SEC FILE NO 1- 4278 11 --06 SIC 271 C 10 18 50 000

CAPITAL CITIES COMMUNICATIONS INC

10-K

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CARD 1 DISCLOSURE INC WASHINGTON D. C. 20016 FOR 12/31/81

Quick Reference Chart to Contents of SEC Filings

REPORT CONTENTS	10-K	19-K 20-F	10-Q	8-K	10-C	6-K	Proxy Statement	Prospectus	Registration Statements '34 Act F-10	Registration Statements '34 Act 8-A 8-B	Registration Statements '33 Act "S" Type	ARS	Listing Application	N-1R	N-1Q
Auditor															
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Depreciation & Other Schedules	A	A				F		A	A		A				
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Securities Structure	A	A			■			A	A		A				
Subsidiaries	A	A					■	A	A		A	■	■		
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Block Movements	■			F			■		A				■		

Legend **A** – *always included - included - if occured or significant* **F** – *frequently included* ■ *special circumstances only*

TENDER OFFER/ACQUISITION REPORTS	13D	13 G	14D-1	14D-9	13E-3	13E-4
Name of Issuer (Subject Company)	A	A	A	A	A	A
Filing Person (or Company)	A	A	A	A	A	A
Amount of Shares Owned	A	A				
Percent of Class Outstanding	A	A				
Financial Statements of Bidders			F		F	F
Purpose of Tender Offer			A	A	A	A
Source and Amount of Funds	A		A		A	
Identity and Background Information			A	A	A	
Persons Retained Employed or to be Compensated			A	A	A	A
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5161 River Road ☐ Washington, D.C. 20016 ☐ 301/951-1300

Capital Cities Communications

1981 ANNUAL REPORT AND FORM 10-K

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Decentralization is the cornerstone of our management philosophy. Our goal: 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 manage their operations as good citizens and to use their facilities to further the community welfare.

Operating Highlights

	1981	1980
Net revenues	**$573,784,000**	$472,108,000
Income before extraordinary gain	**$ 80,518,000**	$ 70,783,000
Income per share before extraordinary gain	**$6.12**	$5.38
Return on equity (before extraordinary gain)	**20.1%**	21.5%

To Our Shareholders

Capital Cities Communications, Inc., achieved its twenty-seventh consecutive year of record financial performance in 1981. Highlights were as follows (dollars in millions except per share amounts):

	1981	*1980*	*Percentage increase*
Net revenues	$573.8	$472.1	22%
Operating expenses	$414.6	$334.7	24%
Operating income	$159.2	$137.4	16%
Net income	$ 80.5	$ 70.8	14%
Income per share	$ 6.12	$ 5.38	14%

It is important to note, however, that results for 1981 were significantly affected by 1980 and 1981 acquisitions and cable television and publication start-ups. Excluding these, revenues increased 14 percent; operating expenses, 13 percent; operating income, 16 percent; net income, 23 percent; and income per share, 23 percent.

Perhaps the single most important development during 1981 was the Company's major entry into the cable television business with the completion of the acquisition of Cablecom-General, Inc. Adding their 43 systems to the seven systems which Capital Cities started constructing in 1980 and an additional system started in 1981, the Company now has 51 systems in 16 states. Our cable television holdings at December 31, 1981, could be summarized as follows:

	New systems	*Acquired systems*	*Total*
Homes passed	58,000	382,000	440,000
Basic subscribers	19,000	269,000	288,000
Premium units	34,000	134,000	168,000
Homes still to be passed	57,000	—	57,000

Total construction expenditures on the new cable television systems we are building came to $23,000,000 as of December 31, 1981. An additional $15,000,000 is budgeted in 1982 to complete these systems, bringing the total investment to $38,000,000. It is expected that upon completion of these new systems annual subscriber revenues will reach $15,000,000. In general, we are pleased with this construction program and anticipate that total return on investment in the years ahead will be at or above planned levels. Of inestimable long-term benefit, of course, will be the knowledge and experience gained by the managers and employees of our new Cable Television Division.

The Cablecom acquisition was completed on July 2, 1981, at a cost of $139,200,000. The acquisition was initially financed with $97,000,000 in bank borrowings and $42,200,000 from internally generated funds. Shortly after the closing, the bank borrowings were replaced through the issuance of commercial paper, which normally carries an interest rate somewhat lower than bank prime rate. At year-end, debt associated with the Cablecom acquisition had been reduced to less than $55,000,000 by the application of the Company's excess cash flow.

As a result of this acquisition, 1981 earnings were reduced by approximately $2,500,000, or $.19 per share, in the third quarter, and $2,000,000, or $.15 per share, in the fourth quarter. We now project a reduction of earnings per share from the Cablecom acquisition of approximately $.20 to $.25 during the first six months of 1982, or $.54 to $.59 for the first twelve months of ownership.

