of the Annual Report to Stockholders for the year ended December 31, 1977, are incorporated herein by reference.

Item 3. *Properties*

The Company occupies executive offices at 485 Madison Avenue in New York City under a lease expiring June 30, 1980. 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). New television studios and offices are under construction at Buffalo and Durham, and WKBW-AM (Buffalo) will be moving to leased quarters later in 1978.

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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, 1979
WKBW-TV, Buffalo, New York	7	June 1, 1978(2)	ABC	July 2, 1978
KTRK-TV, Houston, Texas	13	(3)	ABC	Apr. 2, 1979
WTNH-TV, New Haven, Connecticut	8	Apr. 1, 1978(2)	ABC	Jan. 1, 1979
WTVD, Durham, North Carolina	11	Dec. 1, 1978	CBS	Sept. 11, 1979
KFSN-TV, Fresno, California	30	(3)	CBS	Feb. 28, 1980

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, Los Angeles, California	1540 K	50,000 Day 10,000 Night	(3)	None
WJR, Detroit, Michigan	760 K	50,000	Oct. 1, 1979	NBC(4)
WPAT, Paterson, New Jersey (Metropolitan New York)	930 K	5,000	(5)	None
WBAP, Fort Worth, Texas	820 K	50,000	Aug. 1, 1980	NBC(4)
WKBW, Buffalo, New York	1520 K	50,000	June 1, 1978(2)	None
WPRO, Providence, Rhode Island	630 K	5,000	April 1, 1978(2)	None
WROW, Albany, New York	590 K	5,000 Day 1,000 Night	June 1, 1978(2)	CBS(4)
WPAT-FM, Paterson, New Jersey (Metropolitan New York)	93.1 M	12.6	June 1, 1978(2)	None
WJR-FM, Detroit, Michigan	96.3 M	50	Oct. 1, 1979	None(4)
KSCS-FM, Fort Worth, Texas	96.3 M	100	Aug. 1, 1980	None(4)
WPRO-FM, Providence, Rhode Island	92.3 M	15	(6)	None
WROW-FM, Albany, New York	95.5 M	9.4	June 1, 1978(2)	None(4)
KPOL-FM, Los Angeles, California	93.9 M	100	(3)	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) Applications seeking renewal of the licenses of these stations have been filed with the FCC and are pending in the normal course.

(3) Regular renewal of these licenses have been delayed because of the filing of petitions seeking denial of renewal applications. In addition, KPOL-AM's renewal has been deferred pending satisfactory completion of certain changes to the station's technical facilities.

(4) Network affiliation agreements of WJR, WBAP and WROW expire on October 31, 1979, January 1, 1979 and December 30, 1978, respectively. CBS and NBC permit an FM station to duplicate programming covered under agreement with an associated AM station.

(5) Regular renewal of this license has been delayed pending satisfactory completion of changes to the station's technical facilities.

(6) 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, 1977 and included in the consolidated financial statements:

	State of Incorporation
Capital Cities Media, Inc.	New York
Oakland Press Company	Michigan
The Kansas City Star Company	Missouri

Item 5. *Legal Proceedings*

The following constitute material pending legal proceedings, other than ordinary routine litigation incidental to the business, to which Registrant or any of its subsidiaries is a party or of which any of their property is the subject:

(a) Reference is hereby made to Registrant's Form 10-Q for the quarter ended March 31, 1977, under caption "Item 1. Legal Proceedings" which describes an action relating to a claim by Kansas City Webb Pressmen's Local 14 against The Kansas City Star Company, a wholly-owned subsidiary of Registrant. The information contained therein is unchanged.

(b) Flambeau Paper Company, Park Falls, Wisconsin ("Flambeau") which is a division of Capital Cities Media, Inc., a wholly-owned subsidiary of Capital Cities Communications, Inc. ("Registrant") has been operating under a discharge permit issued by the Wisconsin Department of Natural Resources ("WDNR") pursuant to which Flambeau continued to discharge certain levels of waste materials into the Flambeau River until July 1, 1977, by which date substantial reductions in the amount of suspended solids being discharged were required to have been achieved. That objective has not been met. The WDNR has denied Flambeau's request for an extension of time within which to meet the higher standards and for a modification of the discharge limits to coincide with the less strict limitations permitted by the United States Environmental Protection Agency. On or about November 14, 1977, the WDNR commenced an action in the Circuit Court for Dane County, Wisconsin alleging that Flambeau violated its discharge permit and seeking civil forfeiture of not more than $10,000 for each day of violation and a mandatory injunction requesting Flambeau to take steps to comply with the effluent limitations of the discharge permit and to cease and desist from discharging any pollutants into the Flambeau River. On January 19, 1978, Flambeau filed a Petition for Review of Administrative Action in the Civil Court for Price County, Wisconsin requesting that the Court either remand the case to the WDNR directing that a public hearing be held to determine whether or not Flambeau is entitled to an extension of the permit until April 1, 1979, or, in the alternative, that the Court itself determine the facts and direct such an extension. The Petition also asks the Court to modify the discharge limitations to those permitted by the Federal regulations. The action commenced by WDNR in Dane County, Wisconsin has been transferred to Price County, Wisconsin. Flambeau is continuing to operate its business in the normal course. It may be subject to fines and penalties in an amount which neither Flambeau nor the Registrant can determine or predict. In the opinion of Registrant, the effect of the pending proceedings, including the amount of fines and penalties, if any, which may be imposed, is not material to the business or financial condition or results of operations of the Registrant.

(c) In June 1977, an action was commenced in the Sixteenth Judicial Circuit Court of Jackson County, Missouri by Joseph F. and Frances O. Trotter against The Kansas City Star Company and one of its former directors seeking damages of approximately $328,450 and punitive damages of $1,650,000 arising from alleged fraud of defendants relating to the repurchase of plaintiff's participating interests in The Kansas City Star Company at the time of Joseph Trotter's resignation from the employ of the company in October 1976 and the subsequent acquisition of The Kansas City Star Company by Registrant.

