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

CAPITAL CITIES COMMUNICATIONS INC 10-K

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CARD 1 DISCLOSURE INC WASHINGTON D. C. 20016 FOR 12/31/79

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017 - 109 - 033 - 104

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MICROFORM WAS PRODUCED WAS DESTROYED IN
THE ORDINARY COURSE OF BUSINESS BY THE SEC

NAME: CAPITAL CITIES COMMUNICATIONS INC PUBLIC

SEC FILE NO: 1-4278 PAGE COUNT: 0060 BATCH NO.: 7678 DATE: 04/01/80

FORM: 10-K PER. OF RPT.: 12/31/79 OPERATOR ID: 623600 INSPECTOR ID: 623600

TERM ID: T62 ENTRY DATE: 04/01/80 TIME: 15.36.21 MODE: UPDATE

CAPITAL CITIES COMMUNICATIONS, INC. N.Y. CO: C101850000
24 EAST 51ST STREET
NEW YORK, N.Y. 10022
SEC FILE NO: 1-4278 EXCH: NYSE/CCB
IRS NO: 14-1284013 CUSIP: 1398619
FISCAL YEAR ENDS: 12/31 SIC NO: 483

ARS	FOR:	12/31/78
NYL	DATED:	06/15/78
PROXY	DATED:	03/30/79
10-K	FOR:	12/31/78
10-Q	FOR	06/30/78
10-Q	FOR	09/30/78
10-Q	FOR	03/31/79

Capital Cities Communications 1979

ANNUAL REPORT AND FORM 10-K

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PROCESSED BY DISCLOSURE INCORPORATED RECEIVED APR 3 1980

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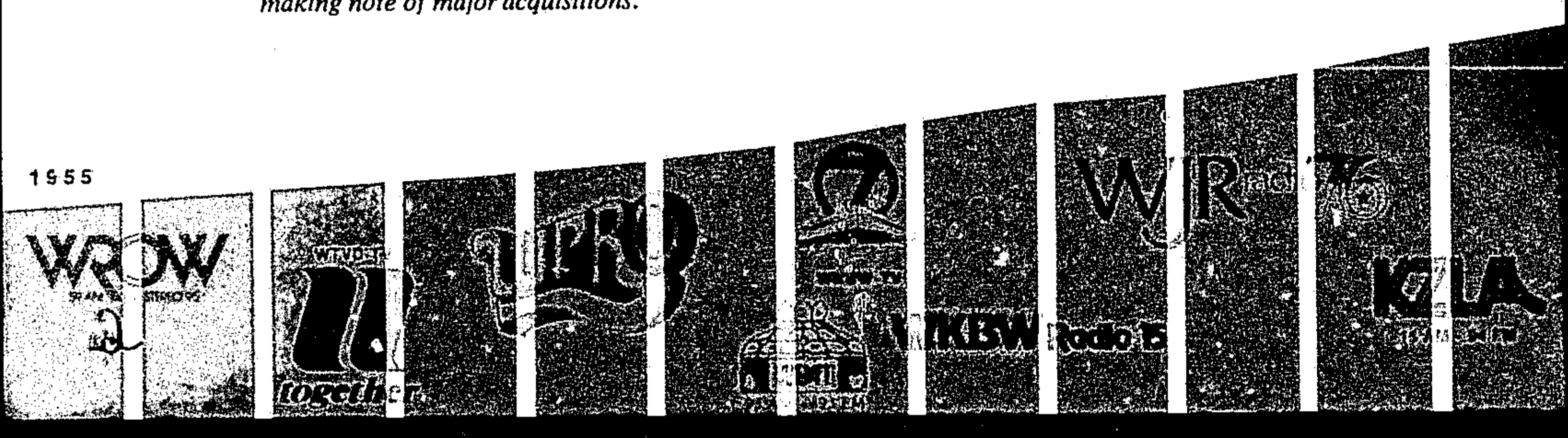
Decentralization is the cornerstone of our management philosophy. Our goal is to hire the best people we can possibly find and give them the responsibility and authority they need to perform their jobs. All decisions are made at the local level, consistent with the basic legal and moral responsibilities 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.

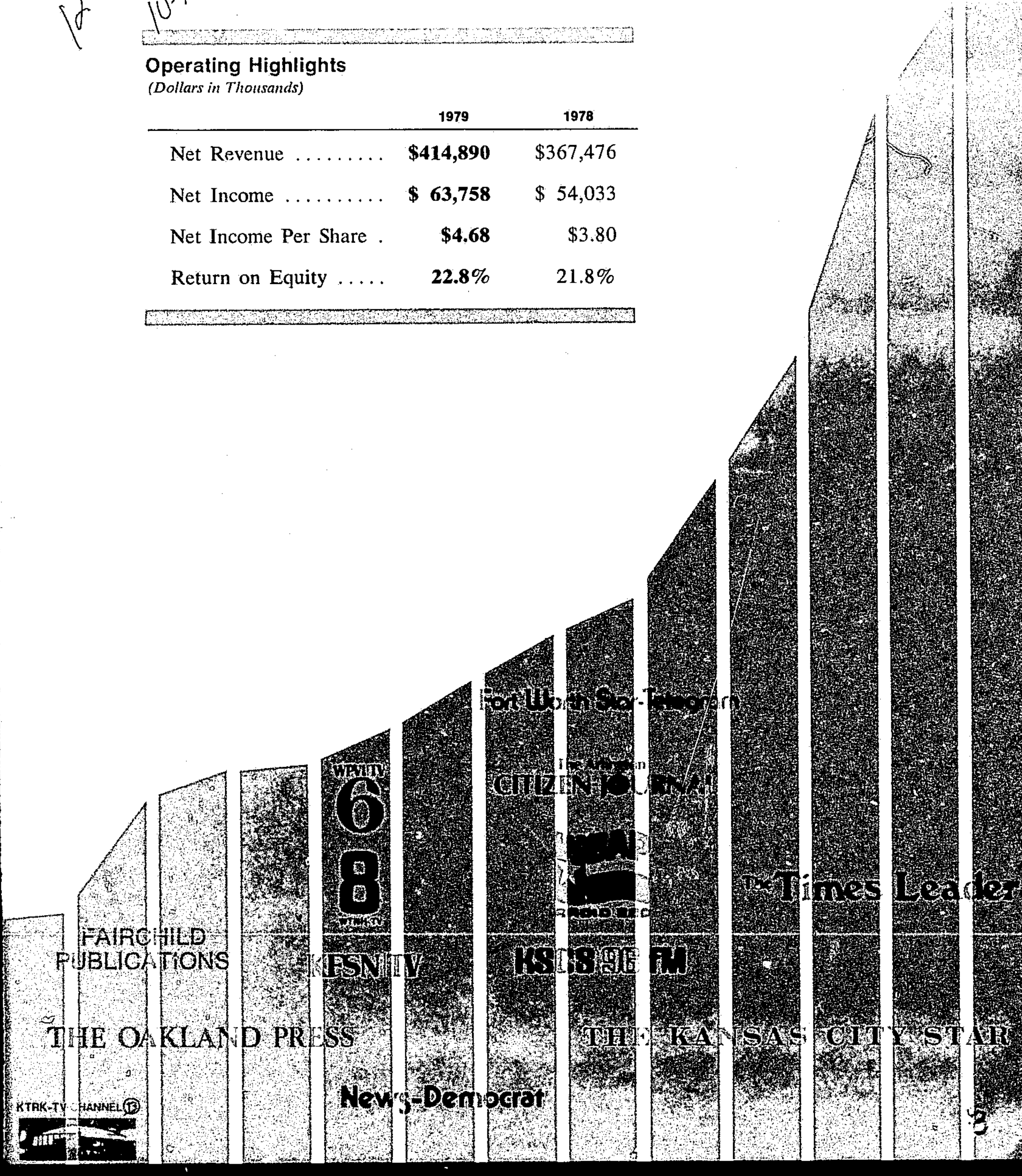
The graphics below depict the growth in net revenues at Capital Cities over its first 25 years, making note of major acquisitions.



AR's 12-31-79
10-K

Operating Highlights
(Dollars in Thousands)

	1979	1978
Net Revenue	**$414,890**	$367,476
Net Income	**$ 63,758**	$ 54,033
Net Income Per Share	**$4.68**	$3.80
Return on Equity	**22.8%**	21.8%



Right: THOMAS S. MURPHY, *Chairman & Chief Executive Officer*
Left: DANIEL B. BURKE, *President & Chief Operating Officer*

To Our Shareholders

With the close of 1979, Capital Cities Communications, Inc., celebrated its Silver Anniversary and also completed its 25th consecutive year of record sales and earnings.

Net revenues and net income rose 13 and 18 percent, respectively. Earnings per share climbed 23 percent from the 1978 level.

As the year progressed, two trends developed. Most of our broadcast stations and publications generated higher revenues than had been projected, but at the same time, operating costs began to exceed budgets by significant amounts. While the combined effect on profits for 1979 was moderately favorable for Capital Cities, we are now more conscious than ever of the long-term economic threat posed by double-digit inflation.

Broadcasting Division revenues and operating profit were ahead 13 and 15 percent, respectively, with television gaining more than radio. Publishing Division sales were up 13 percent, and operating profit improved by 4 percent. Activities of each of the Divisions are covered in more detail in other sections of this report.

The financial impact of nonoperating items was generally favorable. During 1979, our outstanding debt was reduced from $102,983,000 to $77,955,000, and our cash and cash equivalent balances rose from $31,594,000 to $43,128,000. Since our debt carries fixed interest rates which are very advantageous in today's environment and the interest earned on our growing cash assets rose rapidly as rates soared, our net interest expense decreased $2,430,000 versus 1978.

Earnings per share rose a higher percentage than net earnings because fewer shares were outstanding, due to the repurchase during the year of 592,800 shares of stock at an aggregate cost of $24,736,000, or an average price of $41.73. The return on stockholders' equity reached 22.8 percent, versus 21.8 percent in 1978.

We continue to watch for desirable properties to acquire, but in 1979, the high asking prices of the last few years continued. The disparity between prices paid for single stations or publications and the price/earnings multiple at which our own stock trades on the New York Stock Exchange has, in our judgment, continued to make the repurchase of our stock attractive. In December, the Board of Directors of Capital Cities approved an additional buy-back of 600,000 shares.

While no major acquisitions were accomplished in 1979, first steps have been taken into two business areas new to our company, although closely related to previous activities.

The first category is our new cable operation. In August, 1979, our interest in the fast-growing cable-TV and pay-TV sectors was recognized by the formation of Capital Cities Cable, headed by Joel Smith as President. Under his leadership, franchise applications are being filed in communities throughout the United States. Early in 1980, we acquired 80 percent of Omnicom of Michigan, Inc., a cable television firm which has been awarded franchises to build systems in several suburban communities west of Detroit. These franchise areas cover approximately 30,000 homes, and construction of the systems has already started. Omnicom has franchise applications pending in other cities and towns in the greater suburban Detroit area.

The second new area is free-circulation publications. Capital Cities recently completed the purchase of Pennypower Shopping News, Inc., of Wichita, Kansas, which produces and distributes free-circulation shopping guides (publications which carry primarily local retail and classified advertising) in Wichita and Topeka, Kansas, and Springfield, Missouri. Distribution, largely via home delivery, is in excess of 300,000 copies per week.

Fairchild Publications launched two new specialized business magazines late in 1979: *Entrée*, for gourmet retailers; and *Home Fashions Textiles*, for the home textiles trade. A newspaper to cover the management information systems field is in the planning stages. *SportStyle*, which was introduced at the end of 1978, met its revenue goals for 1979, and has enjoyed encouraging reaction from readers and advertisers.