In our letter to you last year, we forecast a reduction in earnings of $.35 to $.40 per share for the first twelve months following the acquisition of Cablecom. This calculation assumed an average interest rate of 14 percent on the acquisition financing, as well as amortization of intangible assets over forty years. The record high interest rate levels in mid-1981 resulted in an average interest rate on the financing for the second half of 1981 in excess of 17 percent. Additionally, the Company determined that it was appropriate to amortize the substantial majority of the intangible assets arising from the Cablecom acquisition over the average life of Cablecom's franchises, a period of approximately twelve years, as opposed to the forty years normally used in acquisitions.

Starting in the third quarter of 1982, of course, year-to-year comparisons will be favorable, but the Cablecom acquisition will continue to reduce overall reported earnings for several years. On a cash flow basis, however, Cablecom will make a positive contribution in 1982.

The Broadcasting Division had an excellent year in 1981. Television operations had record gains in revenues and operating income, with the Philadelphia, Houston and New Haven stations reporting the strongest performances. Audience levels were maintained or improved at all six of our locations.

Right: Thomas S. Murphy, *Chairman & Chief Executive Officer*
Left: Daniel B. Burke, *President & Chief Operating Officer*

As 1981 came to a close, evidence continued to confirm the appeal to cable television viewers of some alternatives—particularly first-run feature films and sports—to traditional network television programming. As the percentage of United States households wired for cable television grows from its current level of 26 percent, there is little doubt that there will be a continuing gradual reduction in audience totals delivered by the three commercial networks—and therefore our stations as well. While we are not alarmed by this trend, it will make it even more important for personnel at our stations to excel in all their programming efforts, particularly in local and regional news. We assure you that they have the ability and determination to continue to do this and that the resources necessary will be made available to them as required.

Our radio stations also had a record year, with excellent results at our Fort Worth and New York locations. Our Detroit station turned in a satisfactory performance in spite of the severe downturn in the local economy. The Company made its first radio station acquisition in seven years with the purchase of WBIE-FM, Marietta, Georgia (serving the Atlanta area), which was completed on November 5, 1981, at a cost of $7,500,000. With new call letters, WKHX-FM, and an entirely new studio facility, this station should compete very effectively in the growing greater Atlanta radio market.

Publishing Division operations were strong once again in 1981, with outstanding results in the Specialized Publications Group and record performance at most of the daily newspapers. Especially notable in 1981 was the award of a Pulitzer Prize for spot news photography to *Fort Worth Star-Telegram* reporter Larry C. Price for his coverage of the 1980 coup in Liberia.

Results at our two largest daily and Sunday newspapers, in Kansas City and Fort Worth, continued to be satisfactory, particularly in Fort Worth where area growth continues much faster than for the country as a whole. Mention should also be made of operating results achieved at Pontiac, Michigan, where a fine year was recorded despite the severely depressed local economy.

We are again most gratified with the results of the specialized publications' development program. As 1981 ended, *Energy User News, Entrée,* and *Home Fashions Textiles* had become solid profit contributors for the first time. *Multichannel News,* which began publication in mid-1980, earned a small profit in 1981, and substantial profit improvement is anticipated in 1982. Starting with the very successful *W,* which was launched nine years ago, Publishing Division people have conceived and designed a total of nine new publications. Six of these are now profitable, and at least one more is projected to earn its way this year.

As discussed in greater detail in other sections of this report, new communications technologies are developing rapidly. Ultimately, some of these new technologies will provide competition to the established electronic and print media for viewers, readers and advertising dollars. We do not believe, however, that these emerging technologies will result in meaningful competition to the established media before the end of this decade. Further, we will continue monitoring these developments to identify potential investment opportunities as well as to determine how our present operations can most effectively compete in the years to come.

The year was not without its disappointments. Three years ago, we formed a joint venture to attempt the marketing of commercial messages especially prepared for national distribution in movie theaters. In late 1981, we sold our 50 percent interest in this venture for an amount below our total investment. Since the losses on this venture had been regularly recorded during the years they were incurred, no write-off was necessary, and a modest favorable comparison will result in 1982.

We considered it prudent at the end of 1981 to terminate our efforts to launch free, advertiser-supported pennysavers in Dallas and Tulsa. Losses associated with these efforts had also been regularly recorded, and their termination will have a positive effect on 1982 earnings.

The Company continues to generate substantial cash flow from operations—$108,208,000 in 1981, an increase of $21,619,000, or 25 percent, over 1980. Available cash flow, after the deduction of regular capital expenditures (excluding new cable television system construction), increased at a somewhat lower rate—from $71,297,000 in 1980 to $79,940,000 in 1981, up 12 percent. It is your Company's ability to generate these amounts of available cash flow, which are approximately equal to reported net income, that distinguishes it from most American businesses. Capital Cities does not require large amounts each year of reinvested capital in physical assets and inventories to maintain the same level of production, as is often the case with large industrial companies. With the continued generation of such available cash flows, Capital Cities will be able to continue to make selective acquisitions, invest in new business start-ups, reduce debt and, when deemed appropriate, repurchase its common stock—all uses of available cash flow which should enhance the Company's future growth in earnings and stockholders' equity.