(d) On or about January 27, 1978, an action was commenced in the United States District Court of Arizona by the State of Arizona against Graham Paper Company and numerous other manufacturers of fine paper alleging that Graham and the other defendants entered into a conspiracy to fix and stabilize the prices of fine paper in violation of Federal anti-trust laws for which unspecified damages are sought.

On October 17, 1977, The Kansas City Star Company, a subsidiary of Registrant, sold to Jim Walter Paper Company, Inc. all the assets and on-going business of Graham Paper Company. Pursuant to an indemnification provision in the agreement of sale, the Star and Registrant are liable to the purchaser for any damages resulting from this action.

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

(a) Equity Securities

	Common stock, $1.00 par value (number of shares)		
	Issued	**Treasury**	**Outstanding**
Balance at December 31, 1976	7,696,748	280,700	7,416,048
Transactions on various dates during the year:			
Purchase of treasury stock		321,800	(321,800)
Issuance of treasury shares on exercise of employee stock options		(11,619)	11,619
Balance at December 31, 1977	7,696,748	590,881	7,105,867

(b) Indebtedness

Reference is made to Registrant's Form 10-Q for the three months ended March 31, 1977 under caption "Item 5. Increase in Amount Outstanding of Securities or Indebtedness" relating to indebtedness incurred in connection with the February 15, 1977 acquisition of The Kansas City Star Company. The information contained therein is unchanged.

(c) Decrease of Indebtedness

Pursuant to the February 15, 1977 acquisition of The Kansas City Star Company Registrant assumed notes payable of $9,257,000, of which $7,500,000 of 9⅞% notes due 1982-1991 were prepaid in December 1977.

Item 7. *Changes in Securities and Changes in Security for Registered Securities.*

Not applicable.

Item 8. *Defaults upon Senior Securites.*

Not applicable.

Item 9. *Approximate Number of Equity Security Holders.*

Title of class	Number of record holders as of December 31, 1977
Common stock, $1.00 par value	2,396

Item 10. *Submission of Matters to a Vote of Security Holders.*

Not applicable.

Item 11. *Executive Officers of the Registrant*

Name	Age	Director since	Officer since	Title
Thomas S. Murphy	52	1957	1958	Chairman of the Board of Directors (Chief Executive Officer)
Daniel B. Burke	49	1967	1962	President and Director (Chief Operating Officer)
Joseph P. Dougherty	53	1967	1959	Executive Vice President, President of Broadcasting Division and Director
John B. Fairchild	50	1968	1968	Executive Vice President, Chairman of the Board of Fairchild Publications and Director
John B. Sias	51	1977	1975	Executive Vice President, President of Publishing Division and Director
Robert K. King	49		1962	Senior Vice President
Andrew E. Jackson	43		1971	Vice President
John E. Shuff, Jr.	37		1977	Vice President (Chief Financial Officer)
Ronald J. Doerfler	36		1977	Treasurer
Gerald Dickler	65	1954	1954	Secretary and Director
Robert W. Gelles	54		1963	Controller, Assistant Secretary and Assistant Treasurer

Messrs. Murphy, Burke, Dougherty, Fairchild, Sias, King, Jackson, 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 12. *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 13. *Financial Statements, Exhibits Filed, and Reports on Form 8-K*

(a) 1. Financial statements

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

2. Exhibits

None.

(b) No reports on Form 8-K have been filed during the quarterly period ended December 31, 1977.

Part II

Items 14. to 18., 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 14. to 18., 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)

By JOHN E. SHUFF, JR.
Vice President (Chief Financial Officer)

Dated: March 31, 1978

CAPITAL CITIES COMMUNICATIONS, INC. AND SUBSIDIARIES

INDEX TO FINANCIAL STATEMENTS COVERED BY REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

(Item 13(a) 1.)

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, in the aggregate, do not have indebtedness to any person other than the Company in amounts which together exceed 5% of the total assets as shown by the most recent year-end consolidated balance sheet.

* * * * *

The consolidated financial statements of Capital Cities Communications, Inc., listed in the above index, information as to net revenues and operating income by lines of-business for the five years ended December 31, 1977 on pages 12 and 13, and the summary of operations for the five years ended December 31, 1977 on pages 14 through 16, which are included in the Annual Report to Stockholders for the year ended December 31, 1977, are hereby incorporated by reference. With the exception of the items noted the 1977 Annual Report to Stockholders is not to be deemed filed as part of this report.

CONSENT OF CERTIFIED PUBLIC ACCOUNTANTS

We consent to the incorporation by reference in this Annual Report on Form 10-K of Capital Cities Communications, Inc. of our report dated February 28, 1978 included in the 1977 Annual Report to Stockholders of Capital Cities Communications, Inc.

We also consent to the addition of the schedules listed in the accompanying index to financial statements to the statements covered by our report dated February 28, 1978 incorporated herein by reference.