We commented last year on the successful beginning of a new employee stock purchase plan. In 1979, 1,458 employees purchased 116,977 shares of company stock at an aggregate price of $3,026,000. We feel that the company's results and future prospects are enhanced by this growing employee ownership, and we welcome those fellow employees who may be reading this report for the first time as shareholders.

Other sections of this report will detail the programming and editorial efforts Capital Cities made during 1979 regarding inflation and the energy problem. These seem to be the two domestic concerns which overshadow and affect all others. We trust and hope that national progress will be made in both areas in 1980, and we intend to continue to do our part.

Capital Cities has long had an interest in assisting minorities in acquiring broadcast stations, primarily network-affiliated VHF television stations, and has been working to that end for some time with a group of 34 black business and professional men and women in Chicago. In 1977, this group incorporated as Seaway Communications, Inc., and placed $1,000,000 of personal capital in an escrow account. We provided counsel in the examination and analysis of available television properties, and on April 24, 1979, Seaway Communications was granted FCC approval to acquire 100 percent of the stock of Northland Television, Inc., licensee of WAEO-TV, Channel 12, Rhinelander, Wisconsin, an NBC-TV affiliate. This is the first time that the operating license for a network-affiliated VHF television station has been granted to a company with 100 percent minority ownership. Capital Cities has no stock ownership or management position in Seaway. The Federal Communications Commission has been made aware of and has been supportive of our efforts to bring a wholly-minority-owned group into a television station ownership position that can serve as a model for other minority groups.

One of the founders of Capital Cities, J. Floyd Fletcher, has decided not to stand for reelection as a Director. His contributions, as an officer of the company until 1968 and as a Director until now, have been many. We are proud to have been his colleagues, both professionally and personally, and wish him all the best in the years ahead.

On May 13, 1979, we lost a dear friend and valued associate with the death of Bert N. Honea, Chairman of the Board of Carter Publications. Mr. Honea had been with the *Fort Worth Star-Telegram* on an active basis since its founding in 1906. He leaves behind a wide circle of admirers and friends in the publishing and broadcasting businesses and throughout the South and Southwest. We feel privileged to have been associated with this outstanding individual since the acquisition of Carter Publications by Capital Cities in November, 1974, and we shall miss his friendship and his counsel.

Once again, we thank you for your support and your interest. We also thank our employees and our associates for the continuing excellence of their efforts and results.

Thomas S. Murphy

THOMAS S. MURPHY
Chairman

Daniel B. Burke

DANIEL B. BURKE
President

Publishing

John B. Sias, *President*

Publishing Division revenues for 1979 reached $263,563,000, up 13 percent from 1978 levels; operating income of $50,668,000, however, represented only a 4 percent gain over 1978.

This modest increase in operating income reflects our policy of price restraint, as well as less than full recovery of expense increases resulting from the upgrading of the editorial quality and delivery systems of our publications and the start-up of new ventures. Additionally, our Wilkes-Barre newspaper, which has operated under strike conditions since October, 1978, incurred an operating loss for 1979 of $6.4 million versus a $3.6-million loss for the last quarter of 1978.

The Publishing Division, in an effort to more than comply with President Carter's voluntary price guidelines, rolled back previously planned and implemented increases at the Fairchild business publications, and reduced or delayed 1979 rate increases planned at the daily newspapers.

In 1979, Publishing Division expenses of $212,895,000 were up 15 percent over 1978 levels, representing the largest percentage increase in the history of the division. Cost pressures were especially severe because of added personnel in the editorial and distribution areas, as well as the rapid escalation of newsprint prices. At Fairchild, major expense increases included postal and other distribution costs which were up over 20 percent, as well as start-up charges for three new publications.

The Kansas City Star achieved records in revenue and operating profit. Advertising linage was up 4.5 percent, while rates were increased an average 7 percent over 1978 levels.

Circulation of the morning *Times* and Sunday *Star* increased slightly, while the afternoon *Star* declined, for the most part as a result of modest curtailments in peripheral circulation.

The *Star* and *Times* continued the program of editorial improvements which was started in 1978, with an increase in the size of the news-gathering staff and special emphasis on raising the amount and quality of business, national affairs, and regional coverage. Design improvements were made in the morning *Times*, while the Sunday *Star* magazine was completely overhauled. Ongoing improvements in editorial operations are being planned and implemented in 1980.

A $5-million mailroom modernization and renovation project at the *Star*, undertaken in 1978 and largely completed in 1979, will be fully operative by April, 1980, with the installation of a computer circulation system interconnected to new inserting, stacking and track systems. This new facility will be one of the most automated mailrooms in the newspaper industry in the United States.

Some progress has been made in resolving an antitrust suit brought against *The Kansas City Star Company*. A number of distributors seek to prevent the *Star* from converting from an independent distributor system (in which the *Star* sells papers to the distributors, who in turn resell them to subscribers) to an agency system (in which the *Star* would sell papers directly to subscribers, with distributors carrying out delivery and collection functions).

In 1977, the court enjoined the *Star* from terminating carriers for the purpose of implementing its proposed new system. Subsequent to the injunction being issued, the *Star* converted some of its distribution to the agency system within the guidelines of the injunction. Presently, more than 30 percent of the circulation of the *Star* is handled by agents.

The district court decided after a 1978 trial that the *Star's* proposed plan would have been in violation of antitrust laws had it been implemented. On appeal, the case was remanded back to the lower court for clarification of this decision.

In January, 1980, on a motion for summary judgment by the *Star*, the court granted the motion to the extent that the *Star* would not be liable for damages since it had been enjoined from implementing its new system. The judge set a trial for July, 1980, to determine whether the distributors were threatened with loss or damage causally related to the potential antitrust violation raised by the change in the distribution system and, if so, to fix the appropriate remedy.

Subsequently, the plaintiffs sought a modification of the preliminary injunction which would have required court approval for the termination of any carrier. On March 10, 1980, the court denied that request, reaffirming that the company was free to terminate a carrier for cause.

In 1979, profits at the *Fort Worth Star-Telegram* increased more than 10 percent to a new record, despite an ambitious program of investment spending on editorial and distribution improvements. Advertising linage and circulation also grew. Progress was made in the installation of a computer-based circulation system for the *Star-Telegram*, and it is estimated that the new system will be fully operational in 1980.

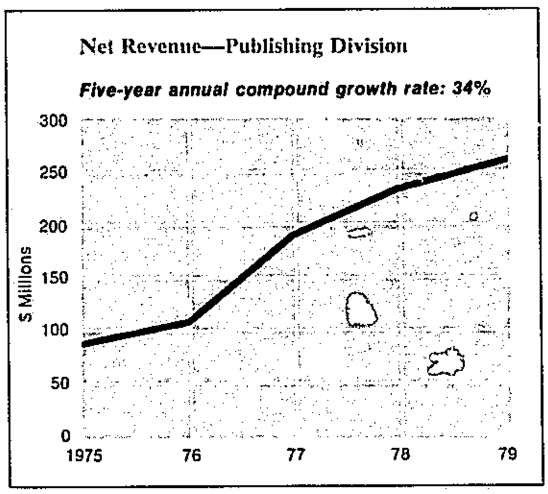
The Arlington Citizen-Journal, a suburban semiweekly in Arlington, Texas, received several area press awards during 1979: from the Texas Press Association, as the state's outstanding semiweekly paper; from the North and East Texas Press Association, the "Sweepstakes" award, as the region's best weekly or semiweekly; from the Dallas Press Club, the "Katie" award for the area's outstanding nondaily; and from the Texas Medical Association, the Anson Jones award for medical coverage.

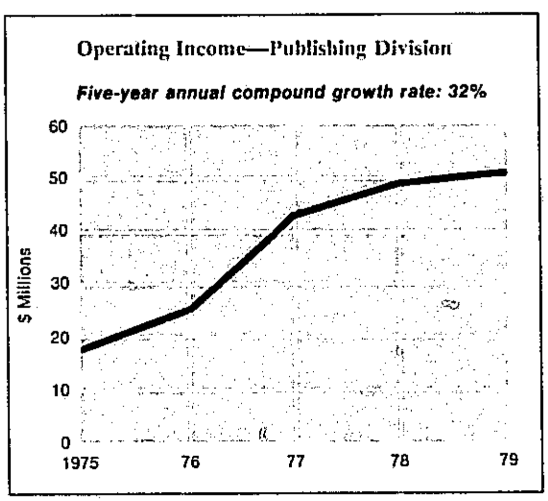
Our Texas operations reflect the strong economic conditions generally prevalent in the Southwest. We continue to feel that added investment of dollars and effort in this region will result in excellent returns in the years to come.

The Oakland Press (Pontiac, Michigan) registered impressive revenue and profit increases over depressed 1978 levels. An August price increase to subscribers caused no significant loss of readers. In 1979, the *Press* completed its first full year of publishing a Sunday edition. Two unions, which had been on strike against the paper since December, 1977, surrendered bargaining rights for editorial and pressroom employees in November, 1979.

The *News-Democrat* (Belleville, Illinois) had a spectacular 1979. Revenue and operating income hit all-time highs, both exceeding 1978 performance by over 30 percent. Operating margins were improved slightly over past years. These results are a consequence of a strong presence in its primary market, but in addition, an important competitor, the *Metro-East Journal* in East St. Louis, went out of business in March, 1979. The *News-Democrat*, with an immediate and aggressive circulation effort, added more than 10,000 subscribers in geographic areas important to many of the regional retailers serving the area. Rates were adjusted to reflect the additional circulation.

The Wilkes-Barre Times Leader operated throughout 1979 under strike conditions, a situation which began in October, 1978, and was described in our 1978 report to you. The paper increased advertising revenue and decreased losses during each quarter in 1979. Pre-strike distribution of approximately 70,000 copies per day was regained during the first quarter; however, only a portion of the circulation is on a paid basis. The editorial design of the *Times Leader* was completely revamped during 1979, a new entertainment-oriented tabloid was introduced as part of the paper's Saturday edition, and several annual special sections were produced and run with excellent advertising success. The *Times Leader*, for the year, sold more advertising at higher rates than the competing union-operated newspaper in Wilkes-Barre.





Fairchild Publications achieved record revenues during 1979 for the ninth consecutive year. Earnings were flat with 1978, and operating margins declined slightly due to changes in the mix of Fairchild's business and as a result of the rollback of price increases (commented on earlier in this section) which constrained the publication's recovery of significant cost increases.

W, Fairchild's consumer version of *Women's Wear Daily*, had a phenomenal 1979. Advertising revenues increased more than 40 percent, and the record pre-tax operating profit exceeded total start-up losses incurred on the publication since it was launched in 1972. Most of the other Fairchild publications had substantial revenue gains and, with a few exceptions, modest profit improvements. *Energy User News* reduced its losses in 1979, with an encouraging 40 percent gain in revenue. Its paid circulation increased by over 3,000, reflecting excellent reaction to its editorial services. *SportStyle*, launched in the fourth quarter of 1978, met revenue goals for 1979. Both reader and advertiser reaction continue to be encouraging, and significant revenue increases and reduced losses are projected for 1980.

The excellent performance of its established publications has permitted Fairchild to make important investments in start-ups of new publications without causing declines in aggregate operating earnings. Two new publications were introduced by Fairchild during the year. *Entrée*, a monthly tabloid magazine, aims at the specialized cookware and housewares market. *Home Fashions Textiles* is a monthly for the home textiles market. Both began publication late in 1979. *Heat Treating*, a monthly magazine for the metals heat treating industry, was purchased in January, 1980. Plans also were finalized for a weekly newspaper for the management information systems business community, which will begin publication this spring.