In our letter last year, we indicated that the Board of Directors had authorized, in December of 1979, repurchase of up to 600,000 shares of the Company's common stock. During 1980, 327,760 shares were acquired at an average price of $45.01. This program was suspended when negotiations to acquire Cablecom-General, Inc., were started, and virtually no stock was bought during 1981.

In 1981, 1,622 employees purchased 87,837 shares of the Company's stock under the Employee Stock Purchase Plan at an aggregate price of $3,378,000, and another 37,275 shares of stock were acquired by employees through the exercise of stock options. While these two programs obviously increased the number of shares outstanding and reduced 1981 earnings per share by approximately $.03, we remain convinced that they are cornerstones of our corporate philosophy of achieving organizational stability and commitment by offering individuals unusual autonomy and a personal stake in the Company. Our continuing superior growth record and equitable advancement policies have also done their share to build the loyal and highly effective management and employee group with which we feel privileged to work.

With the death of Lowell Thomas on August 29, 1981, we lost our founding stockholder, our close friend, and our fellow Director. In 1954, Lowell Thomas was a major investor in a group which joined together to acquire Hudson Valley Broadcasting Company, Inc., the operator of a UHF television station (WROW-TV) and AM radio station (WROW-AM) in Albany, New York, which ultimately grew to become the Capital Cities Communications of today. Mr. Thomas was a member of our Board of Directors from 1954 until his death and made many contributions to the success of the Company. While we mourn his passing and shall miss his unfailing interest and support, we also mark the special joys he found in a long life and his countless friends throughout the world.

As this is written, economic prospects for 1982 are most uncertain. We feel that your Company's primary assets—its franchises and its organization—are in excellent condition. We appreciate your support, and we continue to be confident of the Company's ability to perform well under almost any economic conditions.

Thomas S. Murphy

THOMAS S. MURPHY
Chairman

Daniel B. Burke

DANIEL B. BURKE
President

Broadcasting Division

JOSEPH P. DOUGHERTY, *President*

In 1981, the Broadcasting Division produced operating income of $102,230,000, a 16 percent increase over last year. Net revenues increased 16 percent to $193,063,000.

Overall, the television stations performed well, converting a significant percentage of their added revenue into operating income. The radio stations, on the strength of local sales gains in the second half of the year, achieved record levels of operating income.

Following a slow first quarter in 1981, the demand for advertising increased sharply for the balance of the year. Gross revenue for the television stations increased 17 percent in 1981. National spot television advertising, which accounts for over 60 percent of gross television station revenue, was strong in all of our markets, and our stations recorded a combined gain of 20 percent from 1980 levels. Local business, up 14 percent overall, varied considerably by market, with the Philadelphia, Houston and New Haven stations reporting the largest gains.

Gross revenue for the radio stations rose 11 percent in 1981, with national and local business showing comparable gains. Individual performance varied significantly by market, with the Fort Worth and metropolitan New York stations registering the greatest increases.

Television

Our television stations continued to be dominant forces in their markets. In the November rating period, five of the stations were number one in audience ranking, and the sixth ranked second. Our network affiliations (four ABC, two CBS) continue to be very advantageous, but the main reason for the strength of the audience positions of our stations is the continuing emphasis on local news and public affairs programming.

Television station cost increases in 1981 were largely the result of added personnel, primarily in news, where staffing increased by over 12 percent. The amount of time devoted to local news continues to grow. For example, WPVI-TV added two half-hour news programs, Monday through Friday—at 5:00 p.m., effective April 17, 1981; and at 6:30 a.m., effective August 17, 1981. WPVI-TV's news staff increased by over 25 percent; its news operating budget, by 35 percent.

Off-network syndicated program costs continued to rise, and several of the long-form talk shows have been shortened or cancelled, opening up certain late afternoon time periods. The appetite of the viewing public for local news suggests further expansion in that area—an important consideration as television stations meet the challenge of increased cable television penetration in their markets. We anticipate providing additional seed money for the further development of local programming efforts, such as *Live at Five* and *Good Morning Houston* on KTRK-TV.

We have learned that the size of a television station news staff does not necessarily have any relationship to the quality of its news effort or how well its presentations are received by viewers. Our responsibility in television news, therefore, includes the continuing development of people and productivity to maximize the efficiency of our staffs.