New York, New York
February 28, 1978

ARTHUR YOUNG & COMPANY

CAPITAL CITIES COMMUNICATIONS, INC. AND SUBSIDIARIES
(Thousands of Dollars)

SCHEDULE V—PROPERTY, PLANT AND EQUIPMENT

		Additions at cost				
	Balance at beginning of period	Kansas City Star Company February 15, 1977	Other	Retirements or sales	Other changes—reclassification	Balance at close of period
Year ended December 31, 1977:						
Land and improvements	$ 8,984	$ 2,628	$ 564	$ (152)		$ 12,024
Buildings and improvements	24,827	10,498	986	(410)		35,901
Broadcasting equipment	25,642	—	2,767	(1,270)		27,139
Printing machinery and equipment	19,336	20,161	1,941	(597)		40,841
Other	6,242	2,038	1,951	(412)		9,819
	$85,031	$35,325	$8,209	$(2,841)		$125,724
Year ended December 31, 1976:						
Land and improvements	$ 8,744		$ 393	$ (150)	$ (3)	$ 8,984
Buildings and improvements	24,628		306	(110)	3	24,827
Broadcasting equipment	24,792		1,761	(905)	(6)	25,642
Printing machinery and equipment	18,724		995	(441)	58	19,336
Other	6,976		928	(1,610)	(52)	6,242
	$83,864		$4,383	$(3,216)	$—	$ 85,031

SCHEDULE VI—ACCUMULATED DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT

	Balance at beginning of period	Kansas City Star Company February 15, 1977	Charged to income	Retirements, renewals and replacements	Other changes—reclassification	Balance at close of period
Year ended December 31, 1977:						
Land improvements	$ 323	$ —	$ 39	$ —		$ 362
Buildings and improvements	7,938	5,160	1,336	(308)		14,126
Broadcasting equipment	16,163	—	2,507	(1,214)		17,456
Printing machinery and equipment	6,561	12,250	3,605	(344)		22,072
Other	3,312	575	807	(326)		4,368
	$34,297	$17,985	$8,294	$(2,192)		$58,384
Year ended December 31, 1976:						
Land improvements	$ 277		$ 46	$ —	$—	$ 323
Buildings and improvements	7,222		822	(106)	—	7,938
Broadcasting equipment	14,590		2,378	(805)	—	16,163
Printing machinery and equipment	4,682		1,917	(78)	40	6,561
Other	4,340		568	(1,556)	(40)	3,312
	$31,111		$5,731	$(2,545)	$—	$34,297

CAPITAL CITIES COMMUNICATIONS, INC. AND SUBSIDIARIES

(Thousands of Dollars)

SCHEDULE VII—INTANGIBLE ASSETS

	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, 1977	$164,520	$75,996(A)	$(2,639)	$237,877
Year ended December 31, 1976	$159,593	$ 5,747(B)	$ (820)	$164,520

(A) Principally acquisition of the Kansas City Star Company on February 15, 1977.

(B) Acquisition of medical publications on December 13, 1976.

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, 1977	$1,751	$1,819	$(1,215)	$2,355
Year ended December 31, 1976	$1,296	$1,190	$ (735)	$1,751

(A) Accounts written-off, net.

Ten Year Financial Summary

(All Dollars in Thousands Except Per Share Data)

	1977	1976	1975
RESULTS FOR THE YEAR			
Net Revenues			
Broadcasting	$112,522	$104,307	$ 86,820
Publishing	193,624	107,860	88,066
Total	306,146	212,167	174,886
Operating Income			
Broadcasting	$ 56,757	$ 50,277	$ 39,184
Publishing	43,681	25,592	17,699
Income from operations	100,438	75,869	56,883
Unallocated corporate expense	3,673	2,826	2,748
Total	96,765	73,043	54,135
Net Income (a)	$ 43,234	$ 35,620	$ 25,402
Net Income Per Share—Fully Diluted (a) (b)	$5.82	$4.60	$3.28
Average Shares—Fully Diluted (000's omitted) (b)	7,426	7,739	7,733
Return on Average Stockholders' Equity (c)	19.4%	17.9%	14.4%
MAJOR CHANGES IN FINANCIAL POSITION			
Funds Provided			
From operations (d)	$ 53,763	$ 43,309	$ 32,098
From issuance of notes payable on acquisitions	82,250		
From sale of operating properties	13,389		
Funds Applied			
To acquisitions	125,877	6,099	
To purchase of common stock for treasury	17,111	14,858	
To capital expenditures	8,209	4,049	5,546
To reduction of long-term notes payable	33,470	16,275	16,275
AT YEAR END			
Working Capital	$ 8,998	$ 38 058	$ 34,547
Notes Payable	126,257	59,404	75,679
Stockholders' Equity	236,834	208,501	188,921
Number of Shares Outstanding (000's omitted) (b)	7,106	7,416	7,687
Price Range of Common Stock	$44¼-61	$42¼-56⅜	$22-43½

(a) Income before extraordinary gains of $3,320,000 ($.45 per share) in 1977 and $18,168,000 ($2.38 per share) in 1971 and extraordinary loss of $2,036,000 ($.28 per share) in 1970.
(b) All per share information has been adjusted for the 2 to 1 stock split in 1969 and assumes full conversion of preferred stock.
(c) Income before extraordinary items divided by average Stockholders' Equity.
(d) Income before extraordinary items plus depreciation, amortization and other non-cash expense.

1974	1973	1972	1971	1970	1969	1968
$ 78,576	$ 76,066	$ 69,885	$ 56,219	$ 44,649	$ 45,678	$ 41,934
60,009	51,432	48,603	41,857	41,209	39,509	30,416
138,585	127,498	118,488	98,076	85,858	85,187	72,350
$ 36,359	$ 36,469	$ 31,553	$ 23,912	$ 21,464	$ 21,881	$ 19,593
12,752	9,800	8,192	7,695	4,872	6,217	3,912
49,111	46,269	39,745	31,607	26,336	28,098	23,505
2,492	1,704	1,659	1,299	1,051	969	974
46,619	44,565	38,086	30,308	25,285	27,129	22,531
$ 22,025	$ 20,146	$ 17,015	$ 13,129	$ 11,511	$ 11,383	$ 9,171
$2.86	$2.61	$2.21	$1.72	$1.57	$1.55	$1.24
7,688	7,719	7,697	7,625	7,349	7,340	7,352
14.4%	15.2%	15.3%	15.7%	18.9%	23.0%	23.9%
$ 25,833	$ 23,215	$ 20,167	$ 16,324	$ 13,804	$ 13,660	$ 11,572
40,500			82,297		16,000	
			32,032	791		
61,602	1,136	1,300	103,834	3,979	16,000	10,500
3,206	2,859	2,465	1,351	939	671	1,228
11,663	12,125	17,913	25,073	4,442	11,897	9,500
$ 23,864	$ 33,028	$ 22,075	$ 14,816	$ 12,708	$ 8,395	$ 5,685
87,342	56,967	75,092	101,797	23,500	29,500	24,000
163,860	141,906	121,620	100,166	66,090	55,681	43,252
7,684	7,682	7,678	7,262	7,085	6,999	6,836
$16¾-39¼	$30-62½	$48-64¼	$29-49¾	$19½-36½	$26-39½	$21⅞-44¾