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

CARTER PUBLICATIONS

FORT WORTH STAR-TELEGRAM (Fort Worth, Texas)
Amon G. Carter, Jr., *Chairman of the Board & Publisher*
Phillip J. Meek, *President & Editorial Chairman*
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*

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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 & Associate Publisher, DNR*
Clara Hancox, *Vice President & Director of Publishing, DNR*

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BOOK DIVISION

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HFD—Retailing Home Furnishings
ENTRÉE
HOME FASHIONS TEXTILES
SUPERMARKET NEWS
MEN'S WEAR

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

•

AMERICAN METAL MARKET
METALWORKING NEWS
ELECTRONIC NEWS
ENERGY USER NEWS
METAL/CENTER NEWS
HEAT TREATING
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, HT*

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

JOSEPH P. DOUGHERTY, *President*

In 1979, the Broadcasting Division earned operating income of $80,319,000, up 15 percent from the 1978 level. Net revenues increased 13 percent to $151,327,000.

Our television stations continued to perform well and, in almost every case, were able to convert a large percentage of their significant revenues increases into operating income. Local television sales performance was very strong in all of our markets. While several radio stations showed record operating income, spotty sales, which started in August and continued into the fourth quarter for most of the radio stations, resulted overall in only a small increase in revenue for our radio stations and a slight drop in operating income.

Our six television stations not only held their audience positions—four were first in their markets, two were second—but in almost every case, improved their shares of audience. Their affiliations with the ABC (four) and CBS (two) networks remain advantageous; however, as the era of a dominant network passes, local programming becomes a more important source of both audience and revenues. Our stations continue their emphasis on news, local live entertainment programming and talk shows, mixed with syndication and off-network programs.

In 1979, news continued to play an important role both in service to our viewers and as a revenue source. Four of our stations dominated their market in this area. News programs are so important that we have, over the past seven years, increased the number of hours devoted to news by 32 percent and news employees by 82 percent. In 1980, WTVD will have a half-hour noon news on weekdays in Durham; and KFSN-TV will provide Fresno with its first *locally* produced news magazine show, scheduled to run just before *60 Minutes*.

We continue our support of news through the use of up-to-date ENG (electronic news-gathering) equipment, giving all stations live capability with more mobility to cover areas we serve. Our Houston station is now using ENG equipment exclusively, and evaluation of this move will help us to decide whether all our television stations will follow.

Radio audiences are continuing to shift from AM to FM stations for music programming; consequently, AM stations with "old-line" formats are under pressure to maintain their audience positions. Although most of our radio stations continue to hold their strong rankings in their markets, we are addressing the need for alternative AM programming.

On October 1, 1979, our Los Angeles AM station, KPOL, took its sister FM station's call letters, KZLA, as both stations have adult-contemporary formats targeted to reach the prime 18-to-34-year-old demographic group. While disappointed in our performance in this highly competitive market, we have already realized certain opportunities which we anticipate will improve our performance in 1980.

In October, 1978, WKBW-TV opened an unusual new studio building in Buffalo—unusual in that it is the first television studio in the country to operate without a traditional heat source. Heat generated by lights, studio equipment, and people is extracted from the air and then carried by a closed water system to those parts of the building which need it. The system, consisting of 36 heat pumps and two 10,000-gallon tanks, also provides air conditioning. Although the new building requires far more equipment than is necessary with other types of climate control, including backup systems for very hot or very cold days, there has been a substantial saving in utility costs after only one full year of operation.

An energy-related story of another kind developed last year at our radio stations in Los Angeles. When it became apparent early last summer that California would be hit by a severe gas shortage, our stations responded by monitoring open gas stations and the length of their waiting lines, and

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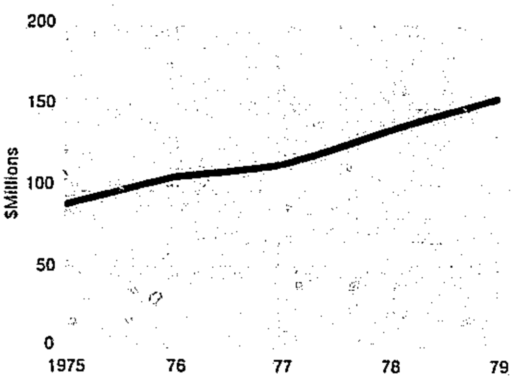
reporting the findings as part of the programming on both the AM and FM stations. During the height of the crisis, *Gas Watch* was being aired almost constantly on weekends and Monday mornings. This information, provided by listeners and by KZLA staff members, proved so accurate that many of the emergency agencies in Los Angeles were using it as their own primary information source.

All of our television stations run special features in their news programs, including investigative reports covering a wide range of subjects of interest to the viewers as they affect their daily lives.

Capital Cities is also involved in public affairs programming on a national level. These efforts are described in the next section of this report.

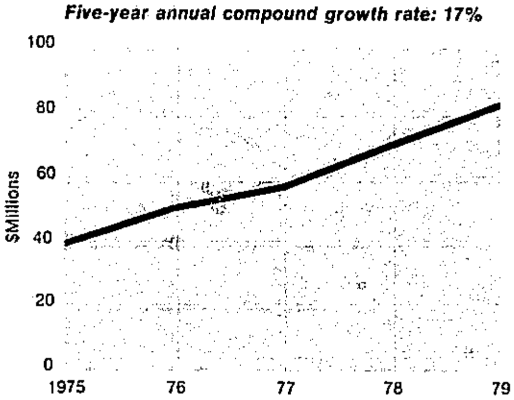
Net Revenue—Broadcasting Division

Five-year annual compound growth rate: 14%



Operating Income—Broadcasting Division

Five-year annual compound growth rate: 17%



Broadcasting Division

Joseph P. Dougherty, *President*
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, *Vice President & 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 • KZLA AM-FM • 1540/93.9
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
Aaron M. Daniels, *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*

CAPITAL CITIES CABLE

Joel Smith, *President*
OMNICOM OF MICHIGAN, INC.
John M. Raines, *President*

We Talk to People

Our corporate commitment to the nation and the communities we serve

Capital Cities' documentaries and family dramas in 1979 included (*clockwise from top left*): Robert MacNeil hosting *Energy: A Light at the End of the Tunnel;* Paul Sorvino and Noelle North in *A Friend In Deed;* Richard Jaeckel and Lenora May in *Princess;* Louis Rukeyser hosting *Inflation: The Fire That Won't Go Out;* Le Tari and Jackie Earle Haley in *Chicken;* and Efrem Zimbalist, Jr. and Pamela Hayden in *A Family of Winners.*

The mandate of Capital Cities Television Productions—to provide highest quality public affairs and young people's programming to a national audience—was amply carried out in 1979. Last year and early this year, we produced and distributed two documentaries which addressed the nation's most vexing problems—inflation and energy; we completed our first season of dramatic specials for teenagers and their families; and we completed evaluation of our television reading program, which uses TV to stimulate youngsters to expand reading skills, and found it to have great promise.

Plans for this year call for maintaining our commitment to public service programming at comparable levels. One major documentary, exploring the problem of teenage runaways, is already in production; also, our second season of family programs was launched for the 1979-80 viewing season.

Our efforts to build nationwide "networks" of stations for Capital Cities programs continued to be rewarding in 1979. The six programs which appeared under the Capital Cities imprint last year were carried by an average of more than 160 stations, capable of reaching into better than 90 per cent of television homes in the United States.

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These programs have always been and continue to be produced at budget levels on a par with major network operations, although this is far from the only criterion for judging them. Our 1979 output cost a total of $1.2 million to produce, promote and distribute. We retained half of the commercial time for sale to national advertisers, which enabled us to generate net revenues of $700,000 (including reruns). Thus, the company underwrote about $500,000 of the total expense, or just over one-half cent per viewer for our total estimated audience of 80 million people.

Capital Cities Special Reports

Our first major documentary for the year, aired last May, focused on inflation—its key causes and their interrelationship, and the inadequacy of businesses and public policy so far to deal with it. *Inflation: The Fire that Won't Go Out*, hosted by Louis Rukeyser of Public Television's *Wall Street Week*, presented the views of current and former Administration officials, as well as leading economists, bankers and businessmen. The show's producers also went into the nation's heartland, to look at inflation's devastating impact on consumers, workers and businesses.

The show ran in prime time on 188 stations—the largest network we've assembled to date—drawing an 8.2 national rating and a 16 share of audience, exactly matching figures for the average network news documentary for that time of year. More than 10 million viewers saw the show.

In January, 1980, we aired the latest of our documentaries examining the nation's other enormous challenge: energy. *Energy: The Light at the End of the Tunnel* took a close look at ways in which American individuals and communities are reacting to the reality of ever-scarcer and more unreliable foreign oil supplies. The program, hosted by Robert MacNeil (of Public Television's *MacNeil/Lehrer Report*) demonstrated the country's transition to energy efficiency, despite the absence so far of a strong national energy policy.

Audience response to the energy special was phenomenal: a 9.8 national rating was the best ever for one of our documentaries. Indeed, it would represent an outstanding response for *any* producer of television news documentaries. We estimate more than 12 million people saw the show.

Capital Cities Family Specials

The Family Specials series completed a gratifying first season in 1979. These half-hour original dramas, which deal compellingly with the complex issues confronting teenagers, are written, acted and directed by seasoned screen professionals. The first series of four shows, plus two repeats, was seen by over 62 million people, and was supported by major national advertisers.

Based on that record, we launched our second series of Family Specials, which began to air last December and will continue through the summer.

These new dramas focus on themes ranging from suicide among teenagers—the second leading cause of death in that age group—to the less extreme but very common problem of an adolescent's inability to distinguish love from friendship. Other programs treat the reaction of two teenage children to the divorce of their parents, and the phenomenon of gang life among high school students.

Our ongoing commitment to the Family Specials is evidenced by the fact that we have now begun work on production of a third series of half-hours, to air in the 1980-81 season. In recognition of our responsibilities as a group broadcaster, we intend as a matter of policy to stay in the business of bringing programming of distinction and value to a national audience.

Capital Cities TV Reading Program

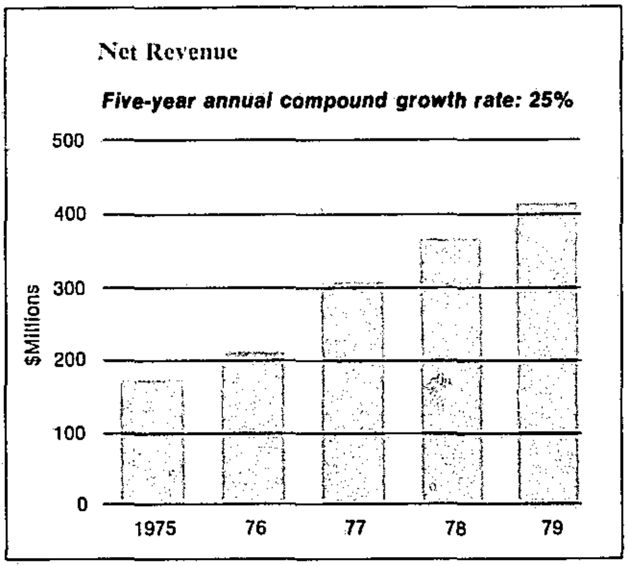
After two years of evaluation, the TV Reading Program received its report card in 1979. The conclusion: that the Program does make an educationally significant contribution to children's reading skills.

The concept, pioneered by Dr. Michael McAndrews, our Director of Educative Services, uses scripts from popular network television shows, along with accompanying vocabulary and comprehension exercises, to inspire children to read.