As the November ratings indicate below, our stations maintained their leadership positions in most news time periods:

Station and Market	No. of stations in market	News Program Rank A.M. or Noon	Early evening	Late evening
WPVI-TV (Philadelphia)	6	1	1	1
KTRK-TV (Houston)	5	1	1	1
WKBW-TV (Buffalo)	4	1	1	1
WTNH-TV (New Haven-Hartford)	4	2	2	2
WTVD (Durham-Raleigh)	3	2	2	2
KFSN-TV (Fresno)	6	2	1	1

Source: ARB, November 1981

Several major improvements in our television broadcasting facilities were started during the year. A 2,000-foot tower is presently under construction in Houston for KTRK-TV, at a cost in excess of $6,000,000 for the land, tower and transmitter facilities. We expect to be transmitting from the new tower by the summer of 1982, providing extended coverage of KTRK-TV's signal over the fast-growing Houston market. This facility, a joint venture with Metromedia, Inc., operator of an independent UHF station in Houston, will also accommodate the University of Houston's public television station.

The purchase of two and one-half acres of land has been completed in New Haven, and the construction of a 39,000-square-foot office and studio building for WTNH-TV is scheduled to begin in the spring and to be completed in December 1982. The total budget is $5,000,000.

In order to take advantage of technological advances in television videotape equipment, we are starting a three-year program to replace our current two-inch videotape equipment with one-inch equipment. This replacement program not only protects us against the eventual obsolescence of two-inch tape, but will enable our television stations to perform several production functions simultaneously and continue to be competitive in their marketplaces.

During the year, serious discussions were held concerning the possible acquisition of several UHF television stations in major markets. While prices for broadcasting properties remain high, we continue to look for prudent investment opportunities in this area.

With the emergence of new communications technologies, the Federal Communications Commission is faced with many controversial issues affecting local broadcasting stations. The introduction of direct-to-home satellite service, where the transmitted satellite signal is received directly by the viewer, is expected to be authorized by the FCC during 1982. Comsat, CBS and several other applicants may be granted interim authority to provide the multichannel programming service until permanent policies on direct broadcast satellites (DBS) are issued.

Another use for the DBS spectrum is for broadcasting high-definition television (HDTV) which features sharper color and picture resolution, as well as better sound, than currently available. Since the HDTV signal band is too wide for existing VHF and UHF channels, CBS has proposed using DBS for a three-channel HDTV system which would feed programs to local television stations and cable television systems for retransmission. In addition, homes outside the coverage area of network affiliates could pick up programs directly from the satellite. Many believe that HDTV might eventually have an impact on the broadcasting industry comparable to the introduction of color television.

The Federal Communications Commission has recently adopted final orders on low-power television (LPTV) service. Technical rules and guidelines for processing LPTV applications will be released shortly.

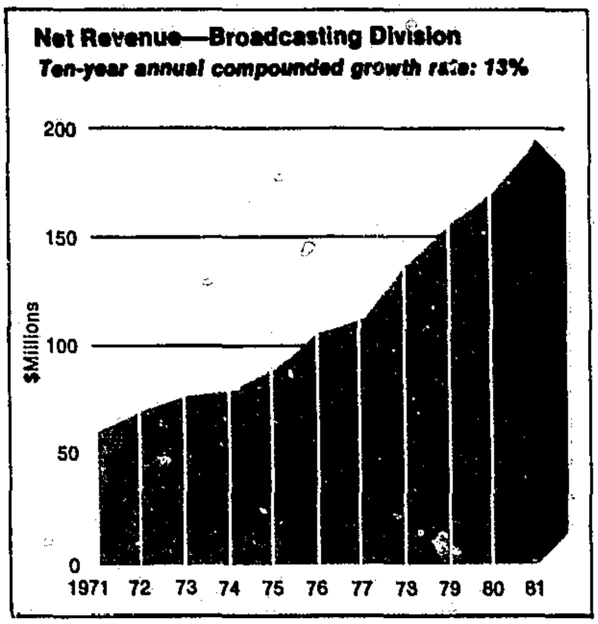
It is our belief that any potential impact from these new technologies on your Company's television stations will not be felt before the end of this decade.

In October 1981, Marc Edwards was appointed Vice President and General Manager of KFSN-TV, in Fresno, California.

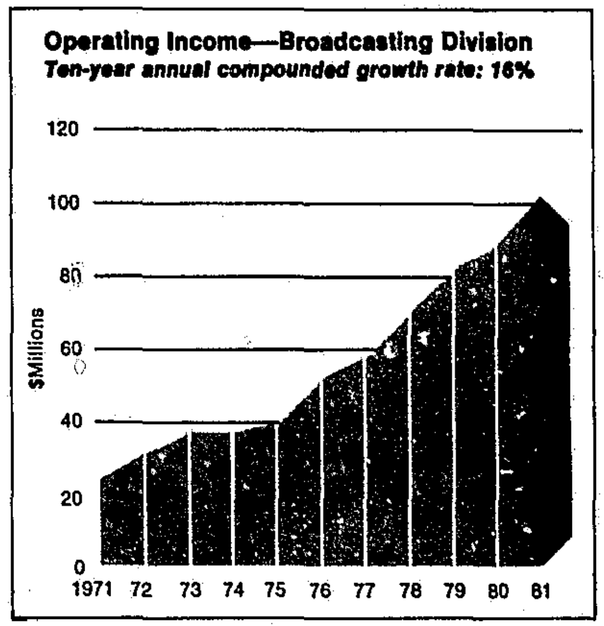
Radio

The radio stations operated with single-digit cost increases in 1981 and are budgeted to do so again in 1982. The management of our radio stations has done an outstanding job of controlling costs while keeping our franchises in strong audience and sales positions.