Summary of Operations
(Dollars in Thousands Except Per Share Data)

	Year Ended December 31,				
	1977	1976	1975	1974	1973
Net Revenues	$306,146	$212,167	$174,886	$138,585	$127,498
Operating Expenses					
Broadcasting and publishing	132,721	78,809	71,375	53,590	48,027
Selling, general and administrative	65,727	53,764	43,458	35,017	32,031
Depreciation	8,294	5,731	5,098	3,212	2,842
Amortization of intangible assets	2,639	820	820	147	33
	209,381	139,124	120,751	91,966	82,933
Operating Income	96,765	73,043	54,135	46,619	44,565
Other Income (Expense)					
Interest expense	(9,545)	(3,992)	(5,352)	(5,724)	(5,405)
Interest income	2,087	3,167	2,749	4,119	2,333
Miscellaneous, net	927	432	470	231	43
	(6,531)	(393)	(2,133)	(1,374)	(3,029)
Income Before Income Taxes	90,234	72,650	52,002	45,245	41,536
Income Taxes	47,000	37,030	26,600	23,220	21,390
Income Before Extraordinary Gain	43,234	35,620	25,402	22,025	20,146
Extraordinary Gain, net of taxes	3,320	—	—	—	—
Net Income	$46,554	$ 35,620	$ 25,402	$ 22,025	$ 20,146
Income Per Share:					
Income before extraordinary gain	$5.82	$4.60	$3.28	$2.86	$2.61
Extraordinary gain	.45	—	—	—	—
Net income	$6.27	$4.60	$3.28	$2.86	$2.61
Dividends Declared on Common Stock	$ .20	$ .20	$ .05	$—	$—
Shares of stock used in calculation of income per share are as follows (000's omitted)					
Average common shares and common share equivalents outstanding during year					
Common shares	7,355	7,666	7,508	7,190	7,124
Convertible preferred shares	—	—	177	493	555
Stock options	71	73	48	5	38
Total common shares and common share equivalents	7,426	7,739	7,733	7,688	7,717

Management's Discussion and Analysis of the Summary of Operations

1977 Compared to 1976

Net Revenues

Net Revenues in 1977 increased $93,979,000 or 44% over 1976, with all of the Company's operating groups contributing to the gain. The largest portion of the revenue gains, $70,957,000 was attributable to the inclusion of the operations of the International Medical News Group acquired in December, 1976, and of the Kansas City Star newspapers from their date of acquisition on February 15, 1977.

Broadcasting division revenues increased by $8,215,000 or 8% over the 1976 period. Television station revenues were up by 6% in 1977, reflecting a substantial 19% gain in local business combined with a slowdown in the growth of national spot sales (up only 3% after the very large gains achieved in 1976) and a significant loss (approaching 50%) of Canadian revenues at the Company's Buffalo television station. Radio station revenues were up a satisfactory 13% for the year.

Excluding the aforementioned recent acquisitions, publishing division revenues were up $14,807,000 or 14% from 1976. Revenues of specialized publications increased by 15% during 1977, primarily due to advertising and circulation gains of 15% and 18%, respectively, with advertising linage increasing by 8%. Consumer newspaper revenues rose 13% in 1977, with advertising increasing 15% and circulation up 5%. Advertising linage was up 8% over the prior year with classified showing the largest gains. Reference is made to the publishing division advertising and circulation data in Form 10-K (Item 1, *Business*) appearing elsewhere in this report.

Operating Expenses

Total operating expenses for 1977 were up by $70,257,000 or 50% from 1976. The major portion of the increase in expenses, $59,638,000 (including increases in depreciation of $2,130,000, amortization of intangibles of $1,819,000 and payroll taxes of $1,181,000), resulted from acquisition of the medical publications and the Kansas City Star newspaper operation.

Broadcasting division operating expenses in 1977 were up $1,735,000 or 3% over 1976. These increases primarily reflect higher television program costs and radio advertising promotion expenses, partially offset by lower television selling expenses.

Publishing division operating expenses, excluding the effect of the recent acquisitions, rose $8,037,000 or 10% over 1976. The cost increases were principally due to higher volume-related production and selling expenses, newsprint price increases and the full year impact of publication costs of *Energy User News* and the Sunday edition of the *News-Democrat.*

Other Income and Expense

Net financial costs (interest expenses less interest income) for 1977 increased $6,633,000 compared to 1976, principally due to the $7,906,000 net interest cost resulting from the acquisition of the Kansas City Star Company on February 15, 1977. In connection with this purchase, the Company incurred $82,250,000 in debt, assumed debt of $9,257,000 and reduced its short-term investment portfolio approximately $40,000,000. Interest income was further reduced by $950,000 as a result of the purchase of treasury stock in late 1976 and 1977. These increases were somewhat offset by lower interest expense resulting from $16,275,000 reduction of other long-term debt in 1977 and higher interest income on the Company's short term investment portfolio.