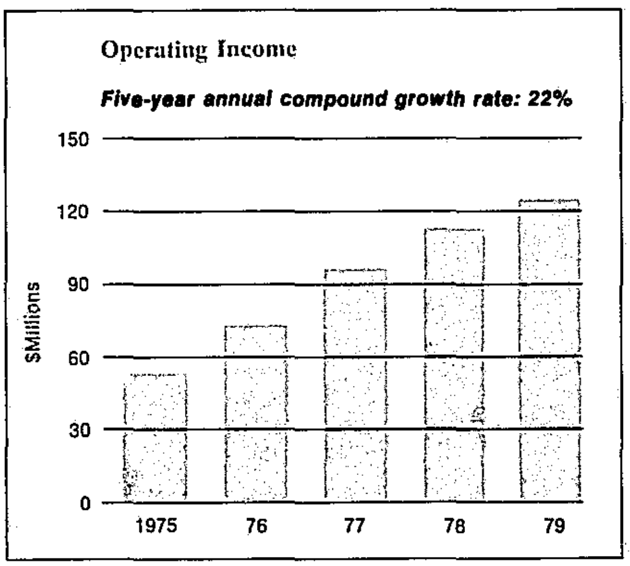
The Center for Educational Research and Evaluation at Penn State University conducted the evaluation of our program among some 12,000 students and found, most significantly, that children using the materials performed 10 per cent better in tests of reading skills than students not using them. And most of the teachers who administered the program to their classes said they would want the materials again.

We are now test marketing the program, on a nonprofit basis, to see how this intriguing concept can best realize its potential.

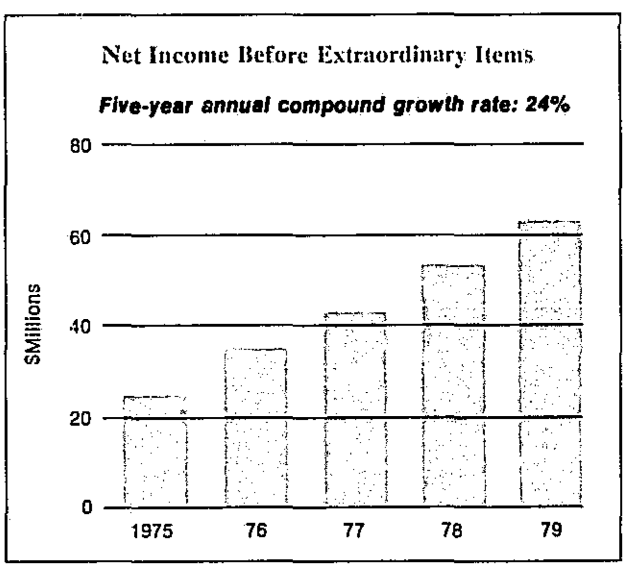
Financial Highlights and Overview



Net Revenues in 1979 increased to $414,890,000, or 13% over the 1978 level of $367,476,000. Broadcasting net revenues rose $17,967,000, or 13%, to $151,327,000, in 1979. Publishing net revenues increased $29,447,000, or 13%, to $263,563,000.



Operating Income in 1979 increased to $125,653,000, or 10% over the $114,298,000 reported in 1978. Broadcasting operating income rose $10,239,000, or 15% to $80,319,000 in 1979, while Publishing operating income increased $1,887,000, or 4%, to $50,668,000.



Net Income of $63,758,000 in 1979 increased 18% over the $54,033,000 reported in 1978.

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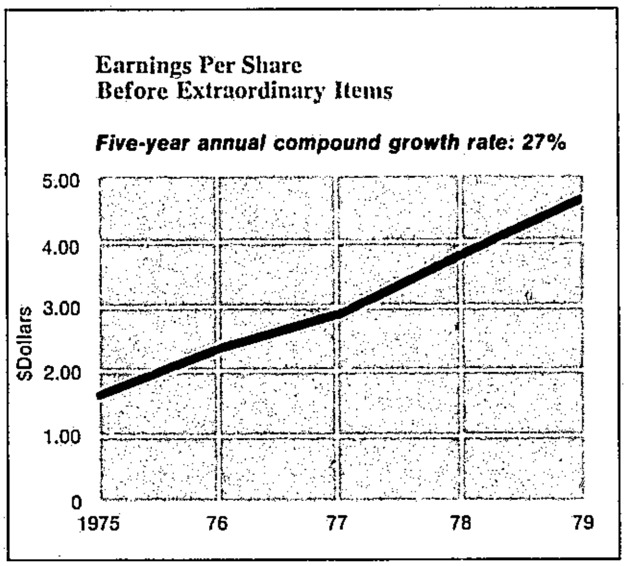
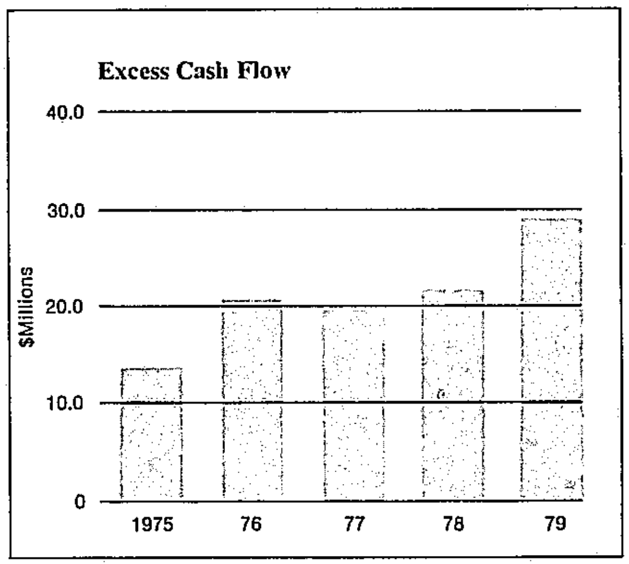


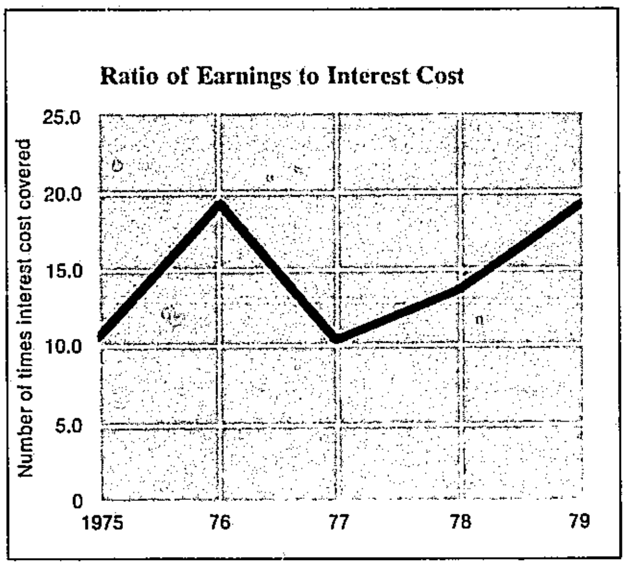
1979 Earnings Per Share of $4.68 increased 23% from the $3.80 reported in 1978.



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 1979, $29,050,000 was provided in excess cash flow.



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 19.3 times at the end of 1979 is substantial and offers opportunities for prudently increasing its debt capacity.

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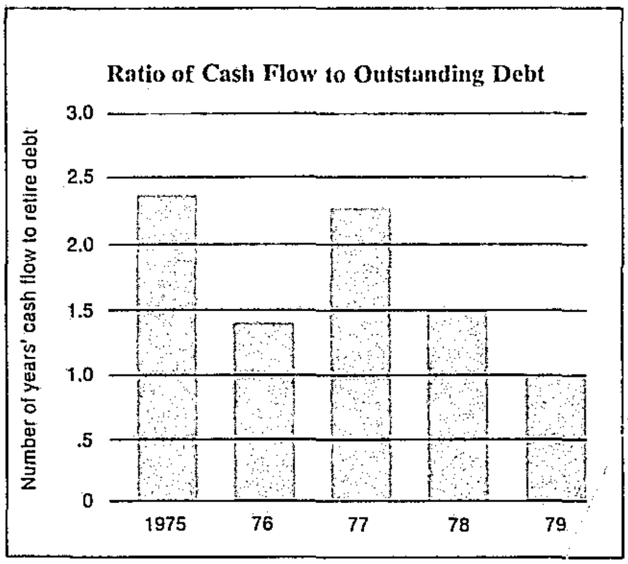
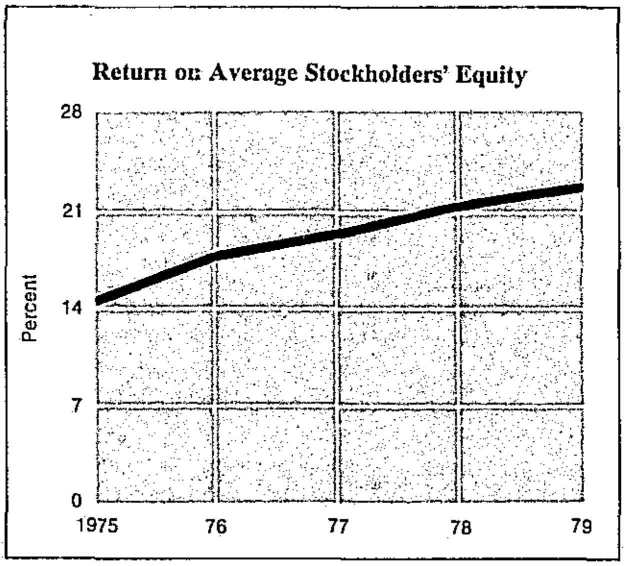


The relationship of cash flow to outstanding debt is an important yardstick of a company's ability to take on additional debt capacity as well as service existing long-term maturities. This ratio measures the number of years of current cash flow from operations (net income plus depreciation and amortization of intangibles) required to pay off currently outstanding debt. On the basis of 1979 cash flow, our debt could be retired by the end of 1980. We are, therefore, satisfied the debt could be increased substantially to meet our cash needs for any large acquisition, and that the company possesses substantial flexibility in this area.



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

In 1979 Capital Cities' return on average stockholders' equity was 22.8%, up from 21.8% in 1978.

We believe return on equity is an important measurement of the effectiveness with which the stockholders' capital is being employed. Our stockholders 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.

Capital Expenditures

During 1979, capital expenditures amounted to $18,178,000, up from $16,314,000 spent in 1978. Our budgets anticipate that approximately $19,000,000 will be spent on capital projects in 1980.

The largest portion of the 1980 amount is expected to be spent for projects in the Broadcasting Division. Our television stations continue to invest substantial amounts for the expansion of their electronic news gathering capabilities and upgrading of their studio facilities, to better serve their viewers' news and informational needs. Also included in 1980, is the completion of new studio and transmitter facilities for radio station WBAP in Forth Worth, Texas, and the start of a new studio building for WTNH-TV, New Haven, Connecticut.

Publishing Division capital expenditures in 1980 are primarily for the upgrade and expansion of electronic data processing capabilities at the Company's larger newspapers, principally related to marketing, circulation and business office needs.

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Included in our 1980 estimate, is approximately $3,000,000 for the initial stages of construction of our newly acquired cable television franchises in suburban Detroit, Michigan.

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 $300,179,000, up $40,488,000 from the 1978 year-end total of $259,691,000.

Our debt, both current and long-term portions, was $77,955,000 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)

	1979	1978	1977	1976	1975
Interest-Bearing Debt	**$ 78.0**	$103.0	$126.3	$ 59.4	$ 75.7
Total Capital	**$388.6**	$372.5	$372.7	$276.3	$272.6
Debt to Capital Ratio ..	**20%**	28%	34%	21%	28%

We believe that the Company's conservative debt to capital ratio would allow for a substantial increase in debt, should internal or external investment opportunities so require.

