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CAPITAL CITIES COMMUNICATIONS INC 10-K

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CARD 1 DISCLOSURE INC WASHINGTON D. C. 20014 FOR 12/31/78

CAPITAL CITIES COMMUNICATIONS, INC. [N.Y.] CO: C101850000
24 EAST 51ST STREET
NEW YORK, N.Y. 10022
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DISCLOSURE Incorporated

ADDITIONAL COMPANY IDENTIFICATION INFORMATION

The following information is provided to clarify the company or document identification:

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COMPANY NAME ON DOCUMENT: Capital Cities Communications Inc.

REASON: Combination Form 10-K and Annual Report to Shareholders.

4827 Rugby Avenue, Bethesda, Maryland 20014

Capital Cities Communications 1978

ANNUAL REPORT AND FORM 10-K

Decentralization is the cornerstone of our management philosophy. Our goal is to hire the best people we can possibly find and give them the responsibility and authority they need to perform their jobs. All decisions are made at the local level, consistent with the basic legal and moral responsibilities of corporate management. Budgets, which are set yearly and reviewed quarterly, originate with the general managers and publishers who are responsible for them. We expect a great deal from our operating managers. We expect them to be forever cost-conscious and to recognize and exploit sales potential. But above all, we expect them to operate their stations and publications as good citizens and to use their facilities to further the community welfare.

Operating Highlights

(Dollars in Thousands)

	1978	1977
Net Revenues	**$367,476**	$306,146
Income Before Extraordinary Gain	**$ 54,033**	$ 43,234
Income Per Share Before Extraordinary Gain	**$3.80**	$2.91
Return on Equity (Before Extraordinary Gain)	**21.8%**	19.4%

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To Our Shareholders

It is a pleasure for us to report that in 1978 your company achieved record sales and earnings levels for the 24th consecutive year. At the same time, acceptance by our viewers, listeners and readers of the programming and editorial efforts of our various stations and publications was further strengthened as measured by rating reports and circulation figures.

Net revenues and net income from operations rose 20 and 25 percent, respectively. Earnings per share climbed 31 percent from the 1977 level.

Satisfactory revenue and earnings gains were achieved at almost every one of our broadcast stations and publications. Notable exceptions were *The Oakland Press* in Pontiac, Michigan, and the newly acquired Wilkes-Barre (Pennsylvania) *Times Leader*, where extended labor disputes have increased costs and reduced revenues, while both of these daily newspapers have continued to publish. These situations are described in detail in the Publishing section of this report.

Broadcasting revenues increased 19 percent to $133,360,000 in 1978, and operating income rose 23 percent to $70,080,000. Publishing revenues (including the Wilkes-Barre acquisition) increased 21 percent to $234,116,000, and operating income was up 12 percent to $48,781,000.

Because it did not fit with our advertiser- and reader-supported media operations, Flambeau Paper Company, which was acquired in 1977 as part of the Kansas City Star Company, was sold for approximately $15,500,000 on July 31, 1978. Now that both Flambeau Paper Company and Graham Paper Company (sold in 1977) have been sold, the effective purchase price of our continuing Kansas City newspaper operations becomes $96,000,000, an amount we consider attractive in terms of operating improvements achieved thus far and prospects for substantial future growth.

Although many prospective media acquisitions were considered during 1978, only the previously mentioned Wilkes-Barre transaction was finalized.

It is still our view that the three best uses for the excess cash generated by your company's operating divisions are: to foster additional growth by acquiring or starting new properties; to enhance the value of our shareholders' investments through repurchase of Capital Cities stock, or to disburse funds to our shareholders through increased dividends. These possibilities are reviewed regularly, and as we have stated in the past, we continue to believe that, at this time, the first two alternatives best serve the interests of our shareholders. We continue to be optimistic about periodic acquisition possibilities in our basic broadcasting and publishing businesses. But, mindful of the extremely high asking prices of these properties, we have also maintained our program of repurchasing company stock at times when its price/earnings multiple is low. During 1978, 823,800 shares were repurchased at an aggregate price of $31,097,000. This had the

THOMAS S. MURPHY, Chairman

effect of increasing earnings per share in 1978 by $.17.

Capital Cities stock was split two shares for one on July 3, 1978. At the time of the stock split, the quarterly dividend of $.05 per share was maintained on the shares, which, in effect, doubled our dividend.

Total debt during the year was reduced by $23,274,000 to $102,983,000, or to less than two times our 1978 earnings. The company therefore retains substantial financing flexibility with regard to internal and external growth opportunities as they arise.

Return on equity, which we consider an important measurement of your company's performance and the soundness of its policies, continued on the rising trend which began in 1974. For 1978, the aftertax return on average stockholders' equity reached 21.8 percent, versus the 19.4 percent level of 1977.

DANIEL B. BURKE, President

Perhaps no businesses with which we are familiar benefit more from autonomous and enlightened local management than do broadcast stations, specialized publications, and daily newspapers. Great care is therefore taken to have outstanding people at each of our operations. We remain convinced that the record performance which the men and women of Capital Cities achieve year in and year out is proof of their abilities and dedication, and of the soundness of an organizational plan wherein local decisions are made locally. As the company has grown and prospered, your senior management, with concurrence of the Board of Directors, has introduced attractive incentive plans and expanded benefit programs for most of the company's employees. These have been designed to recognize able people for past performance, to maintain Capital Cities as an attractive place to work, and most importantly, to stimulate outstanding future performance. Two years ago, a stock purchase opportunity was extended to all employees below the officer level. To date 1,379 employees, or 37 percent of all eligible employees, have purchased 102,744 shares of company stock at an aggregate price of $1,990,000. We are delighted with the results of this program and are pleased that so many fellow employees are now shareholders.

Your company's prospects remain encouraging. We are financially stronger than ever before, and consumer acceptance of our various properties averages to an all-time high level.

We share the acute national concern about energy and inflation. In another section of this report which deals with our public service activities, a description of our programming efforts regarding the energy problem may be found. As for inflation, Capital Cities has unequivocally committed itself to the current wage-price guideline program.

We thank our employees and associates for their continuing excellent efforts and results, and we thank you for your interest and support.

Thomas S. Murphy

THOMAS S. MURPHY
Chairman

Daniel B. Burke

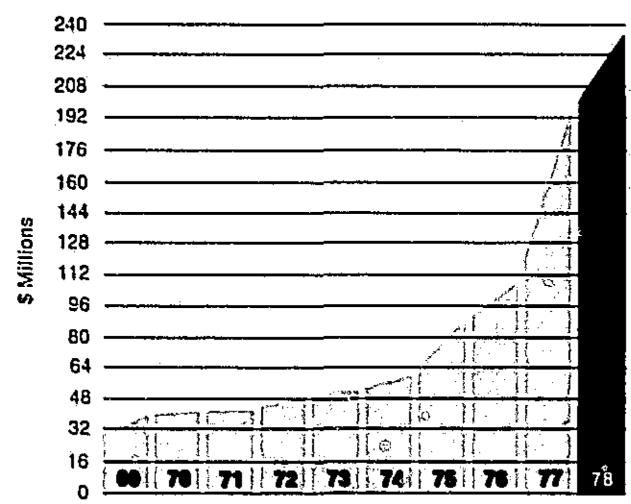
DANIEL B. BURKE
President

Publishing 1978

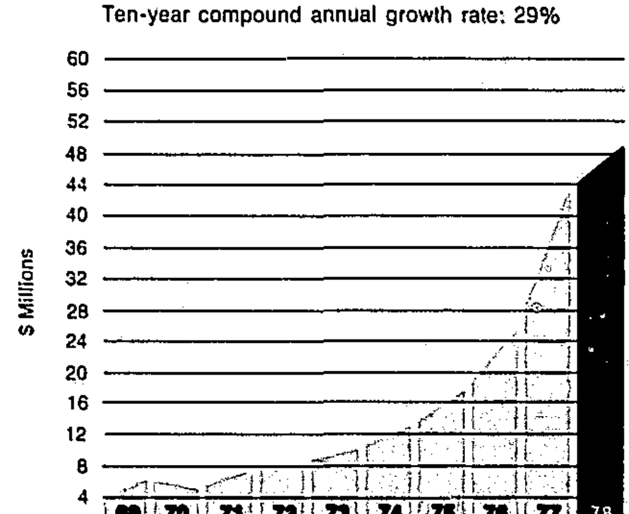
Capital Cities in 1978 marked its eleventh year in publishing. Since the 1968 acquisition of Fairchild Publications, total publishing revenues have increased from $30,416,000, to $234,116,000 in 1978. Operating income during the same eleven-year period has advanced from $3,912,000 to $48,781,000.

Most segments of the publishing industry enjoyed an excellent year in 1978, and in most cases, Capital Cities' operations also did well. Overall revenue and earnings totals were increased substantially by internal gains, and also reflect inclusion of Kansas City results for a full year, instead of the 10½ months after acquisition in early 1977. All-time record sales and earnings were achieved at Kansas City, Missouri *(Star/Times)*; Fort Worth, Texas *(Star-Telegram)*; Belleville, Illinois *(News-Democrat)*; and New York's Fairchild Publications.

Net Revenue—Publishing Division
Ten-year compound annual growth rate: 22%



Operating Income—Publishing Division
Ten-year compound annual growth rate: 29%



We continue to take advantage of these excellent business results to ensure healthy futures for our publishing franchises. Expensive programs to expand and improve editorial content are well under way. Circulation personnel and new equipment have been added to improve service to our readers, and we continue to seek out and install the most modern production devices available. Editorial staffs, primarily at Kansas City and Fort Worth, have been increased, and substantial increases in the space available for editorial material have been provided. *The Oakland Press* (Pontiac, Michigan) introduced a Sunday edition on September 17, and results thus far have been favorable from both circulation and advertising standpoints.

Additions to the daily editorial product at the *Fort Worth Star-Telegram*, including a new business section, have combined with stepped-up circulation efforts to produce circulation gains of 5 percent daily, 8 percent Sunday, and 12 percent Saturday. With an average daily gain of over 6 percent for the year, the *Star-Telegram* is one of the fastest-growing major metropolitan dailies in the United States.

The *News-Democrat* also achieved circulation gains and further consolidated the Sunday edition which was successfully introduced in 1976.

Fairchild Publications achieved its eighth consecutive record revenue and profit year. The economic environment was once again generally favorable for business and professional publications directed at most of the groups which Fairchild serves. New highs in revenue and operating profit were registered by nearly all of the individual publications. *Energy User News*, a weekly tabloid newspaper, launched in 1976 and edited for individuals involved with the production, distribution, purchase and/or use of commercial quantities of energy, continued to make slow but steady progress toward profitability and the circulation and revenue goals which have been established for it.

SportStyle, a semimonthly tabloid aimed at the burgeoning active sportswear and sporting goods markets, was introduced in October 1978, and we are most encouraged by initial response from both readers and advertisers. *W*, launched in early 1972 as the first new project of the Fairchild organization after its affiliation with Capital Cities, has been profitable since 1975 and enjoyed satisfactory circulation and advertising revenue growth in 1978.

In September of 1977, *The Kansas City Star* announced its intention to change its method of distribution to improve newspaper delivery. With the change, the *Star* would have begun selling newspapers directly to the subscriber, contracting with independent contractor agents to carry out the delivery and collection functions. Previously, the *Star* had sold newspapers to independent distributors who in turn sold them to subscribers. A number of distributors protested this action. As plaintiffs in a Federal antitrust lawsuit against the *Star* that had been filed before its acquisition in early 1975, they asked the court to prevent the *Star* from, in effect, terminating this system.

The court issued a preliminary injunction preventing the *Star* from terminating any of the plaintiffs solely in order to make them agents under the new system. The court did not, however, prevent the *Star* from implementing the new relationship with those who did not object, and a number of distributors voluntarily became agents.

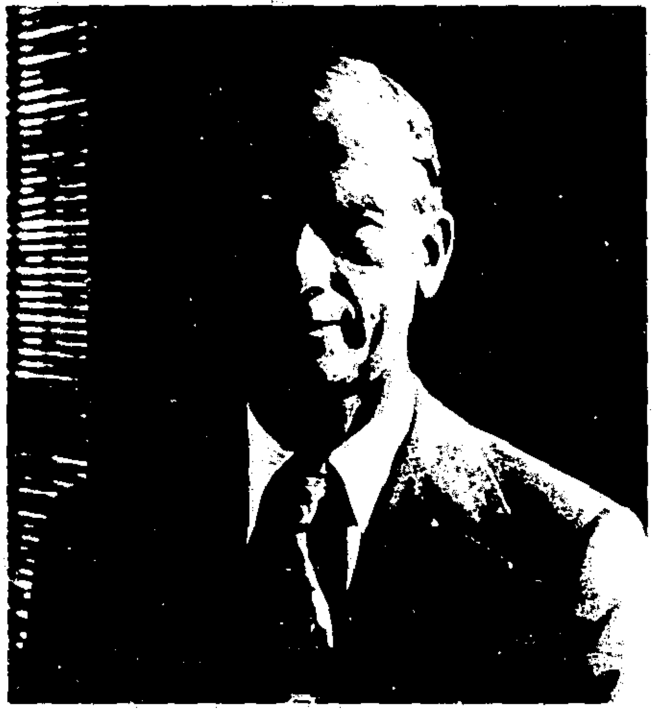
Following a trial on the merits, the court concluded that the proposed change in the distribution system would have eliminated the *Star* as a potential competitor in the retail distribution of its own newspapers, thereby violating Federal antitrust law. The matter of remedies has been reserved for further proceedings.

The *Star* has taken an appeal from the trial court's ruling to the United States Court of Appeals for the Eighth Circuit. The preliminary injunction will remain in effect during the pendency of that appeal. The *Star* is optimistic of a favorable appellate ruling which would permit a change in the distribution system. Even if the trial court's decision is upheld, however, the *Star* is prepared to go forward with a number of modifications of the existing distribution system and does not believe the decision will have a material adverse effect on its operations.

We would like to give you information on the origins and effects of labor disputes at our Pontiac, Michigan, and Wilkes-Barre, Pennsylvania, newspaper operations.

On December 29, 1977, some members of Local 22 of the Newspaper Guild and of Local 13 of the Newspaper Graphics and Printing Communications Union struck *The Oakland Press* in Pontiac, Michigan. Members of Local 512 of the International Typographical Union and of Local 372 of the International Brotherhood of Teamsters continued to work. Publication and distribution of the newspaper have not been interrupted, although minor circulation losses were experienced in the initial days of the dispute. As previously reported, a Sunday edition was successfully launched in the fall of 1978. The major effect of this disagreement, therefore, has been a substantial increase in operating costs during 1978—primarily to provide security for working employees, production facilities and the newspaper building itself.