Despite the continued shift from AM to FM listening, we had audience gains at most of our stations during the year and continued to rank well in the key



Net revenues in 1981 increased 16%, to $193,063,000, from $166,980,000 in 1980.



Operating income rose to $102,230,000, or 16% over the $87,925,000 reported in 1980.

demographic groups. The ratings shown below indicate the very strong competitive positions our stations hold in their markets going into 1982.

Station and Market	No. of stations in market	Audience Fall 1981 Share	Audience Fall 1981 Rank	Audience Fall 1980 Share	Audience Fall 1980 Rank
WPAT-AM/FM (New York)	42	5.8	4	6.3	3
KZLA-AM/FM (Los Angeles)	43	2.9	10	1.6	25
WJR-AM	26	9.7	1	8.7	1
WJR-FM (Detroit)		4.7	7	4.5	8
WBAP-AM	29	6.8	3	6.4	5
KSCS-FM (Fort Worth-Dallas)		8.3	1	8.7	1
WKHX-FM (Atlanta)	21	5.3	8	2.7	13
WKBW-AM (Buffalo)	20	8.4	5	10.1	3
WPRO-AM	23	8.6	3	8.3	2
WPRO-FM (Providence)		8.6	3	8.3	2
WROW-AM/FM (Albany)	19	16.6	2	20.2	2

Sources: Fall 1981 and October/November 1980 ARB, 6 AM-Midnight, Monday-Saturday, total persons 12+.

In late 1981, WBAP-AM and KSCS-FM moved into new office and studio facilities.

In November 1981, we completed the acquisition of WBIE-FM, a Class C 100-kw, FM radio station in Marietta, Georgia, serving the metropolitan Atlanta market, and changed the call letters to WKHX-FM. This brought us to a full complement of seven AM and seven FM stations. The station is programmed in a country-and-western format. Since taking ownership, we have built new studios and plan to upgrade the transmitter facilities. Norman S. Schrutt, formerly Vice President and General Manager of KZLA-AM/FM, in Los Angeles, is now General Manager of this station. We believe that this acquisition will significantly enhance our radio operations in the years ahead.

Two new Vice Presidents and General Managers were named in 1981: Verners J. Ore, at KZLA-AM/FM, in Los Angeles; and Frederick D. Weinhaus, WPAT-AM/FM, in Paterson, New Jersey (metropolitan New York City).

Public Affairs

All of our stations continued to emphasize Capital Cities' commitment to quality local news and public affairs programming during 1981. Besides the special news features and investigative reports produced on a wide range of subjects of interest to our viewers and listeners, our stations actively participated in many community and charitable events.

During the year, our stations were honored with numerous awards for their exceptional programming efforts and community affairs involvement. WPVI-TV was presented with the International Film and Television Festival of New York Silver Award for its special, *21 Hours—The Pope in Philadelphia*. KTRK-TV won the distinguished service award from the American Heart Association (Houston Chapter) for outstanding public service in the fight against heart disease. The American Bar Association selected WJR-AM as a Gavel Award recipient for *Hillsdale College: Fly in the Federal Ointment*, which examined the struggle of a small liberal arts college to remain free of federal control.

In 1981, Capital Cities joined with a number of other group broadcasters in support of The Humanitas Prize. Since 1975, Humanitas Prizes have been awarded annually by The Human Family Institute for teleplays written and produced for prime time network television that most effectively communicate enriching human values. We, like the other group broadcasters involved, believe it is particularly important to recognize and encourage quality programming at the onset of the creative process by awarding major cash prizes to writers whose works explore and illuminate the unlimited potential and value of the individual. A total of $750,000 has been raised towards creating a permanent endowment of $1,000,000, to fund future Humanitas Prizes.