Net Income

Income before extraordinary gain in 1977 increased $7,614,000 or 21% from 1976, with the corresponding income per share up $1.22 or 27% (after an increase in the amortization of acquisition-related intangibles of $1,819,000 or $.24 share). The larger percentage gain of income per share was due to a 4% reduction in average common shares outstanding as a result of the purchase by the Company of 604,000 shares of its Common Stock in late 1976 and 1977. Operating income margins, excluding the effect of the two recent acquisitions, improved from 34% to 36% reflecting revenue gains and cost efficiencies in all of the Company's operating groups. For 1977, after all financial costs and amortization of intangibles, the two acquisitions combined added approximately $760,000 or $.10 per share to the Company's net income.

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 at 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 linage 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. Linage 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%.

Segment Information

The Company is engaged in television and radio broadcasting and the publishing of newspapers and specialized publications. Operations are identified into two business segments, Broadcasting and Publishing.

Broadcasting operations consist of six network affiliated television stations, five of which are VHF and one UHF; seven AM radio stations and six FM radio stations.

Publishing operations consist of four daily newspapers, three of which have Sunday editions, a three times weekly suburban newspaper, and 18 business and specialized newspapers and magazines, 12 of which are paid circulation and six controlled circulation.

Capital expenditures made by each of the Company's segments for the years 1977 and 1976 are as follows: Broadcasting $4,600,000 and $2,900,000; Publishing $2,800,000 and $1,100,000.

There are no product transfers between segments of the Company and virtually all of the Company's business for both segments is conducted within the United States.

	Broadcasting		Publishing		Consolidated	
	1977	1976	1977	1976	1977	1976
Net Revenues	**$112,522**	$104,307	**$193,624**	$107,860	**$306,146**	$212,167
Direct Operating Expenses	**52,317**	50,763	**142,713**	79,030	**195,030**	129,793
Depreciation	**3,216**	3,035	**4,823**	2,650	**8,039**	5,685
Amortization of Intangible Assets	**232**	232	**2,407**	588	**2,639**	820
Total	**55,765**	54,030	**149,943**	82,268	**205,708**	136,298
Income from Operations	**$ 56,757**	$ 50,277	**$ 43,681**	$ 25,592	**100,438**	75,869
General Corporate Expense					**3,673**	2,826
Operating Income					**96,765**	73,043
Interest Expense					**(9,545)**	(3,992)
Other Income					**3,014**	3,599
Income Before Income Taxes					**$ 90,234**	$ 72,650
Assets Employed by Segments	**$167,019**	$164,320	**$190,810**	$ 92,014	**$357,829**	$256,334
Investments and Other Corporate Assets					**77,267**	72,188
Total Assets at December 31,					**$435,096**	$328,522

Quarterly Financial Data *(Unaudited)*

(Dollars in Thousands Except Per Share Amounts)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
1977					
Net Revenues	$63,034	$80,806	$75,078	$87,228	$306,146
Operating Income	18,635	27,341	22,153	28,636	96,765
Income Before Extraordinary Gain	8,339	12,046	9,647	13,202	43,234
Extraordinary Gain	—	—	—	3,320	3,320
Net Income	8,339	12,046	9,647	16,522	46,554
Income Per Share:					
Before Extraordinary Gain	1.11	1.61	1.29	1.81	5.82
Extraordinary Gain	—	—	—	.45	.45
Net Income	1.11	1.61	1.29	2.26	6.27
1976					
Net Revenues	46,207	56,220	51,448	58,292	212,167
Operating Income	14,472	21,761	15,623	21,187	73,043
Net Income	6,848	10,723	7,667	10,382	35,620
Net Income Per Share	.88	1.38	.99	1.35	4.60
Price Range of Common Stock					
1977	$45-57	$44¼-52	$45⅞-52	$47-61	$44¼-61
1976	$42¼-52⅝	$46¼-52½	$50¼-56	$48-56⅜	$42¼-56⅜

Consolidated Statement of Income

Years Ended December 31, 1977 and 1976
(Dollars in Thousands)

	1977	1976
Net Revenues		
Broadcasting	$112,522	$104,307
Publishing	193,624	107,860
	306,146	212,167
Operating Expenses		
Broadcasting and publishing	132,721	78,809
Selling, general and administrative	65,727	53,764
Depreciation	8,294	5,731
Amortization of intangible assets (Note 11)	2,639	820
	209,381	139,124
Operating Income	96,765	73,043
Other Income (Expense)		
Interest expense (Note 12)	(9,545)	(3,992)
Interest income	2,087	3,167
Miscellaneous, net	927	432
	(6,531)	(393)
Income Before Income Taxes	90,234	72,650
Income Taxes (Note 9)		
State and local	5,800	3,970
Federal	41,200	33,060
	47,000	37,030
Income Before Extraordinary Gain	43,234	35,620
Extraordinary Gain (Note 3)		
Gain on exchange of securities of $5,020 less deferred income taxes of $1,700	3,320	—
Net Income	$ 46,554	$ 35,620
Income Per Share (Note 5)		
Income before extraordinary gain	$5.82	$4.60
Extraordinary gain	.45	—
Net income	$6.27	$4.60

See accompanying notes

Consolidated Statement of Changes in Financial Position

Years Ended December 31, 1977 and 1976
(Dollars in Thousands)