The Wilkes-Barre *Times Leader* was acquired by Capital Cities on May 18, 1978. Since most of the



JOHN B. SIAS, President

contracts governing working relationships with 240 union employees were due to expire on September 30, 1978, efforts were begun immediately upon purchase to negotiate new agreements. While substantial progress was made with several of the unions involved, no significant understandings were reached with representatives of the Newspaper Guild, and on October 6, 1978, members of Newspaper Guild of Wilkes-Barre, Local 120; Wilkes-Barre Typographical Union, Local 187; Wilkes-Barre Printing Pressmen and Assistants Union, Local 137 (who had been working without a contract since September 30, 1976); and Wilkes-Barre Stereotypers and Electrotypers Union, Local 139, commenced a strike against the newspaper. The international governing body of the typographical union has not sanctioned this strike.

Substantial violence accompanied the efforts of management personnel and volunteers from other Capital Cities newspaper operations to print and distribute newspapers on the first two days of the strike. Accordingly, operations were suspended for four days until a State Court injunction limiting the number of pickets was obtained. On October 9, members of the striking unions commenced publication and distribution of a daily tabloid newspaper, and on October 10, our own operations were resumed and have continued without interruption.

Since the substantial majority of all employees at the Wilkes-Barre *Times Leader* are represented by unions and chose to stay away from their jobs, the dislocation of editorial, production, and distribution operations was initially quite severe. Revenues were significantly reduced and expenses rose well above normal levels. We have previously reported that losses for the fourth quarter of 1978 at Wilkes-Barre amounted to $1,800,000 after taxes, or $.13 per share. The company believes that the majority of strike-related expenses will be reduced in 1979 from the level incurred in the fourth quarter of 1978, and that losses will moderate quarter by quarter during 1979 as revenues continue to recover.

Capital Cities takes pride in the fact that for the first 24 years of its history, it has dealt with approximately 40 local units of 13 national and international labor unions representing employees in both the Broadcasting and Publishing divisions without a single work day lost due to labor dispute. During this time, contracts covering wages and working conditions for thousands of employees have been successfully negotiated. Over these years, virtually all of the expanded employee benefits which have been made possible by the company's success and growth have been voluntarily extended to union-represented and nonunion employees alike. That two such serious and disruptive strikes should now take place within nine months is a source of great regret. The personal and financial losses for these employees, for their families, and for the company are substantial; but the issues involved are viewed as very important to the future well-being of these franchises. Capital Cities has been built on a policy which recognizes and attempts to accommodate the needs and rights of its employees, customers and shareholders. We intend to continue this approach.

Publishing Division

John B. Sias, *President*
Richard J. Lynch, *Vice President*

THE KANSAS CITY STAR/TIMES (Kansas City, Missouri)
James H. Hale, *President & Publisher*

THE OAKLAND PRESS (Pontiac, Michigan)
Bruce H. McIntyre, *President & Publisher*

NEWS-DEMOCRAT (Belleville, Illinois)
Darwin C. Wile, *President & Publisher*

THE ARLINGTON CITIZEN-JOURNAL (Arlington, Texas)
R. Thomas Cronk, *Publisher*

THE TIMES LEADER (Wilkes-Barre, Pennsylvania)
Richard L. Connor, *Publisher*

CARTER PUBLICATIONS

FORT WORTH STAR-TELEGRAM (Fort Worth, Texas)
B. N. Honea, *Chairman*
Amon G. Carter, Jr., *President & Publisher*
Phillip J. Meek, *Executive Vice President & General Manager*
Jack W. Campbell, *Senior Vice President*

FAIRCHILD PUBLICATIONS

John B. Fairchild, *Chairman & Chief Executive Officer*
Daniel Newman, *Executive Vice President*
Philip L. McGovern, *Senior Vice President & Treasurer*
Joseph Damico, *Vice President-Production*
George T. Groh, *Vice President-General Services*
Ann L. Regan, *Secretary*

•

WOMEN'S WEAR DAILY
W

Michael F. Coady, *Senior Vice President*
Rudolph J. Millendorf, *Vice President & Art Director*
Eugene F. Fahy, *Vice President & Advertising Director*

•

DAILY NEWS RECORD
FAIRCHILD NEWS SERVICE
SPORTSTYLE

Stephen G. Stoneburn, *Senior Vice President*
Herbert Blueweiss, *Vice President & Publisher, DNR*
Nathan R. Abelson, *Vice President & Advertising Director, DNR*
Clara Hancox, *Vice President & Director of Publishing, DNR*

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BOOK DIVISION

•

HFD—Retailing Home Furnishings
SUPERMARKET NEWS
MEN'S WEAR

David S. Branch, *Senior Vice President*
Ernest D. Obermeyer, *Vice President & Publisher, SN*
Robert J. Dowling, *Publisher, MW*

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AMERICAN METAL MARKET
METALWORKING NEWS
ELECTRONIC NEWS
ENERGY USER NEWS
METAL/CENTER NEWS
FOOTWEAR NEWS

Kenneth Share, *Senior Vice President & Publisher, AMM & FN*
Martin P. Rosenblum, *Senior Vice President & Publisher, EN*
James J. Lydon, *Vice President & Editor, EN*
James M. Lamoree, *Publisher, M/CN*

INTERNATIONAL MEDICAL NEWS GROUP & MERCURY PRESS

CLINICAL PSYCHIATRY NEWS
FAMILY PRACTICE NEWS
INTERNAL MEDICINE NEWS
OB. GYN. NEWS
PEDIATRIC NEWS
SKIN & ALLERGY NEWS

Charles J. Siegel, *Vice President & Publisher, IMNG*
Meadie E. Pace, *Manager, Washington Operations, IMNG & Mercury Press*
William Rubin, *Editor, IMNG*

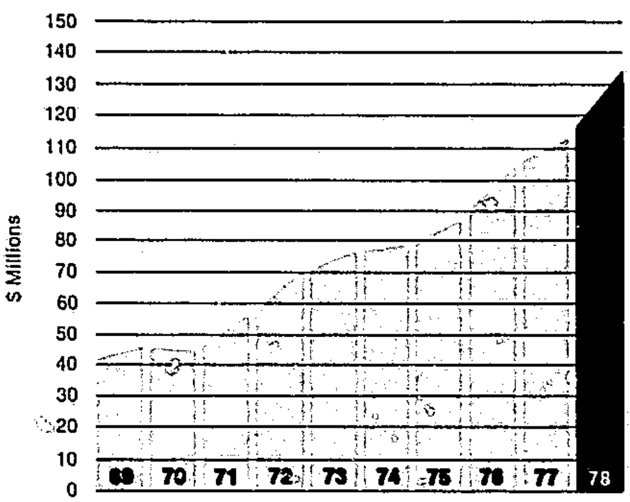
Broadcasting 1978

In 1978, the Broadcasting Division produced operating income of $70,080,000, up 23 percent from 1977's $56,757,000. Revenues were $133,360,000, up 19 percent from $112,522,000 the previous year.

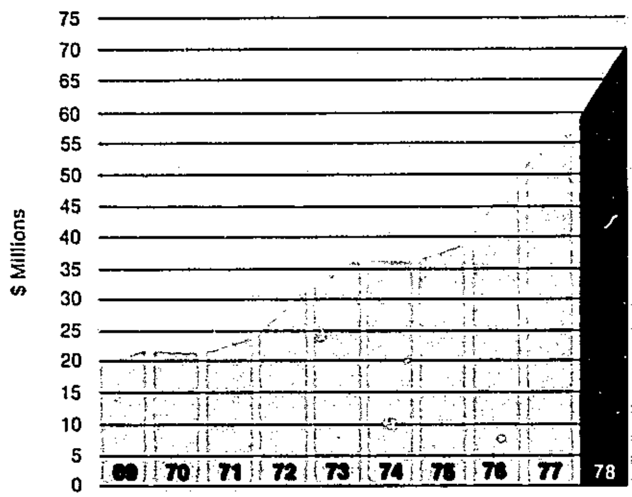
Broadcasting results were substantially higher than anticipated, due primarily to greater revenue gains than projected, especially in television. Given their relatively fixed cost structure, our stations translated a major portion of these increased revenues into additional operating income.

Most of our television stations enjoyed record years, with particularly outstanding performances in Philadelphia, Houston and New Haven. Buffalo television continued its turnaround, in the face of Canadian legislation passed in 1976 which disallowed tax deductions to Canadian advertisers for dollars spent with U. S.

Net Revenue—Broadcasting Division
Ten-year compound annual growth rate: 12%



Operating Income—Broadcasting Division
Ten-year compound annual growth rate: 14%



border stations to reach Canadian audiences.

Four of our stations held the number one audience ranking in their markets, while two ranked second. They continued to benefit from their affiliation with the major networks—four are affiliated with ABC, two with CBS—and several stations outperformed their network's average audience level. In the important news area, each station ranked number one, or a very competitive number two in its market. Over the past two years, New Haven, Philadelphia and Houston television have moved up from half-hour to hour-long early evening news blocks.

There have been some problems in local programming segments in New Haven and Durham, but these have been, we feel, successfully addressed.

Other cost pressures resulted from additional personnel and equipment, particularly in news and public affairs. Much of this has been a result of our effort to take advantage of current technology, notably through the purchase of lightweight, mobile television cameras that permit live on-location reporting, and through the addition of crews to man them. We have decided to convert our Houston station to this equipment exclusively during 1979, thus eliminating all film and film processing in favor of electronic tape recording. We will evaluate that move as a pilot for similar projects at the other TV properties.

Our radio stations held their strong audience positions in a year marked by volatility in music formats and a continuing change in the relationship of AM and FM listening habits. Detroit's WJR and Fort Worth's WBAP hit all-time highs in revenues, while KPOL in Los Angeles achieved a significant turnaround in operating profits.

Our FM stations have participated in the dramatic growth nationwide of the FM audience as a percentage of all radio listeners. It is becoming increasingly difficult for AM and FM stations to build distinctive formats based solely on the music they broadcast. Music playlists of stations operating within ostensibly different formats continue to overlap. Our stations have tried to partially compensate for this phenomenon by offering an identifiable unique range and depth of news programs and service features in addition to musical material.

As part of our continuing commitment to improvement of our facilities, new buildings were opened in 1978 in Buffalo for WKBW-AM and TV, and for WTVD in Durham. Plans have been approved for development of a new building in Fort Worth for WBAP/KSCS.

As of December 1978, 19.3 percent of total broadcast employees were from minority groups as compared to the latest FCC reported figure of 14.3 percent (1978) for all U.S. broadcasting. Our emphasis now is on increasing the number of qualified minority people and women in

JOSEPH P. DOUGHERTY, President

supervisory and department head jobs, given the reality of limited turnover inherent in those positions.

All of our stations continue to emphasize Capital Cities' commitment to quality public affairs programming in their communities. For example, last year WTNH in New Haven became a major participant in the New England Black Expo, a yearly event organized by the New Haven Black Coalition. The station figured in this celebration of minority heritage and accomplishment in two ways.

First, the station and its Minority Advisory Committee commissioned a one-hour documentary, called *Kinfolk*, which focused on the Expo's theme: the family. The program was presented as an integral ingredient of Expo. Then, after the airing of the show, WTNH went live for 10½ hours of programming devoted to airing the talent and voicing the needs of the minority community. A number of prominent regional and national figures participated. In addition, proceeds from the sale of commercial time during the broadcast went to the Black Coalition.

At radio station WPAT in Paterson, New Jersey, an unusual story unfolded in the wake of an attack on an area newspaper reporter. The reporter, Bob Grayson, had been ambushed by three youths when he stopped on a highway to offer help to what he thought was an injured motorist.

Although the beating he took left Grayson with obvious and serious head injuries, police took him not to a hospital, but to their headquarters. There, he was not permitted to phone his family or attorney. Not until three hours later, after his attackers had been caught and he had identified them, was he given medical attention. The delay was critical—he lost the sight of his right eye, which physicians said might have been saved had he been given prompt treatment.

This four-year-old incident, and Grayson's subsequent dealings with the courts, law enforcement officials and insurance companies, pointed out the lack of standardized and sensible procedures for dealing with crime victims. Grayson aired these problems as a guest on WPAT news director John Cichowski's telephone talk show last year, and drew reactions from many in the community—including Paterson Mayor Lawrence Kramer.

Kramer was so moved by Grayson's story on the radio that he asked the city hall reporter to serve as the city's first crime victims' advocate. Based on the public reaction to his talk show appearance, Grayson accepted the offer, and is currently developing a crime victims' program for Paterson—the first of its kind in the state—as well as helping to produce legislation relating to insurance company and police practices in this area.

In addition to individual stations' activities, Capital Cities is involved in public affairs programming on a national level. These efforts are described in the next section of this report.

Broadcasting Division

Joseph P. Dougherty, *President*
George R. Chamberlin, *Vice President-Finance/Administration*
Robert O. Niles, *Vice President & Director of Engineering*

TELEVISION

PHILADELPHIA • WPVI-TV • CHANNEL 6 • ABC
Lawrence J. Pollock, *Vice President & General Manager*

HOUSTON • KTRK-TV • CHANNEL 13 • ABC
Kenneth M. Johnson, *Vice President & General Manager*

BUFFALO • WKBW-TV • CHANNEL 7 • ABC
Philip R. Beuth, *Vice President & General Manager*

NEW HAVEN • WTNH-TV • CHANNEL 8 • ABC
Peter K. Orne, *Vice President & General Manager*

DURHAM-RALEIGH • WTVD • CHANNEL 11 • CBS
Richard F. Appleton, *General Manager*

FRESNO • KFSN-TV • CHANNEL 30 • CBS
Walter C. Liss, Jr., *Vice President & General Manager*

RADIO

PATERSON (NEW YORK) • WPAT AM-FM • 930/93.1
James P. Arcara, *Vice President & General Manager*

LOS ANGELES • KPOL AM • 1540 • KZLA FM • 93.9
Peter C. Newell, *Vice President & General Manager*

DETROIT • WJR AM-FM • 760/96.3 • NBC
William R. James, *Vice President & General Manager*

FORT WORTH • WBAP AM • 820 • KSCS FM • 96.3 • NBC
Warren Potash, *Vice President & General Manager*

BUFFALO • WKBW AM • 1520
Norman S. Schrutt, *Vice President & General Manager*

PROVIDENCE • WPRO AM-FM • 630/92.3
Richard G. Rakovan, *Vice President & General Manager*

ALBANY • WROW AM-FM • 590/95.5 • CBS
Robert M. Peebles, *Vice President & General Manager*

CAPITAL CITIES TELEVISION PRODUCTIONS

Charles Keller, *General Manager*

We Talk to People

(Our corporate commitment to the nation and the communities we serve)

Three years ago, we changed the mandate of Capital Cities Television Productions from an emphasis on sports specials and other commercial ventures to the production of public affairs and young people's programming. The purpose of the transformation, then as now, was to marshal the resources of your company as a group broadcaster in order to create programs which would address national concerns, just as individual stations program to local and regional issues in their communities.

In 1978, this commitment resulted in our highest and most satisfying level of programming to date. Our production arm produced and nationally distributed two major news documentaries; launched an ongoing series of dramatic specials for teenagers and their families, and completed the pilot year of an innovative program that harnesses television as a reading instruction tool. Details on each of these activities follow.