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 financing 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)

	1979	1978	1977	1976	1975
Average Total Capital	**$380.6**	$372.6	$324.5	$274.5	$265.8
Return	**$ 67.2**	$ 58.3	$ 48.0	$ 37.6	$ 28.1
Rate of Return ...	**17.7%**	15.6%	14.8%	13.7%	10.6%

A refinement 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)

	1979	1978	1977	1976	1975
Average Operating Capital	**$321.3**	$309.5	$254.6	$209.8	$210.7
Return	**$ 64.2**	$ 55.7	$ 46.4	$ 35.8	$ 26.4
Rate of Return ...	**20.0%**	18.0%	18.2%	17.1%	12.5%

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 51 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 $3,077,000, or $.23 a share, in 1979. This amortization of intangibles is not a deductible item in computing income taxes.

Stock Repurchase

In late 1976 we began a program of repurchasing our common stock. As of December 31, 1979, we have acquired 2,624,000 shares of issued and outstanding common stock for an aggregate purchase price of $87,802,000. During this period, the above shares were acquired at an average price of $33.46.

In December, 1979, the Board of Directors authorized the purchase of an additional 600,000 shares.

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 four years and we feel it is one of the better opportunities to effectively deploy our assets and manage our shareholders' equity.

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Ten Year Financial Summary

(All Dollars in Thousands Except Per Share Data)

	1979	1978	1977
RESULTS FOR THE YEAR			
Net Revenues			
Broacasting	**$151,327**	$133,360	$112,522
Publishing	**263,563**	234,116	193,624
Total	**414,890**	367,476	306,146
Operating Income			
Broadcasting	**$ 80,319**	$ 70,080	$ 56,757
Publishing	**50,668**	48,781	43,681
Income from operations	**130,987**	118,861	100,438
Unallocated corporate expense	**5,334**	4,563	3,673
Total	**125,653**	114,298	96,765
Net Income (a)	**$ 63,758**	$ 54,033	$ 43,234
Net Income Per Share—Fully Diluted (a) (b)	**$4.68**	$3.80	$2.91
Average Shares—Fully Diluted (000's omitted) (b)	**13,615**	14,220	14,852
Return on Average Stockholders' Equity (c)	**22.8%**	21.8%	19.4%
MAJOR CHANGES IN FINANCIAL POSITION			
Funds Provided			
Operations	**$ 77,888**	$ 66,811	$ 53,763
Increase in notes payable	**1,900**	2,696	90,628
Sale of operating properties	—	15,526	14,389
Funds Applied			
Acquisitions	—	$ 9,622	$125,877
Purchase of common stock for treasury	**$ 24,736**	31,097	17,111
Capital expenditures	**18,178**	16,314	8,209
Reduction of notes payable	**21,585**	26,928	33,470
Dividends on common stock	**2,669**	2,438	1,467
AT YEAR END			
Working Capital	**$ 36,110**	$ 18,980	$ 8,998
Notes Payable	**77,955**	102,983	126,257
Stockholders' Equity	**300,179**	259,691	236,834
Number of Shares Outstanding (000's omitted) (b)	**13,058**	13,514	14,212
Price Range of Common Stock (b)	**$36¾-49⅞**	$27⅛-47¾	$22⅛-30½

(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 two-for-one stock split in 1978.

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

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1976	1975	1974	1973	1972	1971	1970
$104,307	$ 86,820	$ 78,576	$ 76,066	$69,885	$ 56,219	$ 44,649
107,860	88,066	60,009	51,432	48,603	41,857	41,209
212,167	174,886	138,585	127,498	118,488	98,076	85,858
$ 50,277	$ 39,184	$ 36,359	$ 36,469	$ 31,553	$ 23,912	$ 21,464
25,592	17,699	12,752	9,800	8,192	7,695	4,872
75,869	56,883	49,111	46,269	39,745	31,607	26,336
2,826	2,748	2,492	1,704	1,659	1,299	1,051
73,043	54,135	46,619	44,565	38,086	30,308	25,285
$ 35,620	$ 25,402	$ 22,025	$ 20,146	$ 17,015	$ 13,129	$ 11,511
$2.30	$1.64	$1.43	$1.30	$1.11	$ .86	$ .78
15,478	15,466	15,376	15,438	15,394	15,250	14,698
17.9%	14.4%	14.4%	15.2%	15.3%	15.7%	18.9%
$ 43,309	$ 32,098	$ 25,833	$ 23,215	$ 20,167	$ 16,324	$ 13,804
		40,500			82,297	
					32,032	791
$ 6,099		$ 61,602	$ 1,136	$ 1,300	$103,834	$ 3,979
14,858						
4,049	$ 5,546	3,206	2,859	2,465	1,351	939
16,275	16,275	11,663	12,125	17,913	25,073	4,442
1,524	384					
$ 38,058	$ 34,547	$ 23,864	$ 33,028	$ 22,075	$ 14,816	$ 12,708
59,404	75,679	87,342	56,967	75,092	101,797	23,500
208,501	188,921	163,860	141,906	121,620	100,166	66,090
14,832	15,374	15,368	15,364	15,356	14,524	14,170
$21⅛-28⅛	$11-21¾	$8⅜-19⅝	$15-31¼	$24-32⅛	$14½-24⅞	$9¾-18¼

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

	Year Ended December 31,				
	1979	**1978**	**1977**	**1976**	**1975**
Net Revenues	**$414,890**	$367,476	$306,146	$212,167	$174,886
Operating Expenses					
Broadcasting and publishing	**185,234**	158,965	132,721	78,809	71,375
Selling, general and administrative	**90,932**	81,735	65,727	53,764	43,458
Depreciation	**9,994**	9,485	8,294	5,731	5,098
Amortization of intangible assets	**3,077**	2,993	2,639	820	820
	289,237	253,178	209,381	139,124	120,751
Operating Income	**125,653**	114,298	96,765	73,043	54,135
Other Income (Expense)					
Interest expense	**(6,835)**	(8,603)	(9,545)	(3,992)	(5,352)
Interest income	**3,807**	3,145	2,087	3,167	2,749
Miscellaneous, net	**2,233**	1,993	927	432	470
	(795)	(3,465)	(6,531)	(393)	(2,133)
Income Before Income Taxes	**124,858**	110,833	90,234	72,650	52,002
Income Taxes	**61,100**	56,800	47,000	37,030	26,600
Income Before Extraordinary Gain	**63,758**	54,033	43,234	35,620	25,402
Extraordinary Gain, net of taxes	**—**	—	3,320	—	—
Net Income	**$ 63,758**	$ 54,033	$ 46,554	$ 35,620	$ 25,402
Income Per Share:					
Income before extraordinary gain	**$4.68**	$3.80	$2.91	$2.30	$1.64
Extraordinary gain	**—**	—	.22	—	—
Net income	**$4.68**	$3.80	$3.13	$2.30	$1.64
Dividends Declared on Common Stock	**$ .20**	$.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	**13,358**	13,993	14,710	15,332	15,016
Convertible preferred shares	**—**	—	—	—	354
Stock options	**257**	227	142	146	96
Total common shares and common share equivalents	**13,615**	14,220	14,852	15,478	15,466

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Management's Discussion and Analysis of the Summary of Operations

1979 Compared to 1978

Net Revenues

Net revenues in 1979 increased $47,414,000 or 13% over 1978, with the Broadcasting and Publishing Division both showing significant gains.

Broadcasting Division revenues were up $17,967,000, a 13% increase over 1978. Television station revenues rose 17% from the prior year, reflecting substantial gains in both local and national business. Radio station revenues increased 3% for the year.

Revenues for the Publishing Division increased $29,447,000 or 13% over 1978. Newspaper revenues were up 13%, with advertising and circulation revenues up 15% and 7%, respectively. Advertising linage rose 6% in 1979, with the largest gains coming from classified advertising. Revenues for the Company's specialized publications increased 12% over the prior year, with advertising and circulation revenues up 12% and 15%, respectively. Average unit advertising rates increased moderately in 1979, 8% and 4.5%, for the newspapers and specialized publications, respectively, reflecting the Company's compliance with the voluntary price control standards begun in October, 1978.

Operating Expenses

Total operating expenses for 1979 were up $36,059,000 or 14% from 1978.

Broadcasting Division operating expenses increased $7,728,000 or 12% in 1979. These increases resulted primarily from higher television programming and news department costs, together with increased selling, general and administrative expenses.

Publishing Division operating expenses rose $27,560,000 or 15% from 1978. These cost increases resulted principally from higher volume-related production and distribution costs, newsprint price increases, investment spending for the substantially expanded editorial and distribution efforts at the Kansas City and Fort Worth newspapers, and the inclusion of the Wilkes-Barre newspaper for a full year in 1979 compared to seven months in 1978.

Operating Income

Operating income for 1979 was $11,355,000 or 10% higher than 1978. *The Wilkes-Barre Times Leader,* which has been published under strike conditions since October 6, 1978, incurred a 1979 operating loss of $6,400,000 (approximately $3,450,000 after taxes, or $.25 per share). This compares to a $3,600,000 operating loss (approximately $1,800,000 after taxes, or $.13 per share) for the seven months of ownership in 1978. Excluding the Wilkes-Barre results from 1979 and 1978, operating income increased $14,155,000 or 12% in 1979, and operating income margins were unchanged at 32%.

Other Income and Expense

Net financial costs (interest expense less interest income) for 1979 declined $2,430,000 from 1978, principally due to the $25,028,000 net decrease in outstanding debt, together with significantly higher interest rates earned on the Company's portfolio of short-term investments.

Income Taxes

Income taxes in 1979 decreased from 51% to 49% of income before taxes. The lower effective tax rate for 1979 resulted from the decrease in federal income tax rate (48% to 46%) and an increase in investment tax credit from $800,000 in 1978 to $1,500,000. The reduced tax rate contributed approximately $2,900,000 to net income in 1979, or $.21 per share.

Net Income

Net income for 1979 was up $9,725,000, or 18%, with the corresponding net income per share up $.88, or 23%. The greater percentage gain in net income per share was due primarily to a 4% reduction in average shares outstanding, as a result of stock repurchases by the Company in late 1978 and 1979.

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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 cost of substantially expanded editorial and distribution efforts at the *Forth 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 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. As a result of the exchange, the Company recorded a $3,320,000 extraordinary gain in 1977.

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.

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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 seven daily newspapers in five communities (four of which have Sunday editions), a three times weekly suburban newspaper and 22 business and specialized newspapers, 11 of which are paid circulation and 11 of which are controlled circulation.

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.