	1977	1976
Funds Provided		
Operations		
Income before extraordinary gain	$ 43,234	$35,620
Depreciation	8,294	5,731
Amortization of intangibles	2,639	820
Other noncash expense (income)	(404)	1,138
Total from operations	53,763	43,309
Common stock issued under stock options (Note 13)	357	299
Notes payable issued on acquisition (Note 12)	82,250	—
Notes payable assumed on acquisition (Note 12)	8,378	—
Increase in unearned subscription revenue	567	1,383
Proceeds from sale of paper distribution property (Note 2)	13,389	—
	158,704	44,991
Funds Applied		
Acquisitions of publishing properties (Note 2)	95,988	6,099
Acquisition of paper distribution and manufacturing properties (Note 2)	29,889	—
Purchases of common stock for treasury	17,111	14,858
Additions to fixed assets	8,209	4,049
Reduction of long-term notes payable (Note 12)	33,470	16,275
Dividends	1,467	1,524
Other, net	1,630	(1,325)
	187,764	41,480
Increase (Decrease) in Working Capital	$(29,060)	$ 3,511
Working Capital Changes		
Cash and short-term cash investments	$(20,789)	$ 9,586
Accounts and notes receivable	11,342	3,310
Film contract rights and other current assets	489	436
Taxes on income	519	(7,335)
Notes payable due within one year	(9,695)	—
Film contracts and other current liabilities	(10,926)	(2,486)
Increase (Decrease) in Working Capital	$(29,060)	$ 3,511

See accompanying notes

Consolidated Balance Sheet

December 31, 1977 and 1976
(Dollars in Thousands)

ASSETS	1977	1976
Current Assets		
Cash	$ 4,794	$ 5,015
Short-term cash investments	31,728	52,296
Accounts and notes receivable (less allowance for doubtful accounts of $2,355 in 1977 and $1,751 in 1976)	42,289	30,947
Film contract rights	2,212	3,313
Other current assets	5,983	4,393
Total current assets	87,006	95,964
Property, Plant and Equipment, at cost		
Land	12,024	8,984
Buildings	35,901	24,827
Broadcasting, printing and other equipment	77,799	51,220
	125,724	85,031
Less accumulated depreciation	58,384	34,297
Property, plant and equipment, net	67,340	50,734
Intangible Assets (net of accumulated amortization of $4,491 in 1977 and $1,853 in 1976—Note 11)	237,877	164,520
Marketable Equity Securities (Note 10)	12,167	7,147
Notes Receivable	9,371	7,449
Film Contract Rights	2,136	2,221
Other Assets (Note 2)	19,199	487
	$435,096	$328,522

See accompanying notes

LIABILITIES AND STOCKHOLDERS' EQUITY

	1977	1976
Current Liabilities		
Accounts payable	$ 9,813	$ 4,659
Accrued compensation	5,428	3,531
Other accrued expenses	12,133	7,710
Film contracts	3,280	3,828
Taxes on income (Note 9)	21,384	21,903
Notes payable due within one year (Note 12)	25,970	16,275
Total current liabilities	78,008	57,906
Deferred Compensation	1,792	1,420
Deferred Income Taxes (Note 9)	9,597	8,436
Unearned Subscription Revenue	7,426	6,859
Film Contracts	1,152	2,271
Notes Payable Due After One Year (Note 12)	100,287	43,129
Total liabilities	198,262	120,021
Commitments and Contingent Liabilities (Note 14)		
Stockholders' Equity (Notes 12 and 13)		
Convertible preferred stock, $1 par value (600,000 shares authorized)	—	—
Common stock, $1 par value (20,000,000 shares authorized)	7,697	7,697
Additional paid-in capital	8,371	8,597
Retained earnings	252,097	207,010
	268,165	223,304
Less common stock in treasury, at cost (590,881 shares in 1977 and 280,700 shares in 1976)	31,331	14,803
Total stockholders' equity	236,834	208,501
	$435,096	$328,522

Consolidated Statement of Stockholders' Equity

Years Ended December 31, 1977 and 1976
(Dollars in Thousands)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Total
Balance January 1, 1976	$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 December 31, 1976	7,697	8,597	207,010	(14,803)	208,501
Net income for 1977	—	—	46,554	—	46,554
321,800 shares of common stock purchased for treasury	—	—	—	(17,111)	(17,111)
11,619 shares of common stock issued from treasury on exercise of employee stock options	—	(226)	—	583	357
Cash dividends ($.20 per share)	—	—	(1,467)	—	(1,467)
Balance December 31, 1977	$7,697	$8,371	$252,097	$(31,331)	$236,834

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 for major categories are as follows:

	Years
Land improvements	5-20
Buildings and improvements	10-50
Broadcasting equipment	4-20
Printing machinery and equipment	5-20

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 accordance with *Accounting Principles Board Opinion No. 17,* certain intangible assets are being amortized over 40 year periods.

Marketable Equity Securities—Marketable equity securities are carried at the lower of cost or aggregate market value. Temporary unrealized declines in aggregate market value below cost are charged to stockholders' equity; permanent declines, to income.

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 1983.

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, for a cash payment of $6,500,000, the Company acquired the International Medical News Group which publishes six controlled-circulation medical publications. 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.

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 6.25% notes, payable in three equal annual installments with the final payment due February 15, 1980.

The Kansas City Star Company 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). In addition to its newspaper operations, the Star also owned the Flambeau Paper Company, Park Falls, Wisconsin, a manufacturer of fine paper, and had a 91% interest in the Graham Paper Company, St. Louis, a distributor of paper and paper products. The following summarizes the assets acquired and the liabilities assumed by the Company (000's omitted):

Current assets	$ 17,190
Current liabilities (including current maturity of notes payable of $879)	8,198
Working capital acquired	8,992
Property, plant and equipment, net	17,340
Intangible assets	76,038
Investment in Flambeau and Graham	29,889
Notes receivable and other assets	2,610
	134,869
Notes payable, noncurrent portion	(8,378)
	126,491
Elimination of acquired working capital included above	(8,992)
Net amounts affecting working capital	$117,499

The Consolidated Statement of Income for the year ended December 31, 1977, includes the operations of the International Medical News Group and the Kansas City Star newspapers for their respective periods of ownership. Had these acquisitions taken place as of January 1, 1976, it is estimated that, after appropriate adjustments for interest expense, loss of interest income, amortization of intangibles and additional depreciation on fixed assets, the Company's Consolidated Statement of Income on a pro forma basis would be as follows (000's omitted):