Plans for 1979 call for maintaining the scope and pace of our major public service programming. We continue to budget these productions at levels commonly associated with the major television networks. We have established for our programs a network of stations that can reach virtually all of the television viewing homes in America. And the audiences we have attracted to our productions have rivaled, in many cases, the size of those drawn by the major networks for similar kinds of shows.

The 45 Billion Dollar Connection, *narrated by best-selling economic author Adam Smith, dramatized international oil trade as a high-stakes poker game between nations.*

Capital Cities Special Reports

Capital Cities Special Reports are hour-long news documentaries, each designed to identify and illuminate a major national concern.

Last year, the first of our two Special Reports focused on the increasingly high-stakes oil game. *The 45 Billion Dollar Connection* documented the consequences for world economies, and for the lives of Americans, of the industrialized world's unchecked appetite for foreign oil. This followed up on 1977's highly acclaimed *We Will Freeze in the Dark,* which examined the U.S. energy outlook and the state of development of domestic energy conservation efforts. With best-selling economic writer Adam Smith (*The Money Game, Super Money*) narrating, *45 Billion Dollar* dramatized the ebb and flow of oil wealth on a readily understood scale—that of the poker table.

We estimate that more than 10 million viewers on the Capital Cities "network" saw *The 45 Billion Dollar Connection.* 179 stations, almost all of them affiliates of one of the three major networks, and with a reach into 97 percent of the nation's viewing homes, preempted regular prime-time entertainment programming to carry our production. National ratings indicate that 16 percent of the available audience viewed this program,

a performance level virtually equal to the average audience of network news documentaries aired in 1978. We are very pleased with the size of our audience for this important program, and with what we believe to be the largest network of affiliated and independent stations ever assembled for a show of this kind.

Our second documentary, *A House Divided*, was telecast in December. Narrated by former network correspondent Nancy Dickerson, this program focused on the House of Representatives. It examined the growing concern that the basic legislative and oversight functions of the House may have been undermined by such factors as the election of reform-minded members since Watergate, the ever-increasing influence of special interest groups, the demise of the seniority system, and sheer size of workload.

A House Divided was carried over a Capital Cities network of 153 stations, representing about 90 percent of U.S. television homes. We estimate that almost 10 million people watched this program.

For 1979, we plan a level of documentary programming activity on a par with our 1978 output. Already under way are plans for a major program that will chronicle and shed new light on the early years of the Civil Rights movement in America.

Left: Correspondent Nancy Dickerson interviewing House Speaker "Tip" O'Neill for A House Divided. *The show explored recent problems in the workings of the U.S. House of Representatives.*

Below left: It Can't Happen to Me, *one of the Capital Cities Family Specials, focused on the problems of teenage alcoholism.*

Capital Cities Family Specials

The Family Specials are original half-hour television dramas that deal in a serious and nonpatronizing way with problems of special concern to teenagers and their parents. The first four programs, which were produced in association with Paulist Productions and began to air in 1978, concerned racial prejudice, adolescent sexuality, alcoholism, and the death of a parent.

Our aim in producing these shows is to satisfy a concerned public's legitimate demands for more high-quality programming for young people. As members of a regulated industry, our individual stations most assuredly recognize their legal responsibility as licensees to provide programming in the interest of the communities they serve. We believe that their record of involvement in public service projects is outstanding. The Family Specials, then, are part of the company's effort to use the resources unique to a group broadcaster to be of service above and beyond the legal requirements, and to further fulfill obligations which we recognize as users of the television medium.

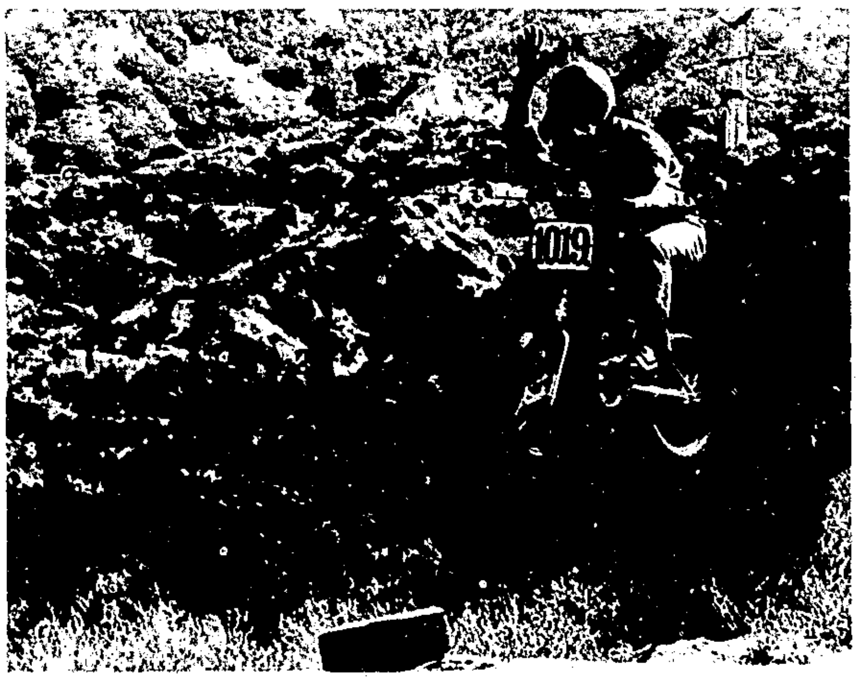
We are pleased to report that our first group of Family Specials, featuring many well-known television and film actors, is being carried by a network of 125 stations which telecast them in evening access or prime time. Early ratings for the first show in the series—*It Can't Happen to Me*, which treats the subject of teenage alcohol abuse—are very satisfying. In New York City, the program tied for first place in its time period; nationally, it ranked in the top 10 of all nationally syndicated programs, including situation comedy, musical/variety and game shows.

The second group of Capital Cities Family Specials is now in production and will be telecast during the 1979-80 television season.

Right: When, Jenny? When? *looked at adolescent sexuality and its role in emotional development.*

Below left: This One for Dad *dramatized a son's difficulty in coping with the illness and death of his father. The show starred Johnny Whitaker (Tom Sawyer), as well as Dick Van Patten of TV's* Eight is Enough *and his wife, Pat Van Patten.*

Below right: Loser Take All *portrayed racial prejudice in the lives of a group of small boys.*



Capital Cities TV Reading Program

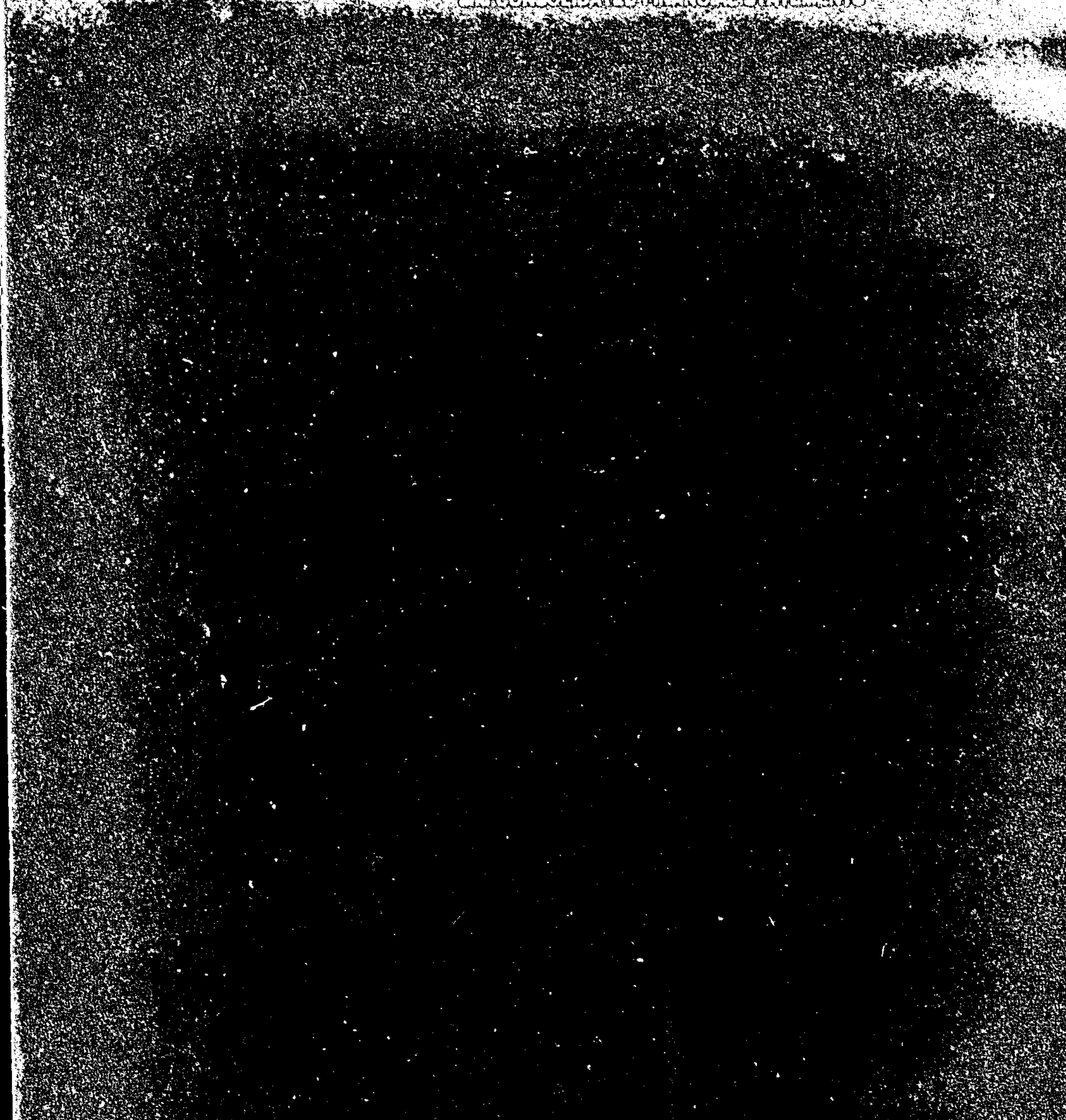
The TV Reading Program gained national prominence in 1978. Briefly, the program is designed to exploit television, often attacked as an anti-educational, anti-literate influence on children, as a tool to teach reading skills. As pioneered by Dr. Michael McAndrew, now our Director of Educative Services, the experimental program uses advance scripts from the most popular prime-time network shows as the basis for school exercises in reading comprehension and vocabulary.

Last year, more than 60,000 students and approximately 2,000 teachers participated in a pilot study of the program, and all three major networks cooperated by providing scripts of their most popular shows. The year-long study by independent researchers found significant gains in some areas of reading at some grade levels, as well as a large majority of teachers and parents eager to see the program continued. We've also had gratifying reaction from many experts and officials, including U.S. Commissioner of Education Ernest Boyer and FCC Commissioner Abbott Washburn.

Our ongoing role in the program will be determined after another year of study, using a more varied selection of test sites. To date we have committed over $500,000 to fund this program in the hope that this promising approach will provide a viable means to positively impact on our national reading problem. We expect to give you a more definitive report on this program next year.

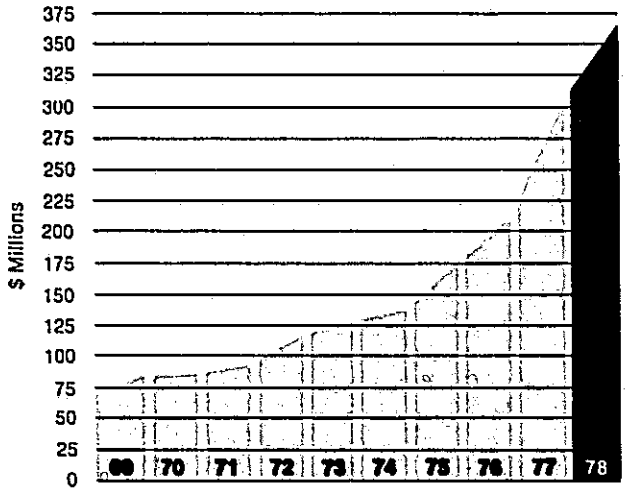
Capital Cities Communications 1978

FINANCIAL HIGHLIGHTS and OVERVIEW and CONSOLIDATED FINANCIAL STATEMENTS



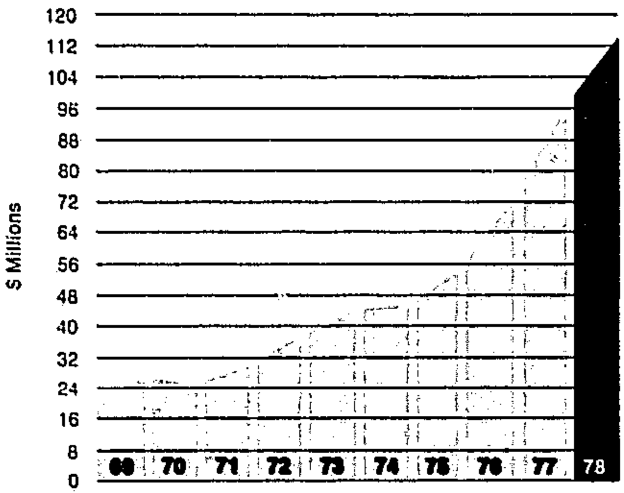
Financial Highlights and Overview

Net Revenue
Ten-year compound annual growth rate: 16%



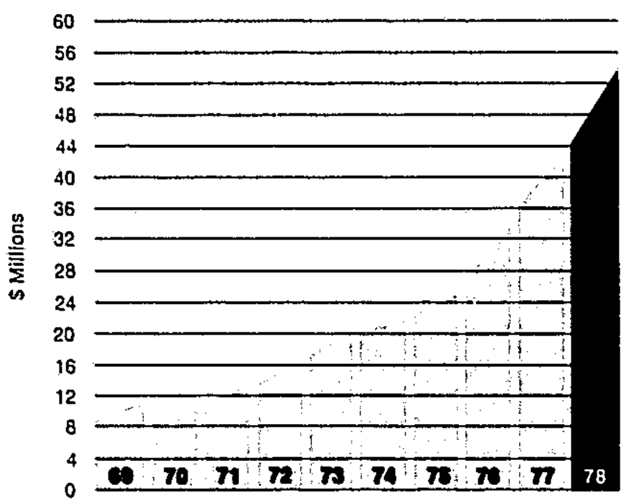
Net Revenues in 1978 increased to $367,476,000, or 20% over the 1977 level of $306,146,000. Broadcasting net revenues rose $20,838,000, or 19%, to $133,360,000 in 1978, while Publishing net revenues increased $40,492,000, or 21%, to $234,116,000.

Operating Income
Ten-year compound annual growth rate: 18%



Operating income in 1978 increased to $114,298,000, or 18% over the $96,765,000 reported in 1977. Broadcasting operating income rose $13,323,000, or 23%, to $70,080,000 in 1978, while Publishing operating income increased $5,100,000, or 12%, to $48,781,000.