Broadcasting Division

Joseph P. Dougherty, *President*

James P. Arcara, *Executive Vice President—Radio*

Robert O. Niles, *Vice President & Director of Engineering*

TELEVISION

WPVI-TV (Philadelphia, PA) • CHANNEL 6 • ABC
Lawrence J. Pollock, *Vice President & General Manager*

KTRK-TV (Houston, TX) • CHANNEL 13 • ABC
Kenneth M. Johnson, *Vice President & General Manager*

WKBW-TV (Buffalo, NY) • CHANNEL 7 • ABC
Philip R. Beuth, *Vice President & General Manager*

WTNH-TV (New Haven-Hartford, CT) • CHANNEL 8 • ABC
Peter K. Orne, *Vice President & General Manager*

WTVD (Durham-Raleigh, NC) • CHANNEL 11 • CBS
Richard F. Appleton, *Vice President & General Manager*

KFSN-TV (Fresno, CA) • CHANNEL 30 • CBS
Marc Edwards, *Vice President & General Manager*

RADIO

WPAT-AM/FM (Paterson, NJ-Metropolitan NYC) • 930/93.1
Frederick D. Weinhaus, *Vice President & General Manager*

KZLA-AM/FM (Los Angeles, CA) • 1540/93.9
Verners J. Ore, *Vice President & General Manager*

WJR-AM (Detroit, MI) • 760 • NBC
Ronald R. Pancratz, *Vice President & General Manager*

WJR-FM (Detroit, MI) • 96.3 • NBC
Robert J. Longwell, *Vice President & General Manager*

WBAP-AM/KSCS-FM (Fort Worth-Dallas, TX) • 820/96.3 • NBC
Warren Potash, *Vice President & General Manager*

WKHX-FM (Marietta-Atlanta, GA) • 101.5
Norman S. Schrutt, *Vice President & General Manager*

WKBW-AM (Buffalo, NY) • 1520
Frank R. Woodbeck, *Vice President & General Manager*

WPRO-AM/FM (Providence, RI) • 630/92.3
Aaron M. Daniels, *Vice President & General Manager*

WROW-AM/FM (Albany, NY) • 590/95.5 • ABC
Robert M. Peebles, *Vice President & General Manager*

CAPITAL CITIES TELEVISION PRODUCTIONS

Charles Keller, *General Manager*

Cable Television Division

WILLIAM R. JAMES, *President*

With the acquisition of Cablecom-General, Inc., on July 2, 1981, the Cable Television Division became a meaningful segment of your Company's operations. At year-end, we were serving 288,000 subscribers at 51 systems in 16 states. The breakdown of basic subscribers and premium units between Cablecom and the eight new systems Capital Cities started building in 1980 is as follows:

	At December 31,	
	1981	*1980*
Basic subscribers		
Cablecom	269,000	254,000
New systems	19,000	—
Total basic subscribers	288,000	254,000
Premium units		
Cablecom	134,000	111,000
New systems	34,000	—
Total premium units	168,000	111,000
Premium units to basic subscribers		
Cablecom	50%	44%
New systems	179%	—
Total systems	58%	44%

Financial results for the Cable Television Division, including Cablecom for six months from its acquisition on July 2, were as follows (dollars in thousands):

	Revenues	*Operating Income*
Cablecom	$19,700	$ 7,500
New systems	1,700	(1,800)
Unallocated division and franchising expenses	—	(2,000)
Total operations	21,400	3,700
Depreciation	—	(3,800)
Amortization of intangible assets	—	(3,000)
Total Cable Television Division	$21,400	$(3,100)

In July, the Cablecom and Capital Cities systems were merged into a single operation, and four experienced Cablecom executives were given line authority for system operations and construction. Gerald Tschikof, Executive Vice President of the Cable Television Division, is responsible for the Western Division, which includes 22 systems and 152,000 subscribers in California, Arizona, New Mexico and Texas. Gerard A. Cahill, Senior Vice President, heads the Northern Division, with eight systems and 46,000 subscribers in Michigan, Indiana, Ohio, Illinois, Iowa, North Dakota and Nebraska. This Division is growing rapidly because it includes the three recently constructed Cablecom systems and five of the eight new systems. William D. Petty, Senior Vice President, is responsible for the Southern Division, with 21 systems and 90,000 subscribers in Oklahoma, Texas, Kansas, Missouri, Tennessee and Mississippi. William Fulmor, Vice President—Plant and Facilities of the Cable Television Division, will be responsible for all construction activities.

These three regional Divisions operate as autonomous units, with staff support for marketing, finance, construction and engineering. It is our intent that all operating, programming and marketing decisions, as well as capital project recommendations, will originate at the system level and will be the responsibility of each Division. Some activities—such as accounting, purchasing, billing, construction and some aspects of engineering—are more economically done at the Cable Television Division level and are so organized.

Capital spending in 1981 totaled $27,000,000. Cablecom's spending was $7,000,000 for the six months, which included completion of three systems (Norfolk, Nebraska; Fargo, North Dakota; and Sioux City, Iowa), a rebuild of two systems (Gulfport, Mississippi, and Show Low, Arizona), and upgrading channel capacity at several other locations.