	Year Ended December 31,	
	1977	1976
Net revenues	$313,384	$282,996
Operating expenses		
Broadcasting and publishing	138,153	127,566
Selling, general and administrative	67,300	64,783
Depreciation	8,585	8,063
Amortization of intangible assets	2,866	2,866
	216,904	203,278
Operating income	96,480	79,718
Other income (expense)		
Interest expense	(10,479)	(11,351)
Interest income	1,898	1,142
Miscellaneous, net	954	606
	(7,627)	(9,603)
Income before income taxes	88,853	70,115
Income taxes	46,440	36,910
Income before extraordinary gain	42,413	33,205
Extraordinary gain	3,320	—
Net income	$ 45,733	$ 33,205
Income per share		
Income before extraordinary gain	$ 5.71	$ 4.29
Extraordinary gain	.45	—
Net income	$ 6.16	$ 4.29

Pursuant to management's decision to dispose of Graham and Flambeau, the Company's investment, at acquisition date, was recorded at estimated net realizable value. In October, 1977, the Company completed the sale of Graham, realizing proceeds of $13,389,000. The Company's net investment in the assets of Flambeau of $15,500,000 has been included in the other assets caption on the Consolidated Balance Sheet at December 31, 1977. The unaudited sales and net income of these properties, which have not been included in the consolidated results for 1977, were as follows (000's omitted):

	Sales	Net Income
Graham (February 15, 1977 to October 21, 1977)	$61,766	$ 278
Flambeau (February 15, 1977 to December 31, 1977)	34,891	1,724
	$96,657	$2,002

Notes to Consolidated Financial Statements—(Continued)

3. EXTRAORDINARY GAIN

In December 1977, the Company exchanged 358,700 shares of Southland Paper Mills, Inc. for 394,570 shares of St. Regis Paper Company pursuant to a merger. In accordance with Accounting Principles Board Opinion No. 29 *Accounting For Nonmonetary Transactions* the Company recorded a gain of $5,020,000, less a provision for deferred taxes of $1,700,000, for a net extraordinary gain of $3,320,000 or $.45 per share.

4. EMPLOYEES' PROFIT-SHARING AND PENSION PLANS

The Company has qualified profit-sharing plans for certain employees. The plans provide for contributions by the Company in such amounts as the Board of Directors may annually determine. Such contributions charged to expense in 1977 and 1976 were $2,142,000 and $1,753,000, respectively. Other employees of the Company and its subsidiaries, not covered by the profit-sharing plans, are covered by noncontributory pension plans. In connection with these plans, contributions of $960,000 and $622,000 were charged to expense in 1977 and 1976, respectively. Provision is made for normal cost and amortization of prior service cost over periods 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, 1977, unfunded past service costs aggregated $1,865,000.

5. INCOME PER SHARE

The computation of shares of stock used in the calculation of income per share is included in the Summary of Operation on page 14.

6. SUPPLEMENTARY INCOME STATEMENT INFORMATION

Presented below are the amounts charged to expense which exceed 1% of net revenues as required by Securities and Exchange Commission Rule 12-16 (000's omitted):

	Year Ended December 31, 1977	1976
Payroll taxes	$4,079	$2,643
Advertising costs	2,578	2,234

7. BUSINESS SEGMENT DATA

The information required in accordance with the provisions of *Statement of Financial Accounting Standards No. 14, Financial Reporting for Segments of a Business Enterprise,* is included on page 16.

8. QUARTERLY FINANCIAL DATA (Unaudited)

The unaudited results for each quarter of 1977 and 1976 are presented on page 17 of this report.

9. INCOME TAXES

Income tax expense for 1977 before extraordinary gain amounted to $47,000,000 (effective tax rate of 52.1%) and for 1976 amounted to $37,030,000 (effective tax rate of 51.0%). These amounts were greater than the amounts computed by applying the U.S. Federal income tax rate of 48% to earnings before income taxes. The reasons for these differences are as follows (dollars in thousands):

	1977 Amount	1977 % of Income Before Taxes	1976 Amount	1976 % of Income Before Taxes
Income before taxes multiplied by statutory Federal income tax rate	$43,312	48.0%	$34,872	48.0%
State and local income taxes, net of Federal income tax benefit	3,016	3.3	2,064	2.8
Amortization of intangible assets	1,267	1.4	394	.6
Investment tax credits	(500)	(.5)	(293)	(.4)
Other, net	(95)	(.1)	(7)	—
	$47,000	52.1%	$37,030	51.0%

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. In 1977, the extraordinary gain on the exchange of securities gave rise to a provision for deferred income taxes of $1,700,000. The remaining deferred taxes of $2,772,000 at December 31, 1977 result primarily from the excess of tax over financial accounting depreciation.

10. MARKETABLE EQUITY SECURITIES

Marketable equity securities were carried at an aggregate cost of $12,167,000 and $7,147,000 and had an aggregate market value of $15,018,000 and $11,758,000 at December 31, 1977 and 1976, respectively. The increase in cost in 1977 of $5,020,000 is wholly attributable to the extraordinary gain recorded on the exchange of the Company's shares in Southland Paper Mills, Inc. for shares in St. Regis Paper Company, pursuant to a merger on December 1, 1977. At December 31, 1977 the 394,570 shares of St. Regis, carried at a cost of $10,184,000, had a market value of $12,133,000. At December 31, 1977 there were aggregate unrealized gains of $2,937,000 and unrealized losses of $86,000.