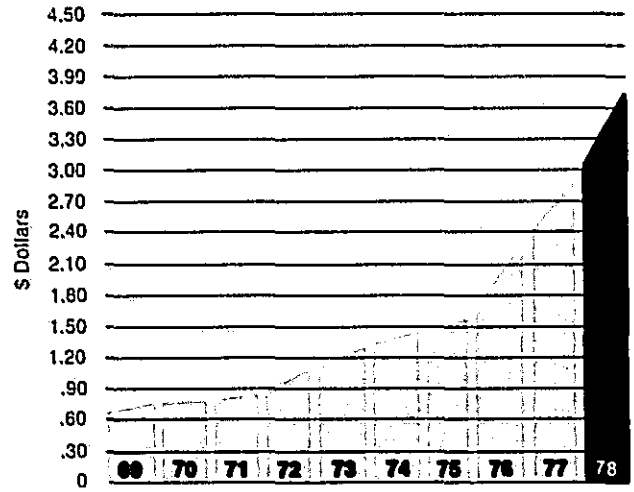
Net Income Before Extraordinary Items
Ten-year compound annual growth rate: 19%



Net Income Before Extraordinary Items of $54,033,000 in 1978 increased 25% over the $43,234,000 reported in 1977.

1978 Earnings Per Share Before Extraordinary Items of $3.80 increased 31% from the $2.91 reported in 1977.

Earnings Per Share
Before Extraordinary Items (fully diluted)
Ten-year compound annual growth rate: 20%

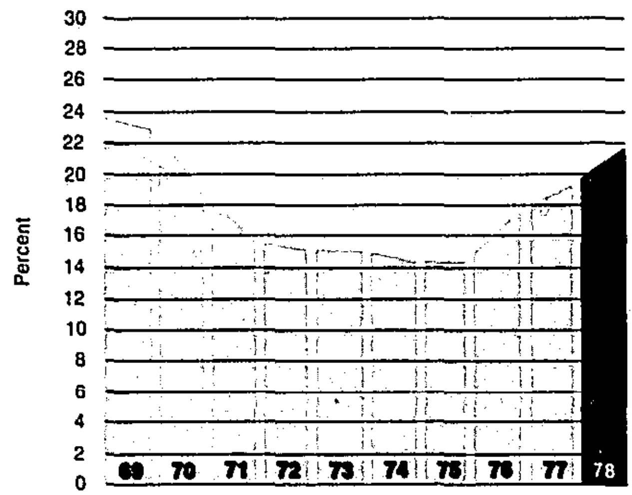


Return on Average Stockholders' Equity is expressed as the percentage of net income (after all charges, including interest and income taxes) to average shareholder equity employed in the business.

In 1978 Capital Cities' return on average shareholder equity was 21.8%, up from 19.4% in 1977.

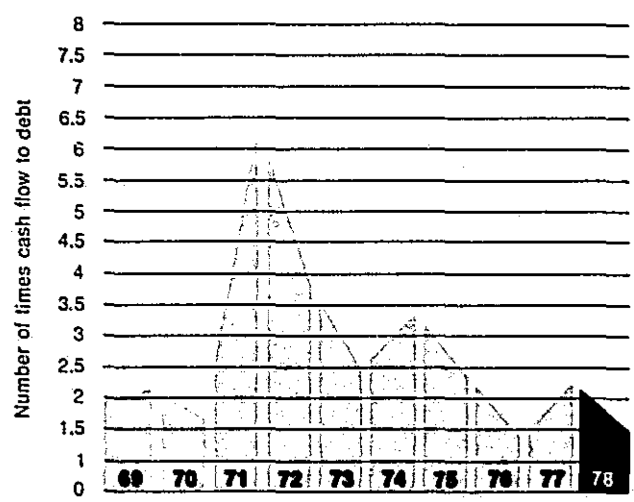
We believe return on equity is an important measurement of the effectiveness with which capital is being employed. Our shareholders have benefited as a result of our stock repurchase program and from the fact that growth has been financed principally through debt and not by infusions of new equity capital.

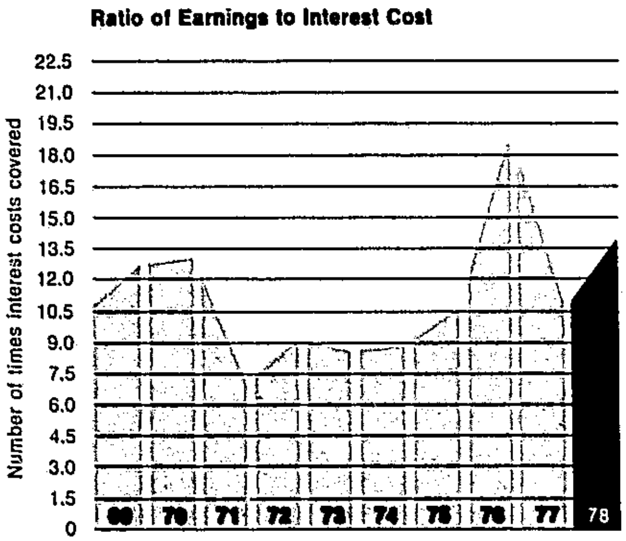
Return on Average Stockholders' Equity



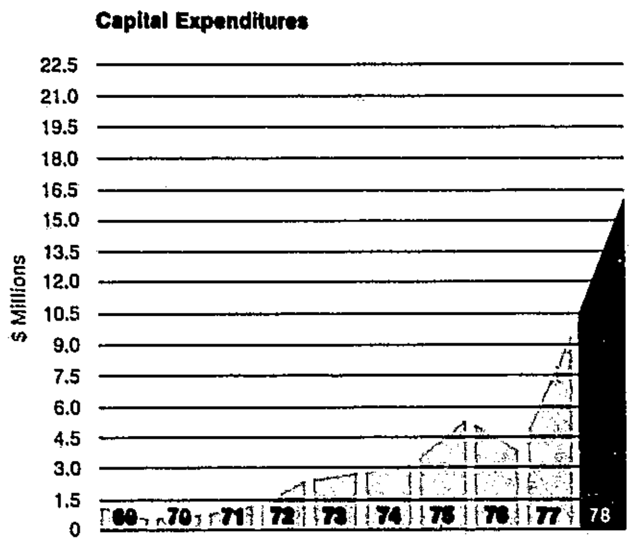
The relationship of cash flow to outstanding debt is an important yardstick of a company's ability to take on additional debt capacity as well as service existing long-term maturities. This ratio measures the number of years of current cash flow from operations (net income plus depreciation and amortization of intangibles) required to pay off currently outstanding debt. On the basis of 1978 cash flow, our debt could be retired in one and one-half years. We are, therefore, satisfied that debt could be increased substantially to meet our cash needs for any large acquisition, and that the company possesses substantial flexibility in this area.

Cash Flow to Outstanding Debt





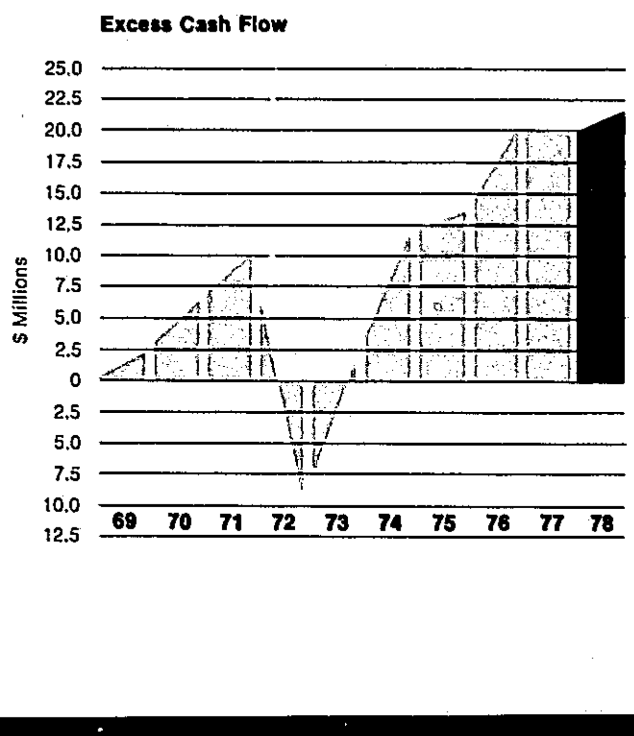
The Ratio of Earnings to Interest Cost is defined as the number of times interest expense is "covered" by earnings before interest and taxes. This is traditionally a measure of a company's ability to service its debt. Capital Cities' "interest coverage" of 13.9 times at the end of 1978 is substantial and offers opportunities for prudently increasing its debt capacity.



During 1978, capital expenditures amounted to $16,314,000. Our budgets indicate that approximately $20,000,000 will be spent on capital projects in 1979.

The majority of this amount will be devoted to projects in our Publishing Division. This includes the revamping of mailroom facilities at *The Kansas City Star* and *Fort Worth Star-Telegram*, and additional capital to continue to automate the mechanical and circulation operations at all of our newspapers.

Broadcasting Division capital expenditures will include the construction of a 2,000-foot tower for television station WTVD in Durham, North Carolina. This tower will improve the service to the communities which this station serves. Our television stations continue to add electronic news gathering equipment to better serve the news and informational needs of their viewers. We are also constructing a new studio and transmitter facility for radio station WBAP in Fort Worth, Texas.



Excess Cash Flow is defined as cash flow provided from operations less funds provided for dividends, retirement of long-term debt, and capital expenditures.

Capital Cities is in an enviable position as its operations historically have been generators of excess cash.

For 1978, $21,789,000 was provided in excess cash.

Capital Structure

Capital Cities' capital structure is comprised of three components: interest-bearing debt, deferred income taxes, and shareholders' equity.

Shareholders' equity at year-end amounted to $259,691,000, up $22,857,000 from the 1977 year-end total of $236,834,000.

Our debt, both current and long-term portions, was $102,983,000 at year-end. It consists of notes and bank term loans payable at various maturities through 1985. All interest rates are fixed, thus protecting earnings against prime rate increases.

We include deferred taxes in our capital structure, since we view them as a permanent source of capital that should continue to be available to be invested in the business.

Capital Cities' relationship of debt to total capital at December 31, for the last five years was as follows:
(dollars in millions)

	1978	1977	1976	1975	1974
Interest-Bearing Debt	$103.0	$126.3	$ 59.4	$ 75.7	$ 87.3
Total Capital	$372.5	$372.7	$276.3	$272.6	$259.0
Debt to Capital Ratio ..	28%	34%	21%	28%	34%

Return on Average Total Capital

A measure of management performance is the rate of return derived from capital employed in the business, both debt and equity. We define capital as the sum of all interest-bearing debt, deferred income taxes, and stockholders' equity. Return is defined as the sum of net income plus interest expense after taxes. By including the aftertax cost of interest in calculating this return, performance of the business is measured without being affected by the financial policies of the company.

We believe this is an important yardstick since it is a measure of the profitability of our businesses. Capital Cities' aftertax return on average total capital over the last five years was:
(dollars in millions)

	1978	1977	1976	1975	1974
Average Total Capital	$372.6	$324.5	$274.5	$265.8	$232.6
Return	$ 58.3	$ 48.0	$ 37.6	$ 28.1	$ 24.9
Rate of Return ...	15.6%	14.8%	13.7%	10.6%	10.7%

Another variation of this approach to performance measurement is the return on average operating capital. This calculation removes from total capital and the return on total capital the nonoperating assets (short-term cash investments, marketable equity securities, notes receivable and other assets) and aftertax income associated with these assets. This calculation indicates the return on assets employed in the business. The table below indicates the return on average operating capital for the last five years:
(dollars in millions)

	1978	1977	1976	1975	1974
Average Operating Capital	$309.5	$254.6	$209.8	$210.7	$186.2
Return	$ 55.7	$ 46.4	$ 35.8	$ 26.4	$ 22.7
Rate of Return ...	18.0%	18.2%	17.1%	12.5%	12.2%

Intangible Assets

At year-end, our intangible assets, before accumulated amortization, totaled $250,866,000, of which $116,367,000 were in broadcasting, and $134,499,000 in publishing. Together, these intangibles accounted for approximately 55 percent of the company's total assets.

Intangibles represent the excess of the purchase price over the value of tangible assets. In accordance with *Accounting Principles Board Opinion No. 17*, Capital Cities amortizes intangible assets acquired since 1970 over periods of 40 years. This practice is arbitrarily mandated by *Opinion No. 17* without regard to whether these assets have or have not declined in value.

All of Capital Cities' intangible assets have resulted from the acquisition of broadcasting and publishing properties. Historically, such intangible assets have tended to increase in value and have long and productive lives. We believe the company's intangible assets have appreciated substantially in value since they were acquired and that the requirements of *Opinion No. 17* when applied to such publishing and broadcasting assets significantly understates net income and shareholders' equity.

Of the total, $123,067,000 in intangibles were subject to amortization. This had the effect of reducing net income by $2,993,000, or $.21 a share, in 1978. In 1979, after giving effect to a lower number of shares outstanding, we expect amortization to amount to $3,075,000, or $.22 a share. This cost is not a deductible item in computing income taxes.

Stock Repurchase

Three years ago we began a program of repurchasing our common stock. To date, we have acquired 2,031,000 shares of issued and outstanding common stock for an aggregate purchase price of $63,066,000. During this period, November 1976 to November 1978, the above shares were acquired at an average price of $31.05.

These shares are being held in the treasury to be issued under the Capital Cities Employee Stock Purchase Plan, for Employee Stock Options, and for other corporate purposes.

These repurchases of stock have contributed to our earnings per share gains during the last three years and we feel it is one of the better opportunities to effectively deploy our assets and manage our shareholders' equity.

Ten Year Financial Summary

(All Dollars in Thousands Except Per Share Data)

	1978	1977	1976
RESULTS FOR THE YEAR			
Net Revenues			
Broadcasting	**$133,360**	$112,522	$104,307
Publishing	**234,116**	193,624	107,860
Total	**367,476**	306,146	212,167
Operating Income			
Broadcasting	**$ 70,080**	$ 56,757	$ 50,277
Publishing	**48,781**	43,681	25,592
Income from operations	**118,861**	100,438	75,869
Unallocated corporate expense	**4,563**	3,673	2,826
Total	**114,298**	96,765	73,043
Net Income (a)	**$ 54,033**	$ 43,234	$ 35,620
Net Income Per Share—Fully Diluted (a) (b)	**$3.80**	$2.91	$2.30
Average Shares—Fully Diluted (000's omitted) (b)	**14,220**	14,852	15,478
Return on Average Stockholders' Equity (c)	**21.8%**	19.4%	17.9%
MAJOR CHANGES IN FINANCIAL POSITION			
Funds Provided			
Operations	**$ 66,811**	$ 53,763	$ 43,309
Increase in notes payable	**2,696**	90,628	
Sale of operating properties	**15,526**	14,389	
Funds Applied			
Acquisitions	**$ 9,622**	$125,877	$ 6,099
Purchase of common stock for treasury	**31,097**	17,111	14,858
Capital expenditures	**16,314**	8,209	4,049
Reduction of notes payable	**26,928**	33,470	16,275
Dividends on common stock	**2,438**	1,467	1,524
AT YEAR END			
Working Capital	**$ 18,980**	$ 8,998	$ 38,058
Notes Payable	**102,983**	126,257	59,404
Stockholders' Equity	**259,691**	236,834	208,501
Number of Shares Outstanding (000's omitted) (b)	**13,514**	14,212	14,832
Price Range of Common Stock (b)	**$27⅛-47¾**	$22⅛-30½	$21⅛-28⅛

(a) Income before extraordinary gains of $3,320,000 ($.22 per share) in 1977 and $18,168,000 ($1.19 per share) in 1971 and extraordinary loss of $2,036,000 ($.14 per share) in 1970.