(Dollars in Thousands)	1979	1978	1977	1976	1975
Broadcasting					
Net Revenues	**$151,327**	$133,360	$112,522	$104,307	$ 86,820
Direct Operating Costs	**67,018**	59,619	52,317	50,763	44,667
Depreciation	**3,758**	3,429	3,216	3,035	2,737
Amortization of intangible assets	**232**	232	232	232	232
Total	**71,008**	63,280	55,765	54,030	47,636
Income from Operations	**80,319**	70,080	56,757	50,277	39,184
Assets at December 31	**188,314**	178,739	167,019	164,320	166,434
Capital Expenditures	**7,472**	8,157	4,559	2,876	3,878
Publishing					
Net Revenues	**$263,563**	$234,116	$193,624	$107,860	$ 88,066
Direct Operating Costs	**204,260**	176,909	142,713	79,030	67,496
Depreciation	**5,790**	5,665	4,823	2,650	2,283
Amortization of intangible assets	**2,845**	2,761	2,407	588	588
Total	**212,895**	185,335	149,943	82,268	70,367
Income from Operations	**50,668**	48,781	43,681	25,592	17,699
Assets at December 31	**215,576**	209,255	190,810	92,014	83,413
Capital Expenditures	**10,185**	7,818	2,835	1,064	1,775
Consolidated					
Net Revenues	**$414,890**	$367,476	$306,146	$212,167	$174,886
Income from Operations	**130,987**	118,861	100,438	75,869	56,883
General Corporate Expense	**5,334**	4,563	3,673	2,826	2,748
Operating Income	**125,653**	114,298	96,765	73,043	54,135
Interest Expense	**(6,835)**	(8,603)	(9,545)	(3,992)	(5,352)
Other Income	**6,040**	5,138	3,014	3,599	3,219
Income Before Income Taxes	**$124,858**	$110,833	$ 90,234	$ 72,650	$ 52,002
Assets Employed by Segments	**403,890**	387,994	357,829	256,334	249,847
Investments and Corporate Assets	**69,244**	56,803	77,267	72,188	65,281
Total Assets at December 31	**$473,134**	$444,797	$435,096	$328,522	$315,128

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Consolidated Statement of Income

Years Ended December 31, 1979 and 1978
(Dollars in Thousands Except Per Share Amounts)

	1979	1978
Net Revenues		
Broadcasting	**$151,327**	$133,360
Publishing	**263,563**	234,116
	414,890	367,476
Operating Expenses		
Broadcasting and publishing	**185,234**	158,965
Selling, general and administrative	**90,932**	81,735
Depreciation	**9,994**	9,485
Amortization of intangible assets (Note 8)	**3,077**	2,993
	289,237	253,178
Operating Income	**125,653**	114,298
Other Income (Expense)		
Interest expense	**(6,835)**	(8,603)
Interest income	**3,807**	3,145
Miscellaneous, net	**2,233**	1,993
	(795)	(3,465)
Income Before Income Taxes	**124,858**	110,833
Income Taxes (Note 4)		
Federal	**53,100**	50,200
State and local	**8,000**	6,600
	61,100	56,800
Net Income	**$ 63,758**	$ 54,033
Net Income Per Share (Note 5)	**$4.68**	$3.80

See accompanying notes

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Consolidated Statement of Changes in Financial Position

Years Ended December 31, 1979 and 1978
(Dollars in Thousands)

	1979	1978
Funds Provided		
Operations		
Net income	$ 63,758	$ 54,033
Depreciation	9,994	9,485
Amortization of intangible assets	3,077	2,993
Other, net	1,059	300
Total from operations	77,888	66,811
Common stock issued under Employee Stock Purchase Plan (Note 10)	3,289	1,990
Increase in notes payable (Note 9)	1,900	2,696
Decrease in notes receivable	3,798	6,718
Increase in unearned subscription revenue	1,394	2,579
Proceeds from sale of paper manufacturing property (Note 2)	—	15,526
	88,269	96,320
Funds Applied		
Purchases of common stock for treasury	24,736	31,097
Additions to fixed assets	18,178	16,314
Reduction of notes payable (Note 9)	21,585	26,928
Acquisition of publishing property (Note 2)	—	9,622
Dividends	2,669	2,438
Other, net	3,971	(61)
	71,139	86,338
Increase in Working Capital	$ 17,130	$ 9,982
Working Capital Changes		
Cash and short-term cash investments	$ 11,534	$ (4,928)
Accounts and notes receivable	4,704	19,584
Film contract rights and other current assets	3,135	2,085
Taxes on income	(5,529)	(1,378)
Notes payable due within one year	5,343	(958)
Film contracts and other current liabilities	(2,057)	(4,423)
Increase in Working Capital	$ 17,130	$ 9,982

See accompanying notes

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Consolidated Balance Sheet

December 31, 1979 and 1978
(Dollars in Thousands)

ASSETS	1979	1978
Current Assets		
Cash	$ 6,240	$ 5,440
Short-term cash investments	36,888	26,154
Accounts receivable (less allowance for doubtful accounts of $3,282 in 1979 and $2,429 in 1978)	63,967	55,372
Notes receivable	2,610	6,501
Film contract rights	4,714	3,725
Other current assets	8,701	6,555
Total current assets	123,120	103,747
Property, Plant and Equipment, at cost		
Land	12,652	12,554
Buildings	43,478	41,912
Broadcasting, printing and other equipment	101,813	88,077
	157,943	142,543
Less accumulated depreciation	76,334	68,234
Property, plant and equipment, net	81,609	74,309
Intangible Assets (net of accumulated amortization of $10,561 in 1979 and $7,484 in 1978—Note 8)	240,305	243,382
Marketable Equity Securities (Note 7)	11,649	11,649
Film Contract Rights	2,781	2,191
Other Assets	13,670	9,519
	$473,134	$444,797

See accompanying notes

26.

LIABILITIES AND STOCKHOLDERS' EQUITY

	1979	1978
Current Liabilities		
Accounts payable	$ 14,085	$ 12,164
Accrued compensation	6,603	5,884
Other accrued expenses	12,754	13,130
Film contracts	3,692	3,899
Taxes on income (Note 4)	28,291	22,762
Notes payable due within one year (Note 9)	21,585	26,928
Total current liabilities	87,010	84,767
Deferred Compensation	4,048	2,657
Deferred Income Taxes (Note 4)	10,463	9,872
Unearned Subscription Revenue	11,399	10,005
Film Contracts	3,665	1,750
Notes Payable Due After One Year (Note 9)	56,370	76,055
Total liabilities	172,955	185,106
Commitments (Note 11)		
Stockholders' Equity (Notes 9 and 10)		
Convertible preferred stock, $1 par value (600,000 shares authorized)	—	—
Common stock, $1 par value (20,000,000 shares authorized)	15,394	15,394
Additional paid-in capital	362	—
Retained earnings	364,781	303,573
	380,537	318,967
Less common stock in treasury, at cost (2,335,233 shares in 1979 and 1,880,261 shares in 1978)	80,358	59,276
Total stockholders' equity	300,179	259,691
	$473,134	$444,797

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Consolidated Statement of Stockholders' Equity

Years Ended December 31, 1979 and 1978
(Dollars in Thousands)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Total
Balance January 1, 1978	$ 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
Net income for 1979	—	—	63,758	—	63,758
592,800 shares purchased for treasury	—	—	—	(24,736)	(24,736)
116,977 shares issued under Employee Stock Purchase Plan	—	177	—	3,112	3,289
20,851 shares issued on exercise of employee stock options	—	185	119	542	846
Cash dividends	—	—	(2,669)	—	(2,669)
Balance December 31, 1979	$15,394	$ 362	$364,781	$(80,358)	$300,179

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.

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2. ACQUISITIONS

In May, 1978, the Company acquired all of the outstanding stock of the Wilkes-Barre Publishing Company, publisher of *The Wilkes-Barre Times Leader.*

In February, 1977, the Company acquired all of the outstanding stock of The Kansas City Star Company. At the time of acquisition, The Kansas City Star Company also owned the Flambeau Paper Company, a manufacturer of fine paper, and the Graham Paper Company, a distributor of paper and paper products. In October, 1977, the Company sold Graham, and in July, 1978, sold Flambeau, realizing proceeds of approximately $14,400,000 and $15,500,000, respectively.

3. 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 1979 and 1978 were $2,530,000 and $2,370,000, respectively. Other employees, not covered by the profit-sharing plans, are covered by Company non-contributory pension plans. In connection with these plans, contributions of $1,503,000 and $1,235,000 were charged to expense in 1979 and 1978, respectively. Provision is made for normal cost and amortization of prior service costs over periods of 30 years. As of January 1, 1979, the latest valuation date, the actuarially computed value of vested benefits, in the aggregate, approximates the market value of the pension funds. At the same date, unfunded past service cost totaled $6,500,000. The Company also has deferred compensation incentive plans for officers and other key employees. Charges to earnings under the plans were $1,318,000 in 1979, and $735,000 in 1978.

4. 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):

	1979		1978	
	Amount	%	Amount	%
Income before taxes multiplied by statutory Federal income tax rate ...	$57,434	46.0%	$53,200	48.0%
State and local income taxes, net of Federal income tax benefit	4,320	3.5	3,432	3.1
Amortization of intangible assets	1,415	1.1	1,437	1.3
Investment tax credit	(1,500)	(1.2)	(800)	(.7)
Other, net	(569)	(.5)	(469)	(.5)
	$61,100	48.9%	$56,800	51.2%

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 $5,100,000 until disposition of the replacement television station. In 1977, an 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 approximately $3,600,000 at December 31, 1979 result primarily from the excess of tax over financial accounting depreciation.

5. INCOME PER SHARE

The computation of shares of stock used in the calculation of income per share for 1979 and 1978 is included in the Summary of Operations on page 18.

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.

6. BUSINESS SEGMENT DATA

The Company's business segment data for 1979 and 1978 is presented on page 21.

Notes to Consolidated Financial Statements—(Continued)

7. MARKETABLE EQUITY SECURITIES

Marketable equity securities were carried at an aggregate cost of $11,649,000 and had an aggregate market value of $14,598,000 and $13,631,000 at December 31, 1979 and 1978, respectively. Included therein, at December 31, 1979 and 1978, were 394,570 shares of St. Regis Paper Company carried at a cost of $10,184,000 with a market value of $11,936,000 and $11,147,000, respectively.

8. 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, 1979, 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	(10,561)	(1,194)	(9,367)
	$240,305	$115,173	$125,132

9. NOTES PAYABLE

Notes payable at December 31, 1979, are as follows (000's omitted):

			Former Shareholders of		
	Total	Banks	Kansas City Star	Carter	Other
Payable during:					
1980 (current year)	$21,585	$10,800	$3,416	$ 6,150	$1,219
1981	19,251	10,800	—	5,512	2,939
1982	13,719	10,800	—	2,700	219
1983	10,800	10,800	—	—	—
1984	10,800	10,800	—	—	—
1985	1,800	1,800	—	—	—
	$77,955	$55,800	$3,416	$14,362	$4,377
Interest rates		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 $40,000,000 plus, in the aggregate, 33⅓% of consolidated income before extraordinary gains subsequent to January 1, 1977. As of December 31, 1979, unrestricted retained earnings under the loan agreement were $21,008,000. 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, 1979.

10. 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	Options granted — Option price — In total	Options granted — Number of shares	Market value at date of grant and when exercised(a) — Per share	Market value at date of grant and when exercised(a) — In total
Balance January 1, 1978	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
Authorized	—			—		
Granted	(14,000)	$40.13 to $40.56		14,000		
Cancelled	1,250	$14.38 to $25.53		(1,555)		
Exercised	—	$11.63 to $25.53	$ 297,708	(20,851)	$37.13 to $48.63	$ 870,534
Balance, December 31, 1979	132,804	$ 9.13 to $40.56	$8,851,956	498,963	$ 9.13 to $40.56	$9,478,726

(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 $35,000 and $196,000 were charged in 1979 and 1978 respectively, in connection with the 1975 price modification of certain previously granted options.

(b) At December 31, 1979 and 1978, options were exercisable for 447,663 and 412,467 shares, respectively.

Information as to options which became exercisable was as follows:

Year ended December 31	Number of shares	Option price — Per share	Option price — In total	Market value at date options became exercisable — Per share	Market value at date options became exercisable — In total
1979	56,352	$12.50 to $28.31	$1,098,107	$37.88 to $49.56	$2,298,442
1978	85,512	$ 9.13 to $25.53	$1,450,371	$27.22 to $45.63	$2,766,676

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 and 116,977 in 1979.

11. COMMITMENTS

The Company has entered into agreements for future delivery of syndicated and feature film programming for its television stations, which aggregate $2,567,000, payable from 1980 through 1985.

The Company has no material lease commitments.