Notes to Consolidated Financial Statements—(Continued)

11. INTANGIBLE ASSETS

The Company's intangible assets consist of the excess of purchase price paid over the fair market value of tangible assets of acquired broadcasting and publishing properties. These intangible assets represent broadcasting licenses, network affiliation contracts and effective economic publishing franchises, all of which may be characterized as scarce assets, with very long and productive lives, which have historically increased in value with the passage of time. In accordance with *Accounting Principles Board Opinion No. 17,* those intangible assets acquired subsequent to 1970 are being amortized over periods of 40 years, even though, in the opinion of Management, there has been no diminution of value of the respective properties. At December 31, 1977, the Company's intangible assets were as follows (000's omitted):

	Total	Broadcasting	Publishing
Intangible assets not subject to amortization	$127,799	$107,083	$ 20,716
Intangibles required to be amortized	114,569	9,284	105,285
	242,368	116,367	126,001
Accumulated amortization	(4,491)	(730)	(3,761)
	$237,877	$115,637	$122,240

12. NOTES PAYABLE

Notes payable at December 31, 1977, are as follows (000's omitted):

	Total	Triangle Financial, Inc.	Banks	Former Shareholders of Kansas City Star	Former Shareholders of Carter	Other
Payable during:						
1978 (current year)	$ 25,970	$10,125	$ 5,400	$ 3,417	$ 6,150	$ 878
1979	26,709	6,342	10,800	3,417	6,150	—
1980	20,366	—	10,600	3,416	6,150	—
1981	16,312	—	10,800	—	5,512	—
1982	13,500	—	10,800	—	2,700	—
1983	10,800	—	10,800	—	—	—
1984	10,800	—	10,800	—	—	—
1985	1,800	—	1,800	—	—	—
	$126,257	$16,467	$72,000	$10,250	$26,662	$ 878
1977 Payments	$ 24,654	$10,125	$ —	$ —	$ 6,150	$8,379
Interest rates		Higher of Prime or 5%	8.2%	6.25%	6.0%	8.75%
Date of final payment		Jan. 5, 1979	Feb. 15, 1985	Feb. 15, 1980	Aug. 1, 1982	May 1, 1978

The Triangle notes payable relate to the purchase of television broadcasting properties and are secured by fixed assets, intangibles and other property with a net book value of approximately $100,000,000 at December 31, 1977. The Carter notes payable relate to the purchase of newspaper and radio broadcasting properties and are secured by fixed assets, intangibles and other property with a net book value of approximately $59,000,000 at December 31, 1977.

The Company obtained an unsecured $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 limited in paying cash dividends and purchasing its capital stock to $17,000,000 plus, in the aggregate, 33⅓% of consolidated income before extraordinary gains subsequent to January 1, 1977. As of December 31, 1977, unrestricted retained earnings under the loan agreement were $12,833,000. The loan agreement also provides that the Company must maintain a ratio of current assets to current liabilities of 1.0 to 1.0 and stockholders' equity of at least $200,000,000.

Pursuant to the February 15, 1977, acquisition of The Kansas City Star Company, the Company assumed notes payable of $9,257,000, of which $7,500,000 of 9⅞% notes due 1982-1991 were prepaid in December 1977.

Notes to Consolidated Financial Statements—(Continued)

13. STOCK OPTION AND PURCHASE PLANS

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 — Option price — Per share	Options granted — Option price — In total	Options granted — Number of shares	Market value at date of grant and when exercised(a) — Per share	Market value at date of grant and when exercised(a) — In total
Balance January 1, 1976	19,450	$18.25 to $38.19	$7,245,050	244,845	$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
Authorized	60,000			—		
Granted	(15,250)	$47.88 to $48.75		15,250		
Cancelled	3,963	$25.00 to $51.06		(3,963)		
Exercised	—	$25.00 to $36.13	$ 317,425	(11,619)	$46.63 to $60.13	$ 584,446
Balance December 31, 1977	75,601	$18.25 to $51.06	$8,784,997	262,214(b)	$18.25 to $51.06	$9,509,644

(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 that $197,000 and $184,000 were charged in 1977 and 1976, respectively, in connection with the 1975 price modification of certain previously granted options.

(b) At December 31, 1977 and 1976, options were exercisable for 162,613 and 128,495 shares, respectively.

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

	Number of shares	Option price — Per share	Option price — In total	Market value at date options became exercisable — Per share	Market value at date options became exercisable — In total
Year ended December 31,					
1976	45,642	$18.25 to $38.19	$1,363,650	$49.19 to $53.38	$2,299,362
1977	47,080	$18.25 to $51.06	$1,557,716	$44.50 to $57.56	$2,292,525

In May 1977, the Company's shareholders approved an Employee Stock Purchase Plan which provides for the issuance of a maximum of 300,000 shares during a five year period ending in March 1982. The Plan provides that eligible employees, through payroll deductions of up to 15% of their salary, may purchase shares at 85% of the lower of fair market value at the Grant Date or at the Purchase Date (normally one year subsequent). The Company anticipates the purchase of approximately 50,000 shares under the Plan in 1978.

14. COMMITMENTS AND CONTINGENT LIABILITIES

The Company has entered into agreements for future delivery of syndicated and feature film programming for its television stations, which aggregate $6,417,000, payable from 1978 through 1983.

The Kansas City Star Company, a subsidiary of the Company, has guaranteed $4,750,000 of Pollution Control Bonds issued in December 1976 by Flambeau.

The Company has no material lease commitments.

Report of Certified Public Accountants

ARTHUR YOUNG & COMPANY

277 PARK AVENUE
NEW YORK, N. Y. 10017

The Board of Directors and Stockholders
Capital Cities Communications, Inc.

We have examined the accompanying consolidated balance sheet of Capital Cities Communications, Inc. at December 31, 1977 and 1976 and the related consolidated statements of income, stockholders' equity and changes in financial position for the years then ended. 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 statements mentioned above present fairly the consolidated financial position of Capital Cities Communications, Inc. at December 31, 1977 and 1976 and the consolidated results of operations and changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

Arthur Young & Company

February 28, 1978

END