(b) All per share information has been adjusted for the two-for-one stock split in 1978.

(c) Income before extraordinary items divided by average Stockholders' Equity.

1975	1974	1973	1972	1971	1970	1969
$ 86,820	$ 78,576	$ 76,066	$ 69,885	$ 56,219	$ 44,649	$ 45,678
88,066	60,009	51,432	48,603	41,857	41,209	39,509
174,886	138,585	127,498	118,488	98,076	85,858	85,187
$ 39,184	$ 36,359	$ 36,469	$ 31,553	$ 23,912	$ 21,464	$ 21,881
17,699	12,752	9,800	8,192	7,695	4,872	6,217
56,883	49,111	46,269	39,745	31,607	26,336	28,098
2,748	2,492	1,704	1,659	1,299	1,051	969
54,135	46,619	44,565	38,086	30,308	25,285	27,129
$ 25,402	$ 22,025	$ 20,146	$ 17,015	$ 13,129	$ 11,511	$ 11,383
$1.64	$1.43	$1.30	$1.11	$ .86	$ .78	$ .77
15,466	15,376	15,438	15,394	15,250	14,698	14,680
14.4%	14.4%	15.2%	15.3%	15.7%	18.9%	23.0%
$ 32,098	$ 25,833	$ 23,215	$ 20,167	$ 16,324	$ 13,804	$ 13,660
	40,500			82,297		16,000
				32,032	791	
	$ 61,602	$ 1,136	$ 1,300	$103,834	$ 3,979	$ 16,000
$ 5,546	3,206	2,859	2,465	1,351	939	671
16,275	11,663	12,125	17,913	25,073	4,442	11,897
384						
$ 34,547	$ 23,864	$ 33,028	$ 22,075	$ 14,816	$ 12,708	$ 8,395
75,679	87,342	56,967	75,092	101,797	23,500	29,500
188,921	163,860	141,906	121,620	100,166	66,090	55,681
15,374	15,368	15,364	15,356	14,524	14,170	13,998
$11-21¾	$8⅜-19⅝	$15-31¼	$24-32⅛	$14½-24⅞	$9¾-18¼	$13-19¾

Summary of Operations

(Dollars in Thousands Except Per Share Data)

	Year Ended December 31,				
	1978	**1977**	**1976**	**1975**	**1974**
Net Revenues	**$367,476**	$306,146	$212,167	$174,886	$138,585
Operating Expenses					
Broadcasting and publishing	**158,965**	132,721	78,809	71,375	53,590
Selling, general and administrative	**81,735**	65,727	53,764	43,458	35,017
Depreciation	**9,485**	8,294	5,731	5,098	3,212
Amortization of intangible assets	**2,993**	2,639	820	820	147
	253,178	209,381	139,124	120,751	91,966
Operating Income	**114,298**	96,765	73,043	54,135	46,619
Other Income (Expense)					
Interest expense	**(8,603)**	(9,545)	(3,992)	(5,352)	(5,724)
Interest income	**3,145**	2,087	3,167	2,749	4,119
Miscellaneous, net	**1,993**	927	432	470	231
	(3,465)	(6,531)	(393)	(2,133)	(1,374)
Income Before Income Taxes	**110,833**	90,234	72,650	52,002	45,245
Income Taxes	**56,800**	47,000	37,030	26,600	23,220
Income Before Extraordinary Gain	**54,033**	43,234	35,620	25,402	22,025
Extraordinary Gain, net of taxes	**—**	3,320	—	—	—
Net Income	**$ 54,033**	$ 46,554	$ 35,620	$ 25,402	$ 22,025
Income Per Share:					
Income before extraordinary gain	**$3.80**	$2.91	$2.30	$1.64	$1.43
Extraordinary gain	**—**	.22	—	—	—
Net income	**$3.80**	$3.13	$2.30	$1.64	$1.43
Dividends Declared on Common Stock	**$.175**	$ .10	$ .10	$.025	$—
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	**13,993**	14,710	15,332	15,016	14,380
Convertible preferred shares	**—**	—	—	354	986
Stock options	**227**	142	146	96	10
Total common shares and common share equivalents	**14,220**	14,852	15,478	15,466	15,376

Adjusted for 1978 two-for-one stock split

Management's Discussion and Analysis of the Summary of Operations

1978 Compared to 1977

Net Revenues

Net revenues for 1978 were up $61,330,000 or 20% over 1977, with all major groups of the Company contributing to the gain. On a pro forma basis (including the Kansas City Star newspapers for a full year in 1977 and excluding the Wilkes-Barre *Times Leader* from 1978), the Company's revenues for 1978 increased $49,778,000 or 16%.

Broadcasting division revenues, reflecting strong radio and television national spot business (up 25% over 1977), were $20,838,000 or 19% higher than 1977. Revenues for both the radio and television stations showed comparable gains.

Publishing division revenues, on a pro forma basis, were up $28,940,000 or 14% over 1977. Newspaper revenues, on the same pro forma basis, rose 16%, with advertising and circulation revenues up 19% and 4% respectively. Advertising linage increased 9% in 1978, with classified advertising registering the largest gains. Specialized publication revenues showed a gain of 11% with advertising revenue and linage up 12% and 3%, respectively.

Operating Expenses

Operating expenses increased $43,797,000 or 21% in 1978 over the previous year. On a comparable pro forma basis, the Company's operating expenses were up $28,401,000 or 13%.

Broadcasting division operating expenses were up $7,515,000 or 13% in 1978, primarily as a result of higher revenue-related selling costs, together with increased wage, program and administrative expenses.

Publishing division operating expenses, on a pro forma basis, increased by $19,996,000 or 13% over 1977. The increase resulted principally from higher volume-related production, distribution and selling expenses, newsprint price increases, the costs of substantially expanded editorial and distribution efforts at the *Fort Worth Star-Telegram*, and the start-up expenses associated with the new Sunday edition of the *Oakland Press* and a new business publication *SportStyle*.

Operating Income

Operating income for 1978 increased by $17,533,000 or 18% over 1977. On a pro forma basis, including the Kansas City Star newspapers for all of 1977 and excluding the $3,600,000 loss (approximately $1,800,000 after taxes, or $.13 per share) incurred in 1978 at the Wilkes-Barre *Times Leader*, which has been operating under strike conditions since October 6, 1978, the gain in operating income would have been $21,377,000 or 22%. Operating income margins, on the pro forma basis, increased from 31% to 32%.

Other Income and Expense

Net financial costs (interest expense less interest income) for 1978 decreased $2,000,000 from 1977, resulting from a combination of a $23,274,000 net reduction in outstanding debt, and significantly higher interest rates on a larger average short-term investment portfolio. Miscellaneous income in 1978 increased by $1,066,000, principally due to disposals of non-operating assets and higher dividend income resulting from the December, 1977 exchange of shares of Southland Paper Mills, Inc. for shares of St. Regis Paper Company.

Net Income

Income before extraordinary gain in 1978 increased $10,799,000 or 25% from 1977. Income per share before extraordinary gain increased 31% or $.89, to $3.80. The higher percentage gain of income per share resulted from a 4% decrease in average shares outstanding, reflecting late 1977 and 1978 repurchases of shares by the Company.

1977 Compared to 1976

Net Revenues

Net revenues in 1977 increased $93,979,000 or 44% over 1976. 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 13% for the year.

Excluding the aforementioned 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%. 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.

Operating Expenses

Total operating expenses for 1977 were up $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 and amortization of intangibles of $1,819,000), 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 two acquisitions, rose $8,037,000 or 10% in 1977. 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*.

Operating Income

Operating income for 1977 increased $23,722,000 or 32% compared to 1976. Excluding the effect of the two acquisitions, operating income rose $12,403,000 or 17%, with operating income margins improving from 34% to 36%.

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 five daily newspapers, four of which have Sunday editions, a three times weekly suburban newspaper and 19 business and specialized newspapers, 11 of which are paid circulation and eight of which are controlled circulation.

Capital expenditures made by each of the Company's segments for the years 1978 and 1977 are as follows: Broadcasting $8,200,000 and $4,600,000; Publishing $7,800,000 and $2,800,000.

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	
(Dollars in Thousands)	**1978**	**1977**	**1978**	**1977**	**1978**	**1977**
Net Revenues	**$133,360**	$112,522	**$234,116**	$193,624	**$367,476**	$306,146
Direct Operating Expenses	**59,619**	52,317	**176,909**	142,713	**236,528**	195,030
Depreciation	**3,429**	3,216	**5,665**	4,823	**9,094**	8,039
Amortization of Intangible Assets	**232**	232	**2,761**	2,407	**2,993**	2,639
Total	**63,280**	55,765	**185,335**	149,943	**248,615**	205,708
Income from Operations	**$ 70,080**	$ 56,757	**$ 48,781**	$ 43,681	**118,861**	100,438
General Corporate Expense					**4,563**	3,673
Operating Income					**114,298**	96,765
Interest Expense					**(8,603)**	(9,545)
Other Income					**5,138**	3,014
Income Before Income Taxes					**$110,833**	$ 90,234
Assets Employed by Segments	**$178,739**	$167,019	**$209,255**	$190,810	**$387,994**	$357,829
Investments and Other Corporate Assets					**56,803**	77,267
Total Assets at December 31					**$444,797**	$435,096

Other Income and Expenses

Net financial costs 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 $.61 or 27% (after an increase in the amortization of acquisition-related intangibles of $1,819,000 or $.12 per 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 stock repurchases by the Company in late 1976 and 1977.

For 1977, after all financial costs and amortization of intangibles, the two acquisitions combined added approximately $760,000 or $.05 per share to the Company's net income.

Quarterly Financial Data *(Unaudited)*

(Dollars in Thousands Except Per Share Amounts)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
1978					
Net Revenues	$79,655	$95,779	$90,531	$101,511	$367,476
Operating Income	23,606	34,427	26,710	29,555	114,298
Net Income	10,707	16,165	12,328	14,833	54,033
Net Income Per Share	$.75	$1.13	$.86	$1.06	$3.80
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	$.55	$ .81	$.64	$ .91	$2.91
Extraordinary Gain	—	—	—	.22	.22
Net Income	$.55	$ .81	$.64	$1.13	$3.13
Price Range of Common Stock					
1978	$27⅛-30¾	$30¼-37⅞	$35½-47¾	$37-44¼	$27⅛-47¾
1977	$22½-28½	$22⅛-26	$23-26	$23½-30½	$22⅛-30½

Adjusted for 1978 two-for-one stock split

Consolidated Statement of Income

Years Ended December 31, 1978 and 1977
(Dollars in Thousands Except Per Share Amounts)

	1978	1977
Net Revenues		
Broadcasting	$133,360	$112,522
Publishing	234,116	193,624
	367,476	306,146
Operating Expenses		
Broadcasting and publishing	158,965	132,721
Selling, general and administrative	81,735	65,727
Depreciation	9,485	8,294
Amortization of intangible assets (Note 10)	2,993	2,639
	253,178	209,381
Operating Income	114,298	96,765
Other Income (Expense)		
Interest expense	(8,603)	(9,545)
Interest income	3,145	2,087
Miscellaneous, net	1,993	927
	(3,465)	(6,531)
Income Before Income Taxes	110,833	90,234
Income Taxes (Note 5)		
Federal	50,200	41,200
State and local	6,600	5,800
	56,800	47,000
Income Before Extraordinary Gain	54,033	43,234
Extraordinary Gain (Note 3)		
Gain on exchange of securities of $5,020 less deferred income taxes of $1,700	—	3,320
Net Income	$ 54,033	$ 46,554
Income Per Share (Note 6)		
Income before extraordinary gain	$3.80	$2.91
Extraordinary gain	—	.22
Net income	$3.80	$3.13

See accompanying notes

Consolidated Statement of Changes in Financial Position

Years Ended December 31, 1978 and 1977
(Dollars in Thousands)

	1978	1977
Funds Provided		
Operations		
Income before extraordinary gain	$54,033	$ 43,234
Depreciation	9,485	8,294
Amortization of intangibles	2,993	2,639
Other, net	300	(404)
Total from operations	66,811	53,763
Common stock issued under Employee Stock Purchase Plan (Note 12)	1,990	—
Increase in notes payable (Note 11)	2,696	90,628
Decrease in notes receivable	6,718	—
Increase in unearned subscription revenue	2,579	567
Proceeds from sale of paper manufacturing and distribution properties (Note 2)	15,526	14,389
Other, net	2,489	(2,273)
	98,809	157,074
Funds Applied		
Acquisitions of publishing properties (Note 2)	9,622	95,988
Acquisition of paper manufacturing and distribution properties (Note 2)	—	29,889
Purchases of common stock for treasury	31,097	17,111
Additions to fixed assets	16,314	8,209
Reduction of notes payable (Note 11)	26,928	33,470
Dividends	2,438	1,467
Note receivable from sale of paper manufacturing property	2,428	—
	88,827	186,134
Increase (Decrease) in Working Capital	$ 9,982	$(29,060)
Working Capital Changes		
Cash and short-term cash investments	$(4,928)	$(20,789)
Accounts and notes receivable	19,584	11,342
Film contract rights and other current assets	2,085	489
Taxes on income	(1,378)	519
Notes payable due within one year	(958)	(9,695)
Film contracts and other current liabilities	(4,423)	(10,926)
Increase (Decrease) in Working Capital	$ 9,982	$(29,060)

See accompanying notes

Consolidated Balance Sheet

December 31, 1978 and 1977
(Dollars in Thousands)

ASSETS	1978	1977
Current Assets		
Cash	$ 5,440	$ 4,794
Short-term cash investments	26,154	31,728
Accounts receivable (less allowance for doubtful accounts of $2,429 in 1978 and $2,355 in 1977)	55,372	41,994
Notes receivable	6,501	295
Film contract rights	3,725	2,212
Other current assets	6,555	5,983
Total current assets	103,747	87,006
Property, Plant and Equipment, at cost		
Land	12,554	12,024
Buildings	41,912	35,901
Broadcasting, printing and other equipment	88,077	77,799
	142,543	125,724
Less accumulated depreciation	68,234	58,384
Property, plant and equipment, net	74,309	67,340
Intangible Assets (net of accumulated amortization of $7,484 in 1978 and $4,491 in 1977—Note 10)	243,382	237,877
Marketable Equity Securities (Note 9)	11,649	12,167
Notes Receivable	5,101	9,371
Film Contract Rights	2,191	2,136
Other Assets (Note 2)	4,418	19,199
	$444,797	$435,096