Notes to Consolidated Financial Statements—(Continued)

12. SUPPLEMENTARY INFORMATION ON THE EFFECT OF CHANGING PRICES (Unaudited)

The following supplementary information is presented pursuant to the requirements of the Financial Accounting Standards Board Statement No. 33 "Financial Reporting and Changing Prices" (FAS No. 33). Data derived is historical financial information which has been restated to average 1979 dollars having the same general purchasing power ("constant dollars") as measured by the Consumer Price Index for All Urban Consumers.

Another method for measuring the impact of inflation, known as current cost is required by FAS No. 33 beginning in 1980 annual reports. This method adjusts for changes in the specific prices of property plant and equipment and inventories that are used. The current cost method is more complex than the constant dollar method and the method of computation is subject to certain additional refinements. Consequently, the Company has elected to defer the inclusion of current cost data in the annual report until such data is required next year.

The following 1979 statement of income restates depreciation expense for general inflation. Included under other current assets on the Company's historical Consolidated Balance Sheet are newsprint and other paper stock inventories valued on a last-in-first-out basis. These inventories and their effect on the supplementary statement of income are not material. No adjustment has been made to the actual provision for income taxes because companies are not permitted to recognize general inflation effects for tax purposes.

During periods of inflation the continuity of being in a net monetary liability position results in a gain of purchasing power because obligations will be repaid with dollars having less purchasing power than when the liabilities were incurred. The Company's net monetary liabilities are the excess of its payables and other debt over certain assets which include cash, cash investments and receivables. The gain in purchasing power shown below, is part of the overall impact of inflation on the Company's operations. Since a gain in purchasing power does not represent a receipt of funds, it should not be considered as providing funds in the current period.

The unaudited supplementary data presented below must be viewed with caution, as must any other analytical data that subjectively attempts to reflect the inflationary factors affecting the Company. Therefore, the Company has not concluded that this presentation, made in compliance with FAS No. 33, is or is not a fair representation of the impact of inflation upon the Company.

1979 STATEMENT OF INCOME ADJUSTED FOR GENERAL INFLATION (Constant Dollar)

(Thousands of Dollars)

Historical net income	$ 63,758
Adjustment to restate depreciation for the effect of general inflation	(3,786)
Net income adjusted for general inflation	$ 59,972
Net income per share adjusted for general inflation	$4.40
Gain from decline in purchasing power of net monetary liabilities	$ 7,947
Net assets at year-end adjusted for general inflation	$334,671

FIVE YEAR COMPARISON OF SELECTED FINANCIAL DATA ADJUSTED FOR GENERAL INFLATION (Average 1979 Dollars)

	1979	1978	1977	1976	1975
Net Revenues ($000)	$414,890	$408,850	$366,700	$270,528	$235,857
Cash Dividends per Share	$.20	$.20	$.12	$.13	$.03
Market Price per Share at Year End	$45.98	$42.46	$35.12	$35.16	$27.86
Average Consumer Price Index (1967 = 100.0)	217.4	195.4	181.5	170.5	161.2
HISTORICAL FINANCIAL DATA					
Net Revenues ($000)	$414,890	$367,476	$306,146	$212,167	$174,886
Cash Dividends per Share	$.20	$.175	$.10	$.10	$.025
Market Price per Share at Year End	$48.63	$39.63	$30.06	$28.19	$21.31

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Notes to Consolidated Financial Statements—(Continued)

13. 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 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.

REPLACEMENT COST INFORMATION: (000's omitted)

	December 31, 1979		December 31, 1978	
	Estimated Replacement Cost Data	Historical Cost Data	Estimated Replacement Cost Data	Historical Cost Data
Buildings	$ 74,000	$ 44,133	$ 72,300	$ 42,529
Broadcasting Equipment	48,000	35,962	36,900	29,846
Printing Equipment	116,400	53,794	101,600	46,871
Other Equipment and Fixtures	11,900	9,534	11,200	8,303
	250,300	143,423	222,000	127,549
Less: Accumulated Depreciation	133,300	76,334	119,700	68,234
	$117,000	67,089	$102,300	59,315
Amounts for which replacement cost data are not required:				
Land		11,997		11,937
Construction in Progress		2,523		3,057
		$ 81,609		$ 74,309
Depreciation Expense	$ 17,500	$ 9,994	$ 15,800	$ 9,485

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 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.

Notes to Consolidated Financial Statements—(Continued)

This replacement cost disclosure will not be required in 1980, when the current cost disclosure requirements of FAS No. 33 become mandatory.

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, 1979 and 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.

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 and other paper stock inventories, valued on a last-in, first-out (LIFO) basis. These inventories are not material. Using LIFO, the historical expense, closely approximates that of replacement cost.

14. QUARTERLY FINANCIAL DATA (Unaudited)

The results for each quarter of 1979 and 1978 are as follows (000's omitted except per share amounts).

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
1979					
Net Revenues	$89,795	$108,447	$101,539	$115,109	$414,890
Operating Income	23,213	36,538	29,316	36,586	125,653
Net Income	11,970	18,352	14,800	18,636	63,758
Net Income Per Share	$.87	$1.33	$1.09	$1.39	$4.68
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
Price Range of Common Stock					
1979	$36¾-44	$37-42	$39¼-49¼	$41⅜-49⅞	$36¾-49⅞
1978	$27⅛-30¾	$30¼-37⅞	$35½-47¾	$37-44¼	$27⅛-47¾

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, 1979 and 1978, 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, 1979 and 1978, 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
Arthur Young & Company

February 28, 1980

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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, 1979 | **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, 1979): 13,058,263 shares, excluding 2,335,233 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 4,400 employees engaged in its publishing operations and 1,090 engaged in broadcasting.

Industry Segments

Information relating to the industry segments of the Company's operations is included on page 21 of the Company's Annual Report to Shareholders. The Company derives all broadcasting revenues and more than 80% of its publishing revenues from the sale of advertising. Subscription and other circulation receipts from publishing constitute the only other material source of revenue.

Publishing

The Company publishes 22 business and specialized publications and seven daily newspapers and a three times weekly suburban newspaper. Following is a summary by type of publication of inches or pages of advertising, advertising revenue and circulation revenue for the last five years ending December 31 (000's omitted except pages of advertising):

	Actual					Pro Forma(a)	
	1979	1978	1977	1976	1975	1978	1977
Inches or pages of advertising							
Newspapers (inches)(b)	14,899	14,113	12,048	8,054	6,927	14,494	13,544
Specialized newspapers (inches)	1,725	1,550	1,488	1,366	1,231	1,550	1,488
Specialized magazines (pages)	4,562	5,211	5,337	2,027	1,771	5,211	5,337
Advertising revenue							
Newspapers(c)	$151,429	$132,118	$102,643	$42,493	$34,618	$134,478	$114,969
Specialized newspapers	60,955	52,338	45,785	39,666	30,084	52,338	45,785
Specialized magazines	9,681	10,680	10,320	3,514	2,757	10,680	10,320
Circulation revenue							
Newspapers	$ 23,424	$ 21,965	$ 18,761	$ 9,592	$ 8,568	$ 22,937	$ 22,393
Specialized publications	12,644	10,999	10,985	9,339	7,893	10,999	10,985

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

(b) Does not include inserts.

(c) Includes inserts.

Specialized Publications

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

Title	Frequency	Circulation
Newspapers		
Women's Wear Daily	Daily	67,000
Daily News Record	Daily	26,000
American Metal Market	Daily	15,000
HFD—Retailing Home Furnishings	Weekly	37,000
Energy User News	Weekly	14,000
Footwear News	Weekly	25,000
Supermarket News	Weekly	58,000
Electronic News	Weekly	72,000
Metalworking News	Weekly	36,000
W	Biweekly	192,000
SportStyle	Semimonthly	33,000(1)
Entrée	Monthly	17,000(1)
Magazines		
Men's Wear	Semimonthly	24,000
Metal/Center News	Monthly	13,000(1)
Home Fashions Textiles	Monthly	18,000(1)
Heat Treating	Monthly	20,000(1)
International Medical News Group		
Family Practice News	Semimonthly	69,000(1)
Internal Medicine News	Semimonthly	59,000(1)
Ob. Gyn. News	Semimonthly	26,000(1)
Pediatric News	Monthly	26,000(1)
Clinical Psychiatry News	Monthly	28,000(1)
Skin & Allergy News	Monthly	24,000(1)

(1) Controlled circulation.

Newspapers

		Year of Acquisition	Circulation(1) Daily	Sunday
The Oakland Press (Pontiac, Mich.)	Evening	1969	73,000	72,000
News-Democrat (Belleville, Ill.)	Afternoon	1972	38,000	39,000
Fort Worth Star-Telegram	Morning	1974	94,000	255,000
Fort Worth Star-Telegram	Evening	1974	149,000	
The Arlington Citizen-Journal (Arlington, Texas)	3 Times Weekly	1974	12,000	
The Kansas City Times	Morning	1977	317,000	
The Kansas City Star	Evening	1977	281,000	406,000
The Wilkes-Barre Times Leader	All-day	1978	(2)	

(1) Total average paid circulation per the Audit Bureau of Circulations' statement for the six months ended September 30, 1979.

(2) 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	21%
Fort Worth Star-Telegram	5	34%
The Oakland Press	4	34%
News-Democrat	5	64%
The Arlington Citizen-Journal	3	79%
The Wilkes-Barre Times Leader	6	38%

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.

At present, a petition to deny filed by the New Jersey Coalition for Fair Broadcasting is pending against the renewal application 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 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 public meetings dealing with these petitions, the Commission has 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. Moreover, the Commission has apparently also decided to initiate further rulemaking proceedings designed to explore other ways to increase the number of television stations in New Jersey. 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.

In addition to the foregoing renewal matter, WPAT-AM's application for renewal is being deferred pending satisfactory completion of work pursuant to a construction permit allowing it to relax restrictions on its nighttime radiation pattern. Renewal of the license of KZLA-AM has been delayed pending completion of technical changes to its facilities. Regular renewal of the license of WPRO-FM has been delayed pending FCC resolution of a dispute concerning interference to a television station, allegedly caused by a power increase granted to WPRO-FM in 1972. It is not possible to predict how these engineering matters will be resolved. However, it is believed to be improbable that any of them would be resolved in a way that would have serious adverse effects on the operations of those stations.

Ownership Matters

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

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

In addition, the FCC will not grant applications for station acquisitions which would result in the creation of new AM-VHF or FM-VHF combinations in the same market under common ownership. New combinations of AM-FM stations in the same market under common ownership are permitted. However, the Commission has indicated that it intends to initiate a rulemaking proceeding to consider whether to continue to permit commonly owned AM-FM combinations. Until that proceeding is completed, the Commission has also indicated that licensees creating new AM-FM combinations do so subject to the possibility that they may be required to divest one or the other of the stations.

Combinations of UHF television stations with AM stations, FM stations or AM-FM combinations in the same market are not currently prohibited under the rules but will be considered by the FCC on a case-by-case basis. However, the Commission is proposing a rule to eliminate this "UHF exception," and will not grant applications inconsistent with the proposed rule during the pendency of that proceeding.

Furthermore, under the FCC's rules, radio and/or television licensees may not acquire new ownership interests in daily newspapers published in the same markets served by their broadcast stations. Under these rules, the Company would generally be barred from making acquisitions or sales which would result in the creation of new combinations, or maintenance of existing combinations, inconsistent with the rules. Finally, FCC rules also prohibit a television licensee from owning CATV systems in communities which are within the service contours of its television stations.

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 Company has acquired certain CATV systems and intends to seek additional systems. The TV/CATV rules would prohibit the Company from acquiring a CATV system or franchise in a community within the service contour of one of its television stations.

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. Under the current rules, 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. However, the Commission's proposal to eliminate the "UHF exception" also applies to this rule, and no applications inconsistent with the proposal will be acted on until the rulemaking proceeding has been completed.

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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 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.

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.