Capital spending for the eight new systems (including deferred preoperating costs and capitalized interest) totaled $20,000,000. Three systems (Aransas Pass, near Corpus Christi, Texas; Rio Rancho, near Albuquerque, New Mexico; and Saline, near Ann Arbor, Michigan) were completed in 1981. Construction in Highland Park (suburban Chicago) was delayed about six months by lengthy franchise negotiations but is now under way. In Green Township, near Akron, Ohio, a legal dispute over pole attachment agreements delayed the start of construction until July 1, 1981. Good progress has been made since then, and 25 percent of the plant was operational at year-end. Construction on the Plymouth system in suburban Detroit and on the Greenwood system in suburban Indianapolis should be completed by summer, somewhat behind the original schedule. Construction began in October on a new franchise which was granted to Capital Cities by Burlingame, California, in June 1981. First subscribers are expected in May 1982, with completion by this fall.

Overall, basic subscriber penetration of homes actually marketed at the new systems was 42 percent at year-end. We believe we have developed marketing approaches, based upon our experience to date, which should produce close to 50 percent penetration when the systems are fully marketed.

It has been the industry's experience that in recently constructed systems in areas where conventional over-the-air television signals are easily receivable, the number of premium units sold per basic subscriber is substantially higher than it is in older systems, which were initially built to provide only basic television service. In our new systems, we have averaged 1.8 premium units per basic subscriber. This compares to an average of .5 premium units per basic subscriber at the older Cablecom systems. We believe that, with the appropriate marketing efforts, the premium unit penetration levels at the older systems can be increased substantially.

We are encouraged that the capital spending on completed projects was close to budget and that our overall projections for return on investment appear achievable. A plan is being developed for rebuilding many of the older Cablecom systems over the next four years in order to increase channel capacity and to offer additional new services. We believe that such capital spending will produce sufficient new revenues through increased services to provide an excellent return on the added investment.

In our opinion, the prospective rates of return on major new franchises are quite low and have been pushed lower than we consider acceptable due to the overheated competitive bidding of the last two years. Accordingly, we have decided not to pursue major franchise awards at this time. It is our belief that in the future we will have sufficient cable television investment opportunities to satisfy our growth objectives and that these prospects will offer more acceptable rates of return on investment than the major city franchises which are now being contested. It is interesting to note that Capital Cities' growth has historically come through the acquisition and the subsequent improvement of existing broadcasting and publishing properties. We anticipate that our future growth in the cable television industry will follow the same pattern.

As we enter the new year, consumer acceptance of basic cable television service appears good and growing. New satellite programming services that are coming on-stream at an increasing pace should add to that acceptance. Interest in premium cable television services continues to grow, with many households subscribing to more than one. With the additional channel capacity planned at our older systems, we are optimistic that substantial internal growth for both basic services and premium units can be achieved in our existing systems. We are pleased with our first two years in cable television. We are building a sizable business base and are structuring an organization in which authority and responsibility are clearly assigned.

Cable Television Division

William R. James, *President*
Richard A. Forsling, *Chairman of the Board*
Gerald Tschikof, *Executive Vice President*
Gerard A. Cahill, *Senior Vice President*
William D. Petty, *Senior Vice President*
Harcharan S. Suri, *Vice President & Director of Engineering*
Allan P. Rothfeder, *Vice President & Director of Finance*
William Fulmor, *Vice President—Plant and Facilities*

CABLE TELEVISION SYSTEMS

Northern Division

Fargo, ND
Green Township, OH
Greenwood, IN
Highland Park, IL
Norfolk, NE
Plymouth, MI
Saline, MI
Sioux City, IA

Southern Division

Abilene, KS
Altus, OK
Ardmore, OK
Beloit, KS
Brookfield, MO
Childress, TX
Clarksdale, MS
Clay Center, KS
Concordia, KS
Dyersburg, TN
Gulfport, MS
Hobart, OK
Idabel, OK
Joplin, MO
Kirksville, MO
Mangum, OK
Memphis, TX
Miami, OK
Ponca City, OK
Trenton, MO
Wellington, TX

Western Division

Aransas Pass, TX
Bonham, TX
Burlingame, CA
Clifton, AZ
Cottonwood, AZ
Denison, TX
Globe, AZ
Holbrook, AZ
Lampasas, TX
Lufkin, TX
Modesto, CA
Oakdale, CA
Odessa, TX
Page, AZ
Port Lavaca, TX
Rio Rancho, NM
Roswell, NM
Safford, AZ
Santa Rosa, CA
Sherman, TX
Show Low, AZ
Winslow, AZ

Publishing Division

JOHN B. SIAS, *President*

Capital Cities' Publishing Division achieved record sales and earnings in 1981. Revenues of $359,286,000 were up 18 percent over 1980. Operating income increased 16 percent to $67,520,000. Profit margins for the Division in 1981 were unchanged from 1980, at 19 percent. On a pro forma basis, excluding 1980 and 1981 acquisitions and new publication start-ups, revenue and operating income increased 13 percent and 16 percent, respectively, in 1981. Operating earnings of the specialized publications and the newspaper groups both substantially outperformed the 10 percent rate of inflation that prevailed during 1981.