See accompanying notes

LIABILITIES AND STOCKHOLDERS' EQUITY

	1978	1977
Current Liabilities		
Accounts payable	$ 12,164	$ 9,813
Accrued compensation	5,884	5,428
Other accrued expenses	13,130	12,133
Film contracts	3,899	3,280
Taxes on income (Note 5)	22,762	21,384
Notes payable due within one year (Note 11)	26,928	25,970
Total current liabilities	84,767	78,008
Deferred Compensation	2,657	1,792
Deferred Income Taxes (Note 5)	9,872	9,597
Unearned Subscription Revenue	10,005	7,426
Film Contracts	1,750	1,152
Notes Payable Due After One Year (Note 11)	76,055	100,287
Total liabilities	185,106	198,262
Commitments (Note 13)		
Stockholders' Equity (Notes 11 and 12)		
Convertible preferred stock, $1 par value (600,000 shares authorized)	—	—
Common stock, $1 par value (20,000,000 shares authorized)	15,394	7,697
Additional paid-in capital	—	8,371
Retained earnings	303,573	252,097
	318,967	268,165
Less common stock in treasury, at cost (1,880,261 shares in 1978 and 1,181,762 shares in 1977)	59,276	31,331
Total stockholders' equity	259,691	236,834
	$444,797	$435,096

Consolidated Statement of Stockholders' Equity

Years Ended December 31, 1978 and 1977
(Dollars in Thousands)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Total
Balance January 1, 1977	$ 7,697	$ 8,597	$207,010	$(14,803)	$208,501
Net income for 1977	—	—	46,554	—	46,554
321,800 shares purchased for treasury	—	—	—	(17,111)	(17,111)
11,619 shares issued on exercise of employee stock options	—	(226)	—	583	357
Cash dividends	—	—	(1,467)	—	(1,467)
Balance December 31, 1977	7,697	8,371	252,097	(31,331)	236,834
Net income for 1978	—	—	54,033	—	54,033
Two-for-one stock split	7,697	(7,697)	—	—	—
823,800 shares purchased for treasury	—	—	—	(31,097)	(31,097)
102,744 shares issued under Employee Stock Purchase Plan	—	(588)	—	2,578	1,990
22,557 shares issued on exercise of employee stock options	—	(86)	(119)	574	369
Cash dividends	—	—	(2,438)	—	(2,438)
Balance December 31, 1978	$15,394	$ —	$303,573	$(59,276)	$259,691

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
Buildings and improvements	10-50
Broadcasting equipment	4-8
Printing machinery and equipment	5-10

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 are charged 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.

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 tax.

2. ACQUISITIONS

Purchase—1978—On May 18, 1978, the Company acquired all of the outstanding stock of the Wilkes-Barre Publishing Company, publisher of The Wilkes-Barre *Times Leader*, for $10,617,000 for consideration of $9,741,000 in cash and $876,000 in 8.25% notes. Included in the purchase was $995,000 of working capital, $1,124,000 of net fixed assets and $8,498,000 of intangibles.

Purchase—1977—On February 15, 1977, the Company acquired all of the outstanding stock of The Kansas City Star Company for $125,002,000, for consideration of $114,752,000 in cash and $10,250,000 in 6.25% notes.

The Kansas City Star Company is engaged in the business of publishing daily newspapers in Kansas City, Missouri, and at the time of acquisition also owned the Flambeau Paper Company, a manufacturer of fine paper, and a 91% interest in the Graham Paper Company, 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	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

Pursuant to management's decision to dispose of Graham and Flambeau, the Company's investment therein at acquisition date was recorded at estimated net realizable value, under the other asset caption on the Balance Sheet. In October, 1977, the Company completed the sale of Graham, and in July, 1978 the sale of Flambeau, realizing aggregate proceeds of approximately $29,915,000.

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.

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 1978 and 1977 were $2,370,000 and $2,142,000, 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 $1,235,000 and $960,000 were charged to expense in 1978 and 1977, 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 dates, unfunded past service costs aggregated $3,452,000.

5. INCOME TAXES

The provision for income taxes differs from the amount of tax determined by applying the U.S. Federal statutory rate for the following reasons (dollars in thousands):

	1978		1977	
	Amount	%	Amount	%
Income before taxes multiplied by statutory Federal income tax rate	$53,200	48.0%	$43,312	48.0%
State and local income taxes, net of Federal income tax benefit	3,432	3.1	3,016	3.3
Amortization of intangible assets	1,437	1.3	1,267	1.4
Investment tax credit	(800)	(.7)	(500)	(.5)
Other, net	(469)	(.5)	(95)	(.1)
	$56,800	51.2%	$47,000	52.1%

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 $3,047,000 at December 31, 1978 result primarily from the excess of tax over financial accounting depreciation.

Notes to Consolidated Financial Statements—(Continued)

6. INCOME PER SHARE

The computation of shares of stock used in the calculation of income per share is included in the Summary of Operations on page 20.

On June 12, 1978, the Board of Directors declared a two-for-one stock split, effected in the form of a stock dividend to shareholders of record July 3, 1978.

7. BUSINESS SEGMENT DATA

The Company's business segment data is presented on page 22.

8. QUARTERLY FINANCIAL DATA (Unaudited)

The unaudited results for each quarter of 1978 and 1977 are presented on page 23.

9. MARKETABLE EQUITY SECURITIES

Marketable equity securities were carried at an aggregate cost of $11,649,000 and $12,167,000 and had an aggregate market value of $13,631,000 and $15,018,000 at December 31, 1978 and 1977, respectively. Included therein, at December 31, 1978 and 1977, were 394,570 shares of St. Regis Paper Company carried at a cost of $10,184,000 with a market value of $11,147,000 and $12,133,000, respectively.

10. 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. Such assets 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, 1978, 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
Intangible assets required to be amortized	123,067	9,284	113,783
	250,866	116,367	134,499
Accumulated amortization	(7,484)	(962)	(6,522)
	$243,382	$115,405	$127,977

11. NOTES PAYABLE

Notes payable at December 31, 1978, are as follows (000's omitted):

	Total	Triangle Financial, Inc.	Banks	Former Shareholders of Kansas City Star	Former Shareholders of Carter	Other
Payable during:						
1979 (current year)	$ 26,928	$ 6,342	$10,800	$3,417	$ 6,150	$ 219
1980	20,585	—	10,800	3,416	6,150	219
1981	18,351	—	10,800	—	5,512	2,039
1982	13,719	—	10,800	—	2,700	219
1983	10,800	—	10,800	—	—	—
1984	10,800	—	10,800	—	—	—
1985	1,800	—	1,800	—	—	—
	$102,983	$ 6,342	$66,600	$6,833	$20,512	$2,696
1978 Payments	$ 25,970	$10,125	$ 5,400	$3,417	$ 6,150	$ 878
Interest rates		Prime	8.2%	6.25%	6.0%	

Under terms of the bank loan agreement dated February 15, 1977, the Company is limited in paying cash dividends and purchasing its capital stock to $25,000,000 plus, in the aggregate, 33⅓% of consolidated income before extraordinary gains subsequent to January 1, 1977. As of December 31, 1978, unrestricted retained earnings under the loan agreement were $5,309,000. 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.

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 $47,000,000 at December 31, 1978.

12. 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 11 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	In total	Number of shares	Market value at date of grant and when exercised(a) — Per share	In total
Balance, January 1, 1977	53,776	$ 9.13 to $25.53	$8,503,528	525,092	$ 9.13 to $25.53	$9,280,391
Authorized	120,000			—		
Granted	(30,500)	$23.94 to $24.38		30,500		
Cancelled	7,926	$12.50 to $25.53		(7,926)		
Exercised	—	$12.50 to $18.07	$ 317,425	(23,238)	$23.32 to $30.07	$ 584,446
Balance December 31, 1977	151,202	$ 9.13 to $25.53	$8,784,997	524,428	$ 9.13 to $25.53	$9,509,644
Authorized	—			—		
Granted	(6,000)	$28.31		6,000		
Cancelled	352	$12.50 to $12.75		(502)		
Exercised	—	$11.63 to $25.53	$ 327,416	(22,557)	$28.59 to $46.88	$ 815,238
Balance December 31, 1978	145,554	$ 9.13 to $28.31	$8,624,957	507,369	$ 9.13 to $28.31	$9,303,948

(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 $196,000 and $197,000 were charged in 1978 and 1977 respectively, in connection with the 1975 price modification of certain previously granted options.

(b) At December 31, 1978 and 1977, options were exercisable for 412,467 and 325,226 shares, respectively.

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

Year ended December 31	Number of shares	Option price — Per share	In total	Market value at date options became exercisable — Per share	In total
1978	85,512	$9.13 to $25.53	$1,450,371	$27.22 to $45.63	$2,766,676
1977	94,160	$9.13 to $25.53	$1,557,716	$22.25 to $28.78	$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 600,000 shares during a five-year period ending in March 1982. The Plan provides that eligible employees, through contributions 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). Employees purchased 102,744 shares under the Plan in 1978.

13. COMMITMENTS

The Company has entered into agreements for future delivery of syndicated and feature film programming for its television stations, which aggregate $5,782,000, payable from 1979 through 1985.

The Company has no material lease commitments.

Notes to Consolidated Financial Statements—(Continued)

14. REPLACEMENT COST DATA (Unaudited)

The Securities and Exchange Commission (SEC), under rule 3-17, formally mandated the disclosure of replacement cost data for major corporations. The inclusions under the SEC rule are:

(a) The current replacement cost of inventories at the end of each fiscal year end.

(b) The replacement cost of goods sold at the time when the sales were made.

(c) The current costs of replacing (new) the productive capacity together with the depreciated replacement cost at each fiscal year end.

(d) The depreciation based on current replacement costs of productive capacity using economic lives and straight-line method of depreciation.

The SEC's purpose is to provide information to investors which will assist them in obtaining an understanding of the current costs of operating a business which cannot be obtained from historical cost financial statements taken alone, and to provide information which will enable investors to determine the current cost of inventories and productive capacity as a measure of the economic investment in these assets existing at the balance sheet date. Replacement costs do not represent the current market value of such assets, or the amount for which they may be sold. Further, the excess of estimated replacement costs over historical costs does not represent additional stockholders' equity.

The SEC is aware that it is requiring disclosure of data which cannot be calculated with precision, because estimates of current replacement costs must be made within the framework of each company's economic situation and because there are difficult and empirical judgements which must be made in the light of different specific factual circumstances in developing the data. Because of the many subjective assumptions used to generate this data, it will not be comparable to other companies' data, even those in the same industry.

In presenting the estimated current replacement cost data, hypothetical assumptions are made that the Company would replace all its inventory and productive capacity at the end of its fiscal year, that the economic resources would be available for such replacement, and the physical assets could be acquired and installed at that date. Management does not contemplate replacing assets in such a manner. When necessary, assets will be replaced in the normal course of business over a period of years. Any replacements will be based upon the factual situation at the time such replacements are made, which may differ significantly from the assumptions used to generate the estimated replacement cost data disclosed herein.

It should also be noted that the basic replacement cost data presented below, does not reflect any improved productivity, efficiency improvements or other operating cost savings which may result from the replacement of existing assets with assets of improved technology. If the Company's productive capacity were to be replaced in the manner assumed in the calculations, many costs other than depreciation (e.g., labor

Replacement Cost Information: (in thousands of dollars)

	December 31, 1978		December 31, 1977	
	Estimated Replacement Cost Data	Historical Cost Data	Estimated Replacement Cost Data	Historical Cost Data
Buildings	$ 72,300	$ 42,529	$ 61,900	$ 36,423
Broadcasting Equipment	36,900	29,846	34,100	27,139
Printing Equipment	101,600	46,871	85,400	40,841
Other Equipment and Fixtures	11,200	8,303	10,000	8,107
	222,000	127,549	191,400	112,510
Less: Accumulated Depreciation	119,700	68,234	99,400	58,384
	$102,300	59,315	$ 92,000	54,126
Amounts for which replacement cost data are not required:				
Land		11,937		11,502
Construction in Progress		3,057		1,712
		$ 74,309		$ 67,340
Depreciation Expense	$ 15,800	$ 9,485	$ 13,700	$ 8,294

costs, repairs and maintenance and utility costs) would be altered. Although these expected cost changes cannot be quantified with any precision, management believes the cost savings resulting from technological improvements would approach levels that would offset the increased depreciation.

Methods used in Estimating Current Replacement Costs

The following paragraphs describe the methodology used to calculate the estimated replacement costs of plant and equipment in service at December 31, 1978.

Buildings—The replacement cost for buildings was based on estimated costs per square foot of construction for each geographical location, appropriate for the size and type of construction.

Broadcasting Equipment—Broadcasting tower replacement costs were based on suppliers' current estimated cost of erection. Other broadcasting equipment (transmitter, studio, etc.), was based on the functional approach to replacement, using manufacturer's price list and other appropriate sources to estimate the replacement cost.

Printing Machinery and Equipment—The functional approach to replacement was used, along with the utilization of the Company's engineering data, and pricing information from various manufacturers, to determine estimated replacement costs.

Other Equipment and Fixtures—The estimated replacement cost of these assets were determined by utilizing manufacturers' price lists and other appropriate pricing information.

The replacement costs at December 31, 1977, for plant and equipment were calculated, by adjusting the 1978 replacement costs, for the price changes reflected in the various published government and private indexes, between 1977 and 1978, for the various type of assets, after adjusting for dispositions and acquisitions.

Accumulated Depreciation—The estimated accumulated depreciation on replacement cost of plant and equipment was calculated by computing indexes (either for appropriate classes of assets or for individual assets), which have then been applied against the relationship of historical costs of assets to historical accumulated depreciation, to determine the replacement cost accumulated depreciation.

Depreciation Expense—Estimated replacement cost depreciation expense was calculated on the straight line method using historical depreciation rates for the various assets, and replacement cost indexes.

Inventories—Included under other current assets on the Company's Consolidated Balance Sheet, are newsprint inventories, valued on a last-in, first-out (LIFO) basis. These inventories are not material. Using LIFO, the historical cost of newsprint, closely approximates replacement cost.