The Commission has initiated proceedings to investigate the economic relationship between CATV and television, and it has proposed rules that would eliminate many aspects of the protection (for example, the syndicated program exclusivity protection and carriage limitations) currently provided to broadcasters by the rules. Moreover, 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 of these latter actions have been appealed to the courts. The Company cannot predict the outcome of these various 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 do not restrict the extent to which such subscription television operations or cable operations may provide programming. 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.

In other actions designed to increase the number of aural outlets, the Commission has initiated studies of the possible expansion of the AM band to include new frequencies and of the possible reduction of the AM station bandwidth from 10 kHz to 9 kHz. Both of these actions would require, *inter alia,* some modifications of international treaties governing use of the radio spectrum. The Commission has also indicated that it intends to initiate a proceeding that would explore ways to increase the number of FM allocations available for assignment. The Company cannot predict the outcome and impact of these various proceedings.

Network Proceeding

The FCC has 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.

Radio Deregulation

The Commission has initiated a proceeding to determine whether its regulation of radio can be eliminated or reduced in several respects—particularly with regard to licensee responsibilities for ascertainment of community views, informational programming standards, commercial limitations and logging. Several aspects of the Commission's regulatory program—for example, with respect to the fairness doctrine, equal employment opportunity, and deceptive commercial practices—would remain unaffected. The Commission's proposal is predicated on the view that competitive forces in the various radio markets might be more effective in measuring and satisfying the public interest than its own regulatory system. The radio deregulation proposal raises novel questions of law and policy, and we cannot predict the outcome of the proceeding or the effects which such deregulation may have on the industry or the Company's stations.

* * * * *

Proceedings, 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

Current Canadian law prevents 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. 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 Company is a 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 financial statements of the Company. However, 1979 rate increases for advertising and circulation in the Company's Publishing Division were reduced or delayed, from the levels originally planned (and in some cases announced), to comply with the price standards, resulting in lower revenue and operating income that otherwise would have been attained.

Item 2. *Summary of Operations*

The Summary of Operations of the Company for the five years ended December 31, 1979, and management's discussion thereof, is set forth beginning on page 18 and ending on page 20 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 variout 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, 1981
KTRK-TV .... Houston, Texas	13	Aug. 1, 1980	ABC	Apr. 2, 1981
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, 1981
KFSN-TV .... Fresno, California	30	Dec. 1, 1980	CBS	Feb. 28, 1982

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Radio stations owned

Stations and locations	Frequency AM-Kilohertz FM-Megahertz	Power AM-Watts FM-Kilowatts	Expiration date of FCC authorization	Network affiliation (1)
KZLA .... Los Angeles, California	1540 K	50,000 Day 10,000 Night	(3)	None
WJR .... Detroit, Michigan	760 K	50,000	Oct. 1, 1982	NBC(4)
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(4)
WKBW .... Buffalo, New York	1520 K	50,000	June 1, 1981	None
WPRO .... Providence, Rhode Island	630 K	5,000	Apr. 1, 1981	None
WROW .... Albany, New York	590 K	5,000 Day 1,000 Night	June 1, 1981	CBS(4)
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, 1981	None(4)
KSCS-FM .... Fort Worth, Texas	96.3 M	100	Aug. 1, 1980	None(4)
WPRO-FM .... Providence, Rhode Island	92.3 M	39	(5)	None
WROW-FM .... Albany, New York	95.5 M	9.6	June 1, 1981	None(4)
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) Regular renewal of this license has been delayed pending satisfactory completion of changes to the station's technical facilities.

(4) Network affiliation agreements of WJR, WBAP and WROW expire on October 31, 1981, 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.

(5) 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, 1979 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 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. Based on evaluation of the facts which have been ascertained, and the opinions of counsel handling the defense of these matters, management does not believe the outcome of such legal proceedings will, in the aggregate, have a material adverse effect on the financial statements of the Registrant.

(a) In 1978 actions were commenced by the States of Arizona, Arkansas and Missouri against Graham Paper Company and other fine paper merchant houses and 15 fine paper mills, alleging that defendants entered into a conspiracy to fix and stabilize prices in violation of Federal Antitrust laws for which unspecified damages are sought. In 1979 an action was commenced by Milbank Mutual Insurance Company and Federated Insurance Company against the same mill defendants and some of the merchants in a complaint similar to the state actions. All actions have been consolidated for pre-trial in the United States District Court, Eastern District of Pennsylvania.

Ownership of Graham Paper Company was obtained as an asset in the Kansas City Star Company (the "Star") acquisition. The Star sold Graham Paper Company on October 17, 1977 to Jim Walter Paper Company. Star and Registrant indemnified the Jim Walter Paper Company for damages to the date of sale against such latent claim of liability.

(b) 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 issued a preliminary injunction against a proposed conversion of independent distributorships into agencies as a possible violation of the Sherman Act and ordered that a trial be held to determine whether the preliminary injunction should be made permanent. Trial is scheduled to start July 21, 1980 limited to the issue of whether the preliminary injunction should be made final or dissolved. The Star's motion for summary judgment on the claim of damages was granted by the Court, thereby eliminating any possibility of claim of damage by the independent distributors.

On or about March 1, 1979 an action was commenced against the Star in the United States District Court for the Western District of Missouri, Western Division, by John J. Mixer and four additional parties plaintiff, alleging violations of the Clayton and Sherman Antitrust Acts. Plaintiffs claim to represent a class of approximately 300 carriers. The charge is that the Star, which had previously collated and inserted the various sections of the paper into a single unit for distribution to the plaintiffs, threatened to cast the burden of so doing on the plaintiffs. The plaintiffs are contract newspaper carriers. Plaintiffs seek an injunction and treble damages.

On or about April 23, 1979 an action was instituted by William G. Strub, et al. against the Star and Registrant in the United States District Court for the Western District of Missouri, Western Division, in an antitrust suit brought by 7 former independent contract carriers and by 2 representatives of the estates of 2 deceased individuals who were formerly independent contract carriers, claiming violation of the Sherman Act. Plaintiffs seek treble damages. Request has been made to have the case handled as a class action. The case awaits the outcome of the decision of the Court in the Paschall case.

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 complaint in that action was amended to make Registrant a party defendant.

On or about May 25, 1979, an action was instituted in the United States District Court for the Western District of Missouri, Western Division, by Paul Dean Feagans and two other former independent contract carriers whose complaint and prayers for relief are identical to those in William G. Strub, et al, against the Star. All activities in the case have been stayed pending resolution of the Paschall case.

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.

There are also eight other actions pending in various Missouri state courts seeking damages against the Star arising from alleged interference with plaintiff's property rights and contractual relationships with newspaper carriers, which in the aggregate are not material.

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, 1978	15,393,496	1,880,261	13,513,235
Issuance of treasury shares on April 2, 1979 on exercise of options under employee stock purchase plan		(116,977)	116,977
Transactions on various dates during the year:			
Purchase of treasury stock		592,800	(592,800)
Issuance of treasury shares on exercise of employee stock options		(20,851)	20,851
Balance at December 31, 1979	15,393,496	2,335,233	13,058,263

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

Not applicable.

Item 8. *Defaults upon Senior Securites*

Not applicable.

Item 9. *Approximate Number of Equity Security Holders*

Title of class	Number of record holders as of December 31, 1979
Common stock, $1.00 par value	4,037

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

Not applicable.

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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 interest, 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, 1979.

Executive Officers of the Registrant

Name	Age	Director since	Officer since	Title
Thomas S. Murphy	54	1957	1958	Chairman of the Board of Directors (Chief Executive Officer)
Daniel B. Burke	51	1967	1962	President and Director (Chief Operating Officer)
Joseph P. Dougherty	55	1967	1959	Executive Vice President, President of Broadcasting Division and Director
John B. Fairchild	53	1968	1968	Executive Vice President, Chairman of the Board of Fairchild Publications and Director
John B. Sias	53	1977	1975	Executive Vice President, President of Publishing Division and Director
Robert K. King	51		1962	Senior Vice President
Andrew E. Jackson	45		1971	Vice President
John E. Shuff, Jr.	39		1977	Vice President (Chief Financial Officer)
Ronald J. Doerfler	38		1977	Treasurer
Gerald Dickler	67	1954	1954	Secretary and Director
Robert W. Gelles	56		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.

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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)

John E. Shuff, Jr.

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

Dated: March 31, 1980

CAPITAL CITIES COMMUNICATIONS, INC.
AND SUBSIDIARIES

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

(Item 12(a)1.)

	Reference: Annual Report to Shareholders	Reference: Form 10-K
Consolidated balance sheet, December 31, 1979 and 1978	24	
For the years ended December 31, 1979 and 1978:		
Consolidated statement of income	22	
Consolidated statement of changes in financial position	23	
Consolidated statement of stockholders' equity	26	
Notes to consolidated financial statements	26	
Schedules for the years ended December 31, 1979 and 1978:		
V—Property, plant and equipment		S-2
VI—Accumulated depreciation of property, plant and equipment		S-2
VII—Intangible assets		S-3
XII—Allowance for doubtful accounts		S-3
XVI—Supplementary income statement information		S-3

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, and the summary of operations for the five years ended December 31, 1979 on pages 18 through 20, which are included in the Annual Report to Shareholders for the year ended December 31, 1979, are hereby incorporated by reference. With the exception of the items noted, the 1979 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, 1980 included in the 1979 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, 1980 incorporated herein by reference.

ARTHUR YOUNG & COMPANY
Arthur Young & Company

New York, New York
February 28, 1980

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	Other	Retire-ments or sales	Other changes—reclassifi-cation	Balance at close of period
Year ended December 31, 1979:						
Land and improvements	$ 12,554		$ 128	$ (30)		$ 12,652
Buildings and improvements ...	41,912		2,195	(629)		43,478
Broadcasting equipment	29,846		6,842	(726)		35,962
Printing machinery and equipment	46,871		8,159	(1,236)		53,794
Other	11,360		854	(157)		12,057
	$142,543		$18,178	$(2,778)		$157,943
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

SCHEDULE VI—ACCUMULATED DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT

	Balance at beginning of period	Wilkes-Barre Publishing Company May 18, 1978	Charged to income	Retire-ments or sales	Other changes—reclassifi-cation	Balance at close of period
Year ended December 31, 1979:						
Land improvements	$ 399		$ 44	$ —		$ 443
Buildings and improvements ...	15,998		1,811	(218)		17,591
Broadcasting equipment	19,148		2,891	(585)		21,454
Printing machinery and equipment	27,786		4,271	(833)		31,224
Other	4,903		977	(258)		5,622
	$ 68,234		$ 9,994	$(1,894)		$ 76,334
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

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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, 1979	$243,382	—	$(3,077)	$240,305
Year ended December 31, 1978	$237,877	$8,498(A)	$(2,993)	$243,382

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

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, 1979	$2,429	$3,150	$(2,297)	$3,282
Year ended December 31, 1978	$2,355	$2,064	$(1,990)	$2,429

(A) Accounts written-off, net.

SCHEDULE XVI—SUPPLEMENTARY INCOME STATEMENT INFORMATION

	Year Ended December 31, 1979	Year Ended December 31, 1978
Maintenance and repairs	$3,274	$2,776
Taxes other than income taxes:		
Payroll taxes	6,304	5,175
Real estate, franchise and other taxes	2,904	2,348
Rents	1,463	1,234
Royalties	2,636	2,354
Advertising costs	2,874	3,355

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Board of Directors

THOMAS S. MURPHY
Chairman of the Board

DANIEL B. BURKE
President

AMON G. CARTER, JR.
Chairman of the Board and Publisher, 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

WILLIAM S. LASDON
Vice Chairman of the Board; Chairman of the Executive Committee, 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
(212) 421-9595

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

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