Report of Certified Public Accountants

ARTHUR YOUNG & COMPANY

277 PARK AVENUE
NEW YORK, N.Y. 10017

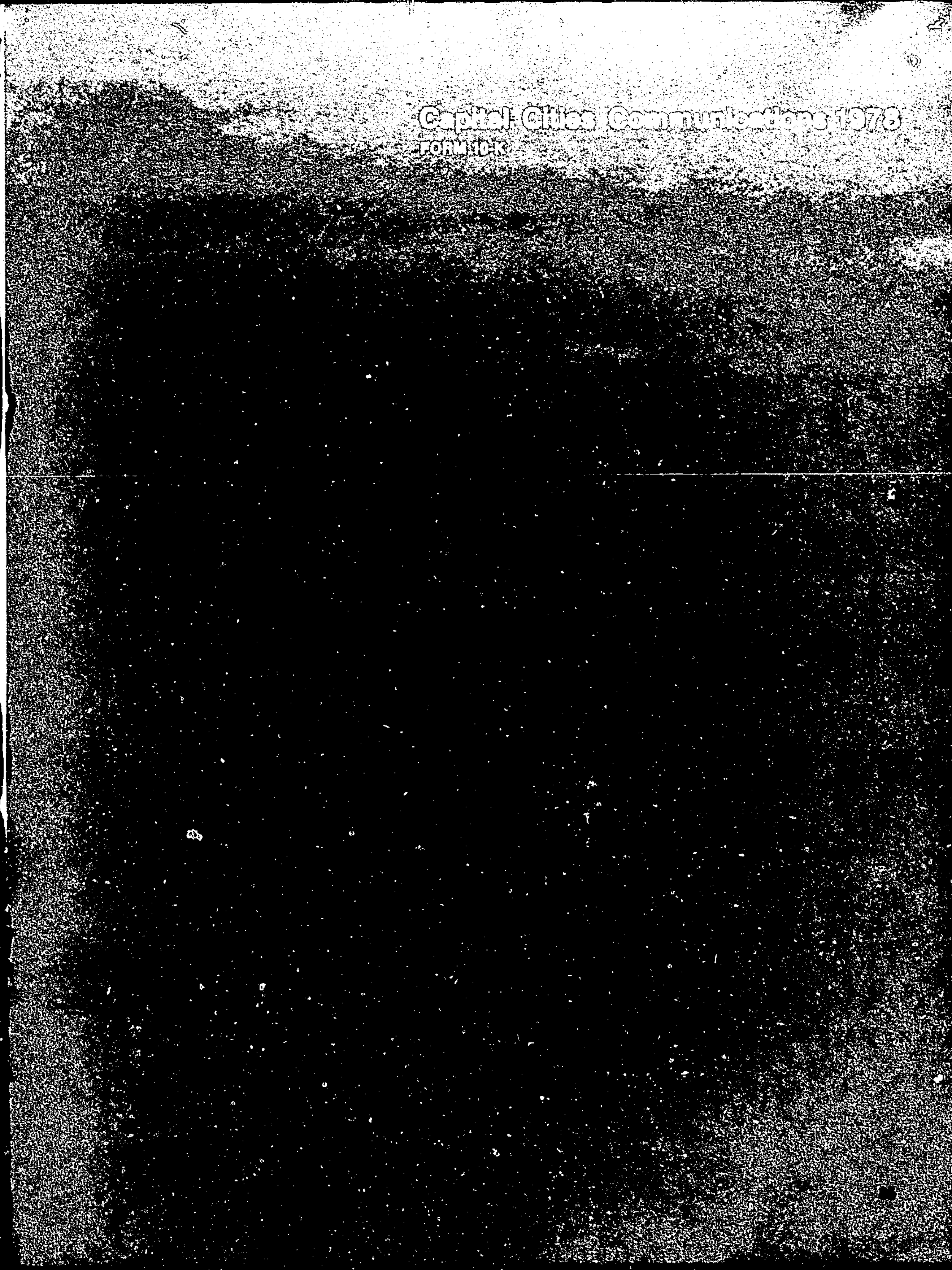
The Board of Directors and Shareholders
Capital Cities Communications, Inc.

We have examined the accompanying consolidated balance sheet of Capital Cities Communications, Inc. at December 31, 1978 and 1977, 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, 1978 and 1977, 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, 1979


Capital Cities Communications 1978
FORM 10-K

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

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, 1978 | **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, 1978): 13,513,235 shares, excluding 1,880,261 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 4,130 employees engaged in its publishing operations and 1,050 engaged in broadcasting.

Industry Segments

Information relating to the industry segments of the Registrant's operations is included on page 22 of the Company's Annual Report to Shareholders.

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 of the Company's Annual Report to Shareholders on pages 18 and 19 for net revenues and operating income by lines of business.

Publishing

At December 31, 1978, the Company was publishing nineteen business and specialized publications and six 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 except pages of advertising):

	Actual					Pro Forma(a)	
	1978	1977	1976	1975	1974	1978	1977
Inches or pages of advertising							
Newspapers (inches)(b)	14,113	12,048	8,054	6,927	2,907	14,494	13,544
Specialized newspapers (inches) ...	1,550	1,488	1,366	1,231	1,381	1,550	1,488
Specialized magazines (pages)	5,211	5,337	2,027	1,771	2,023	5,211	5,337
Advertising revenue							
Newspapers(c)	$132,118	$102,643	$42,493	$34,618	$12,797	$134,478	$114,969
Specialized newspapers	52,338	45,785	39,666	30,084	32,786	52,338	45,785
Specialized magazines	10,680	10,320	3,514	2,757	2,948	10,680	10,320
Circulation revenue							
Newspapers	$ 21,965	$ 18,761	$ 9,592	$ 8,568	$ 3,258	$ 22,937	$ 22,393
Specialized publications	10,999	10,985	9,339	7,893	6,578	10,999	10,985

(a) Includes *The Kansas City Star/Times* and Wilkes-Barre *Times Leader* for the twelve months of 1978 and 1977.

(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	66,000
Daily News Record	Daily	27,000
American Metal Market	Daily	14,000
HFD—Retailing Home Furnishings	Weekly	38,000
Energy User News	Weekly	12,000
Footwear News	Weekly	24,000
Supermarket News	Weekly	58,000
Electronic News	Weekly	68,000
Metalworking News	Weekly	34,000
W	Biweekly	193,000
SportStyle	Semimonthly	35,000
Magazines		
Men's Wear	Semimonthly	25,000
Metal/Center News	Monthly	12,000
International Medical News Group		
Family Practice News	Semimonthly	66,000
Internal Medicine News	Semimonthly	62,000
Ob. Gyn. News	Semimonthly	24,000
Pediatric News	Monthly	24,000
Clinical Psychiatry News	Monthly	27,000
Skin & Allergy News	Monthly	22,000

Newspapers

		Year of Acquisition	Circulation	
			Daily	Sunday
The Oakland Press (Pontiac, Mich.)	Evening	1969	75,000	73,000(1)
News-Democrat (Belleville, Ill.)	Afternoon	1972	34,000	35,000
Fort Worth Star-Telegram	Morning/Evening	1974	241,000(2)	249,000
Citizen-Journal (Arlington, Texas)	3 Times Weekly	1974	12,000	
The Kansas City Times	Morning	1977	322,000	
The Kansas City Star	Evening	1977	289,000	377,000
Times Leader (Wilkes-Barre, Pa.)	All-day	1978(3)	(4)	

(1) Publishing of Sunday edition initiated during 1978.

(2) Combined circulation of morning and evening editions.

(3) See Note 2 to Consolidated Financial Statements of the Company's Annual Report to Shareholders for additional information.

(4) This paper was struck by various unions on October 6, 1978 and is currently being published under strike conditions. Circulation prior to the strike was 69,000.

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 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 newspapers purchase their newsprint from various suppliers as follows:

	Number of suppliers	Share furnished by largest supplier
The Kansas City Star/Times	8	19%
Fort Worth Star-Telegram	5	41%
The Oakland Press	3	45%
News-Democrat	3	66%
Citizen-Journal	3	78%
Times Leader	6	36%

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.

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. Those rules, and the policies underlying them, however, are undergoing modification. 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. The FCC has recently denied petitions to deny filed by community groups against the renewal applications of KFSN-TV and WPAT (AM & FM). In each case, the petitioners made allegations regarding the station's employment and programming practices. If no petitions for reconsideration are filed, renewal of the licenses of the stations except WPAT-AM can be expected to be routinely granted in the near future.

WPAT-AM's application for renewal is being deferred pending completion of work pursuant to a construction permit allowing it to relax restrictions on its nighttime radiation pattern. In addition, 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. Finally, renewal of the license of KPOL-AM has 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.

On June 30, 1978, the New Jersey Coalition for Fair Broadcasting petitioned the FCC to deny the application for renewal of the license of WPVI-TV, Philadelphia. The Governor of New Jersey and the New Jersey Department of the Public Advocate filed petitions in support of the Coalition. Similar petitions were filed during 1978 with respect to most of the VHF television licensees in Philadelphia and New York. The petitions allege that the licensees have failed to fulfill special obligations to provide service to New Jersey that have been imposed by the FCC on the Philadelphia and New York City stations. The Company has opposed the petitions. At a public meeting of the FCC held in late 1978, the Commission appeared to decide that WPVI-TV and the other commercial television licensees had fulfilled their obligations (and that their licenses should be renewed) but that further improvements in New Jersey-oriented service—through the imposition of further service responsibilities on the stations—were required. No formal orders have been issued by the FCC, and until formal action is taken we cannot predict the outcome of the proceeding, or the impact upon WPVI-TV of any new requirements which the FCC might impose.

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 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 has 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 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. At the same time, the FCC has begun a proceeding to consider whether it should treat certain other ownership interests which do not include the power to vote or control the vote of stock of a licensee as also triggering the multiple ownership attribution rules. Among the interests being considered are beneficial interests in trusts (where the power to vote resides in the trustee), preferred stock interests, and various kinds of debt interests. The Company cannot predict the outcome of these proceedings.

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 to acquire their third VHF station in the top 50 markets (and their fourth television station regardless of service) 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. The FCC is now considering whether to abandon or strengthen this policy. The Company cannot predict the outcome of this proceeding.

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.

In a recent action, the FCC has relaxed the rules governing waiver requests, thereby making it easier for CATV systems to obtain permission to carry more than the specified complement of distant stations. In another action, the FCC has reduced the protection which network-affiliated television stations could claim against CATV carriage in their home markets of the same network programs on other, more distant stations. Both actions have been appealed to the courts. The Company cannot predict the outcome of these proceedings or the future competitive impact of the changes made by the FCC, if they are upheld.

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.

Clear-Channel Proceeding

The FCC is carrying on a proceeding looking toward providing new radio service in parts of the country which presently do not receive primary radio service, as well as providing new broadcast ownership opportunities for minority groups and others. It has decided to permit new stations to operate on the frequencies of so-called clear-channel stations, thereby reducing the range of the clear-channel stations. WJR-AM and WBAP-AM both operate on clear channels. The Commission has not yet decided how, or to what degree, it will curtail the rules which have protected clear-channel stations against others operating on their frequencies. Accordingly, there is no way to predict the impact of the Commission's decision on the operation of WBAP-AM or WJR-AM, the degree of additional competition which the Company's other radio stations may face from new radio signals that might become available in their service areas, or the ultimate outcome of this proceeding and the possible consequences which FCC action might have on the Company's stations.

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 Canadian Parliament adopted legislation in 1976 that would prevent Canadian advertisers from deducting as a business expense for purposes of Canadian income tax the cost of advertisements placed on United States television stations which are aimed primarily at Canadian audiences. That legislation became effective in 1977. 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.

The Canadian Supreme Court has affirmed the order of the Canadian Radio-Television Commission authorizing the deletion practices. The Company was a party to that litigation, and is party to lawsuits in the Canadian courts against a Toronto cable company which has engaged in deletion of some commercials on the channels of the Company's Buffalo station, WKBW-TV, and two other Buffalo stations. These cable company lawsuits remain pending.

In November, 1978, the Office of the United States Special Trade Representative held hearings on a complaint by the licensees of a number of American border television stations (not including the Company), which alleges that the noted Canadian tax legislation constitutes a discriminatory and unreasonable trade practice under the Trade Act of 1974 and which requests retaliatory relief under that statute. The Company and several other border-station licensees filed a statement in that proceeding which supports the basic case of the complainants but expresses reservations as to the efficacy or appropriateness of retaliatory action and urges continuing efforts to institute international negotiations on the subject. That complaint remains pending.

Over the past several years there have, in fact, been a number of efforts by responsible United States authorities to institute negotiations with Canada on the border television question in the context of multilateral trade negotiations, bilateral tax treaty negotiations and otherwise. In the last Congress, the House Ways and Means Committee reported out a bill that would have relaxed restrictions on the taking of deductions (for purposes of U. S. income tax) for expenses incurred in attending foreign conventions, but would have made a relief for conventions held in Canada contingent upon a Presidential determination that the Canadian government was willing to negotiate the border television issue on terms that would respect the legitimate interests of both countries. None of these efforts has resulted in any expression of willingness to negotiate by the Canadian government.

We cannot predict the outcome of any of the described proceedings or efforts. Station WKBW-TV has derived substantial revenues in the past from the sale of time to Canadian advertisers, and the Canadian policies described above have been explicitly designed to reduce—and have reduced—those revenues.

Wage and Price Controls

The Company has expressed its intention to comply with the voluntary wage and price control standards announced in October 1978. The Company believes that compliance with these standards will not have a material effect on the operations of the Company.

Item 2. *Summary of Operations*

The Summary of Operations of the Company for the five years ended December 31, 1978, and management's discussion thereof, is set forth beginning on page 20 and ending on page 23 of the Annual Report to Shareholders.

Item 3. *Properties*

The Company occupies executive offices at 485 Madison Avenue in New York City under a lease expiring in 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 newspapers are owned by the Company.

The Company owns all of its broadcast transmitter sites except those of WBAP-AM, KSCS-FM, WPAT-FM, WJR-FM, WROW-FM, and KZLA-FM, which are occupied under leases expiring at various dates through 2019. All broadcast studios and offices are owned except those in Albany, Fort Worth, Detroit, New Haven and Buffalo (WKBW-AM), which are occupied under leases expiring at various dates through 1993.

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	(2)	ABC	Aug. 15, 1979
KTRK-TV Houston, Texas	13	Aug. 1, 1980	ABC	Apr. 2, 1979
WKBW-TV Buffalo, New York	7	June 1, 1981	ABC	July 2, 1980
WTNH-TV New Haven, Connecticut	8	Apr. 1, 1981	ABC	Jan. 1, 1981
WTVD Durham, North Carolina	11	Dec. 1, 1981	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	(4)	None
WJR Detroit, Michigan	760 K	50,000	Oct. 1, 1979	NBC(5)
WPAT Paterson, New Jersey (Metropolitan New York)	930 K	5,000	(3)	None
WBAP Fort Worth, Texas	820 K	50,000	Aug. 1, 1980	NBC(5)
WKBW Buffalo, New York	1520 K	50,000	June 1, 1981	None
WPRO Providence, Rhode Island	630 K	5,000	(6)	None
WROW Albany, New York	590 K	5,000 Day 1,000 Night	June 1, 1981	CBS(5)
WPAT-FM Paterson, New Jersey (Metropolitan New York)	93.1 M	12.5	(3)	None
WJR-FM Detroit, Michigan	96.3 M	50	Oct. 1, 1979	None(5)
KSCS-FM Fort Worth, Texas	96.3 M	100	Aug. 1, 1980	None(5)
WPRO-FM Providence, Rhode Island	92.3 M	39	(6)	None
WROW-FM Albany, New York	95.5 M	9.6	June 1, 1981	None(5)
KZLA-FM Los Angeles, California	93.9 M	49	Dec. 1, 1980	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 the license of WPVI-TV has been delayed because of the filing of petitions seeking denial of its renewal application.

(3) The FCC has recently denied petitions seeking denial of the renewal applications of KFSN-TV and WPAT (AM & FM), and renewal of the licenses is now expected to be granted routinely in the near future, except that WPAT-AM's renewal has also been deferred pending satisfactory completion of certain changes to the station's technical facilities.

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

(5) Network affiliation agreements of WJR, WBAP and WROW expire on October 31, 1979, January 1, 1981 and December 30, 1980, respectively. CBS and NBC permit an FM station to duplicate programming covered under agreement with an associated AM station.

(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, 1978 and included in the consolidated financial statements:

	State of incorporation
Capital Cities Media, Inc.	New York
Wilkes-Barre Publishing Company	Pennsylvania
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) On June 12, 1978, the National Labor Relations Board ("NLRB") issued a decision in a proceeding involving The Kansas City Star Company (the "Star"), a wholly-owned subsidiary of Registrant, and The Kansas City Pressmen's Local 14 (the "Union"). The proceeding was reported on the Registrant's Form 10-Q for the three months ended March 31, 1977. The NLRB upheld the arbitrator's findings and dismissed the complaint against the Star and further declined to render any back pay award to the Union Employees. The Union has advised the Star that it intends to appeal the NLRB decision but, as of this date, no such appeal has been taken.

(b) 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 or about May 24, 1978, an action was commenced in the United States District Court for the Eastern District of Pennsylvania by the State of Arizona against Graham Paper Company and other manufacturers of paper alleging a combination or conspiracy by defendants and unreasonable restraint of trade and commerce in violation of the Federal anti-trust laws for which unspecified damages are sought.

On or about May 26, 1978, an action was commenced in the United States District Court for the Eastern District of Pennsylvania by the State of Missouri against Graham Paper Company and other manufacturers of paper alleging a combination or conspiracy by defendants and unreasonable restraint of trade and commerce in violation of the Federal anti-trust laws for which unspecified damages are sought.

On October 17, 1977, the Star sold to Jim Walter Paper Company, Inc. all the assets and 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 to the date of sale resulting from the aforesaid actions.

(c) On or about January 13, 1975, an action was commenced against the Star in the United States District Court for the Western District of Missouri by Gweldon L. Paschall on behalf of himself and other independent contract newspaper carriers. The Star was acquired by Registrant in February 1977. The action seeks declaration that each carrier has a property right in his respective contract for distribution of the newspapers. On November 10, 1978, the Court determined that a proposed conversion of independent distributorships into agencies would be a violation of the Sherman Act and ordered that a hearing be held to determine the terms of the injunction. An appeal of this decision is now pending before the United States Court of Appeals for the Eighth Circuit.

On or about October 4, 1978, an action was instituted in the United States District Court for the Western District of Missouri by Leo E. Flaherty against the Star claiming damages for $150,000 arising from his purchase of a carrier contract and punitive damages of $2,000,000.

The following actions relating to and arising from the above carriers' actions are also pending in various Missouri State Courts:

(1) On or about April 19, 1978, an action was commenced against the Star in the Circuit Court of Clay County, Missouri by John O. Swenson and others alleging unlawful interference with and taking of plaintiffs' property rights and interference with contractual relationship with newspaper carriers and seeking actual damages of $400,000 and punitive damages of $500,000.

(2) On or about August 15, 1978, an action was commenced against the Star in the Circuit Court of Jackson County, Missouri by Edward Atchity and E. Denver Void alleging destruction of plaintiffs' business interest for which damages are being sought in the amount of $500,000 plus punitive damages of an additional $1,000,000 and seeking a declaratory judgment as to their property rights in their carriers' contracts.

(3) On or about September 20, 1978, an action was instituted in the Circuit Court of Jackson County, Missouri by Robert S. Miskimen on behalf of himself and approximately 267 other parties plaintiff, against Registrant and the Star. Plaintiffs as carrier distributors of the Star's newspapers are seeking an injunction restraining defendants from refusing to sell newspapers to the plaintiffs for distribution to home delivery subscribers, for a declaratory judgment relating to plaintiffs' property interests in their respective territories and for aggregate compensatory damages of $100,000,000. Additionally, each of the plaintiffs is asking for punitive damages of $100,000,000.

(4) On or about October 4, 1978, an action was commenced against the Star in the Circuit Court of Jackson County, Missouri by Marjorie M. Thurman alleging the same causes of action as in the Miskimen suit and seeking actual damages of $300,000 and punitive damages of $300,000.

(5) An action identical to the Miskimen suit, and for the same amount of damages, was commenced against the Star and Registrant on October 20, 1978 in the Circuit Court of Jackson County, Missouri by E. M. Crum and Jerry Shuck, two newspaper carriers.

(6) On or about October 20, 1977, an action was commenced against the Star in the Circuit Court of Cass County, Missouri by Frank Middaugh alleging interference with plantiff's contractual right to sell newspapers and seeking compensatory damages of $150,000 and punitive damages of $500,000.

(7) On or about November 21, 1978, an action was commenced against the Star in the Circuit Court of Jackson County, Missouri by Delmar S. Segar alleging interference with contractual rights as a carrier and seeking actual damages of $50,000 and punitive damages of $100,000.

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

	Common stock, $1.00 par value (number of shares)		
	Issued	Treasury	Outstanding
Balance at December 31, 1977	7,696,748	590,881	7,105,867
Issuance of treasury shares on April 3, 1978 on exercise of options under employee stock purchase plan		(51,372)	51,372
Two-for-one stock split to stockholders of record July 3, 1978	7,696,748	539,509	7,157,239
Transactions on various dates during the year:			
Purchase of treasury stock		823,800	(823,800)
Issuance of treasury shares on exercise of employee stock options		(22,557)	22,557
Balance at December 31, 1978	15,393,496	1,880,261	13,513,235

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

Not applicable.

Item 8. ***Defaults upon Senior Securities.***

Not applicable.

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

Title of class	Number of record holders as of December 31, 1978
Common stock, $1.00 par value	3,498

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

Not applicable.

Item 11. ***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 12. ***Financial Statements, Exhibits Filed, and Reports on Form 8-K***

(a) 1. Financial statements

The consolidated 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, 1978.

Executive Officers of the Registrant

Name	Age	Director since	Officer since	Title
Thomas S. Murphy	53	1957	1958	Chairman of the Board of Directors (Chief Executive Officer)
Daniel B. Burke	50	1967	1962	President and Director (Chief Operating Officer)
Joseph P. Dougherty	54	1967	1959	Executive Vice President, President of Broadcasting Division and Director
John B. Fairchild	52	1968	1968	Executive Vice President, Chairman of the Board of Fairchild Publications and Director
John B. Sias	52	1977	1975	Executive Vice President, President of Publishing Division and Director
Robert K. King	50		1962	Senior Vice President
Andrew E. Jackson	44		1971	Vice President
John E. Shuff, Jr.	38		1977	Vice President (Chief Financial Officer)
Ronald J. Doerfler	37		1977	Treasurer
Gerald Dickler	66	1954	1954	Secretary and Director
Robert W. Gelles	55		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.

Part II

Items 13. 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 13. 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)

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

Dated: March 30, 1979

CAPITAL CITIES COMMUNICATIONS, INC.
AND SUBSIDIARIES

INDEX TO CONSOLIDATED 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, 1978 on pages 18 and 19, and the summary of operations for the five years ended December 31, 1978 on pages 20 through 23, which are included in the Annual Report to Shareholders for the year ended December 31, 1978, are hereby incorporated by reference. With the exception of the items noted the 1978 Annual Report to Shareholders 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, 1979 included in the 1978 Annual Report to Shareholders 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, 1979 incorporated herein by reference.

New York, New York
February 28, 1979

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	Wilkes-Barre Publishing Company May 18, 1978	Kansas City Star Company February 15, 1977	Other	Retirements or sales	Other changes—reclassification	Balance at close of period
Year ended December 31, 1978:							
Land and improvements	$ 12,024	$ 171		$ 913	$ (554)	$ —	$ 12,554
Buildings and improvements.	35,901	998		5,770	(757)	—	41,912
Broadcasting equipment	27,139	—		3,776	(1,069)	—	29,846
Printing machinery and equipment	40,841	2,084		3,058	(112)	1,000	46,871
Other	9,819	102		2,797	(358)	(1,000)	11,360
	$125,724	$3,355		$16,314	$(2,850)	$ —	$142,543
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

SCHEDULE VI—ACCUMULATED DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT

	Balance at beginning of period	Wilkes-Barre Publishing Company May 18, 1978	Kansas City Star Company February 15, 1977	Charged to income	Retirements or sales	Other changes—reclassification	Balance at close of period
Year ended December 31, 1978:							
Land improvements	$ 362	$ —		$ 39	$ (2)	$ —	$ 399
Buildings and improvements.	14,126	711		1,554	(393)	—	15,998
Broadcasting equipment ...	17,456	—		2,680	(988)	—	19,148
Printing machinery and equipment	22,072	1,462		4,362	(198)	88	27,786
Other	4,368	58		850	(285)	(88)	4,903
	$ 58,384	$2,231		$ 9,485	$(1,866)	$ —	$ 68,234
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

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, 1978	$237,877	$ 8,498(A)	$(2,993)	$243,382
Year ended December 31, 1977	$164,520	$75,996(B)	$(2,639)	$237,877

(A) Acquisition of The Wilkes-Barre Publishing Company on May 18, 1978.

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

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, 1978	$2,355	$2,064	$(1,990)	$2,429
Year ended December 31, 1977	$1,751	$1,819	$(1,215)	$2,355

(A) Accounts written-off, net.

SCHEDULE XVI—SUPPLEMENTARY INCOME STATEMENT INFORMATION

	Year Ended December 31, 1978	1977
Maintenance and repairs	$2,776	$2,033
Taxes other than income taxes:		
Payroll taxes	5,175	4,079
Real estate, franchise and other taxes	1,638	1,859
Rents	1,234	1,215
Royalties	2,354	2,008
Advertising costs	3,355	2,578

Capital Cities: A Brief Chronology

1954 • Purchase of Hudson Valley Broadcasting Company, Inc., operator of a UHF television station (WROW-TV) and AM radio station (WROW-AM) in Albany, New York.

1957 • VHF approval granted and call letters changed to WTEN-TV
• Purchase of television station WTVD, Durham, North Carolina.
• First public offering of the company's common stock.

1959 • Purchase of television station WPRO-TV and radio stations WPRO-AM and FM, Providence, Rhode Island.

1961 • Purchase of television station WKBW-TV and radio station WKBW-AM, Buffalo, New York.
• Purchase of radio stations WPAT-AM and FM, Paterson, New Jersey (Metropolitan New York City).

1964 • Purchase of radio stations WJR-AM and FM, Detroit, Michigan.
• Purchase of television station WSAZ-TV, Huntington, West Virginia.

1965 • Company's stock listed on the New York Stock Exchange.

1966 • Purchase of radio stations KPOL-AM and FM (now KZLA-FM), Los Angeles, California.

1967 • Acquisition of television station KTRK-TV, Houston, Texas, in exchange for WPRO-TV, Providence, Rhode Island, and cash.

1968 • Acquisition of Fairchild Publications, Inc., New York City, publisher of *Women's Wear Daily* and seven other business publications.

1969 • Purchase of *The Pontiac Press* (now *The Oakland Press*), a daily newspaper in Pontiac, Michigan.

1971 • Purchase of television stations WPVI-TV, Philadelphia, WTNH-TV, New Haven, and KFSN-TV, Fresno, California, together with the sale of WTEN-TV, Albany, New York, and WSAZ-TV, Huntington, West Virginia.

1972 • Purchase of the *News-Democrat*, a daily newspaper in Belleville, Illinois.
• Purchase of *American Metal Market*, a daily business newspaper.
• Start-up of *W*, a consumer biweekly version of *Women's Wear Daily*.

1974 • Purchase of Carter Publications, Inc., publisher of the *Fort Worth Star-Telegram*, a morning, evening and Sunday newspaper, and of the *Citizen-Journal*, Arlington, Texas, a suburban newspaper, as well as operator of radio stations WBAP-AM and KSCS-FM, Fort Worth, Texas.

1976 • Purchase of the International Medical News Group, publisher of six specialized, controlled-circulation, medical publications.
• Start-up of *Energy User News*, a weekly business newspaper.

1977 • Purchase of The Kansas City Star Company, publisher of *The Kansas City Times*, a morning newspaper, and *The Kansas City Star*, an evening and Sunday newspaper.

1978 • Purchase of the Wilkes-Barre Publishing Company, publisher of the *Times Leader*, an all-day newspaper in Wilkes-Barre, Pennsylvania.
• Start-up of *SportStyle*, a twice-monthly business newspaper.

Board of Directors

THOMAS S. MURPHY
Chairman of the Board

DANIEL B. BURKE
President

AMON G. CARTER, Jr.
President, Carter Publications

WILLIAM J. CASEY
Counsel to Rogers & Wells, Attorneys at Law

GERALD DICKLER
Secretary; Partner, Hall, Dickler, Lawler, Kent & Howley, Attorneys at Law

JOSEPH P. DOUGHERTY
Executive Vice President; President, Broadcasting Division

JOHN B. FAIRCHILD
Executive Vice President; Chairman, Fairchild Publications

J. FLOYD FLETCHER
Retired General Manager, WTVD; President, Aviation and Land Development Co.

WILLIAM S. LASDON
Vice Chairman of the Board, Warner-Lambert Co.

JOHN H. MULLER, Jr.
Chairman of the Board and President, General Housewares Corp.

JOHN B. SIAS
Executive Vice President; President, Publishing Division

LOWELL THOMAS
Author, Motion Picture Producer, Broadcast Newscaster

Corporate Officers

THOMAS S. MURPHY
Chairman of the Board, Chief Executive Officer

DANIEL B. BURKE
President, Chief Operating Officer

JOSEPH P. DOUGHERTY
Executive Vice President

JOHN B. FAIRCHILD
Executive Vice President

JOHN B. SIAS
Executive Vice President

ROBERT K. KING
Senior Vice President

ANDREW E. JACKSON
Vice President

JOHN E. SHUFF, Jr.
Vice President, Chief Financial Officer

RONALD J. DOERFLER
Treasurer

GERALD DICKLER
Secretary

ROBERT W. GELLES
Controller, Assistant Secretary, Assistant Treasurer

Transfer Agent and Registrar

Chemical Bank
55 Water Street
New York, New York 10041

Executive Offices

485 Madison Avenue
New York, New York 10022

General Counsel

Hall, Dickler, Lawler, Kent & Howley
460 Park Avenue
New York, New York 10022

The Company's Common Stock is listed for trading on the New York Stock Exchange.

END