Total advertising revenues for the Publishing Division, on a pro forma basis, increased 12 percent. Specialized publications recorded a 15 percent gain in advertising revenues, outperforming that industry's average of 12 percent. Advertising revenues for newspapers increased 10 percent, somewhat under the 12 percent increase registered by the industry as a whole. The performance of individual publications varied significantly from these overall increases. Total advertising pages or inches of space sold during the year decreased approximately 2 percent in the daily newspapers and increased slightly in the specialized publications. Rate increases averaged 12 percent in both areas.

Total numbers of copies sold during the year decreased by almost 3 percent in the daily newspaper group, with most of the decline occurring in the Kansas City market. Specialized publications increased slightly in total circulation, reflecting the increased number of publications.

The Publishing Division experienced intense cost pressures during the year. These were a direct result of expanded operations, increased newsprint prices, added personnel and the general effects of the high rates of inflation during 1980 and the early part of 1981. On a pro forma basis, excluding 1980 and 1981 acquisitions and new publication start-ups, the Division's expenses increased 13 percent in 1981, with newspapers and specialized publications reporting comparable increases.

Major investments were made in the editorial efforts of the Publishing Division. The Division now employs over 1,300 individuals in editorial functions, an increase of 100 persons in 1981. As reported in more detail in the section on newspapers, an employee of the *Fort Worth Star-Telegram* was honored with a Pulitzer Prize for spot news photography, the first in that newspaper's history. *The Kansas City Star* and *Times* performed an outstanding job of public service in their comprehensive coverage of the Hyatt Hotel disaster, the worst calamity in that city's history.

The Division invested more than $4,000,000 in the start-up of new specialized publications and pennysavers. This compared with $2,800,000 that was expended in 1980 on similar ventures. Three specialized publications previously incurring start-up losses became profitable in 1981.

The pennysaver operations started in Tulsa and Dallas in 1980 were unable to attain their revenue goals in 1981. The uncertainty of improved revenue performance in 1982 led to a decision in December to terminate both operations. The pretax operating losses and shut-down costs of these two ventures approximated $2,400,000 in 1981. We will continue to operate in the pennysaver business in Wichita and Topeka, Kansas, and in Springfield, Missouri.

In April, we acquired the *Highland News Leader*, in

Madison County, Illinois, which is published once a week. The *Hamden Chronicle*, of Hamden, Connecticut, also published once a week, was purchased in June and is now part of the Shore Line Newspapers group located in Guilford, Connecticut. Both properties will continue as independent editorial services to their local communities.

Specialized Publications Group

The Specialized Publications Group had an excellent year in 1981, with a gain in operating income of over 24 percent. Revenues increased by 18 percent to almost $116,000,000 in 1981. Among the more established publications, impressive gains were recorded by *W*, *Women's Wear Daily*, *Daily News Record*, *HFD—Retailing Home Furnishings*, *Supermarket News*, *Footwear News* and *American Metal Market*. The International Medical News Group, acquired in December 1976, registered record highs. Operating margins improved for all publications except *Men's Wear*, which declined in revenues and profits, and *Electronic News*, whose profits increased only marginally on modest revenue gains.

Eight new specialized publications have been started since 1976. Their collective performance in 1981 contributed to the overall improvement in earnings.

- *Energy User News*, a 1976 start-up, continued its progress in 1981 with a solid year in the black, reaching new highs in circulation and revenue.
- *SportStyle*, a biweekly for the retail sports equipment and apparel industry, significantly increased its revenues and almost broke even in 1981, as anticipated. *SportStyle* was started in 1978 and will be a profit contributor in 1982.
- *Entrée*, a monthly for the gourmet retail trade, significantly increased its profits in 1981, its second year of operation.
- *Home Fashions Textiles*, which (along with *Entrée*) evolved out of *HFD—Retailing Home Furnishings* in 1980, also made a positive profit contribution.
- *Electronics Retailing*, a 1981 start-up that had also been distributed as part of *HFD—Retailing Home Furnishings*, will be published separately in 1982 and is also expected to contribute to profits.
- *MIS Week*, a weekly newspaper for the management information systems market, required somewhat more funding in its first full year of operation than had been anticipated. Editorial and advertiser acceptance of the product is growing, and losses are expected to be significantly reduced in 1982.
- *Multichannel News*, a weekly serving the burgeoning cable television industry, made rapid progress in revenues and reader acceptance in 1981. The publication achieved a slight profit in its first full year of operation and is expected to grow substantially in revenue and earnings in 1982.
- *Aches & Pains*, a clinical publication that deals with the medical management of pain-related ailments, lost slightly more than planned in its first full year. We expect revenues to increase in 1982, and progress toward profitability to continue.

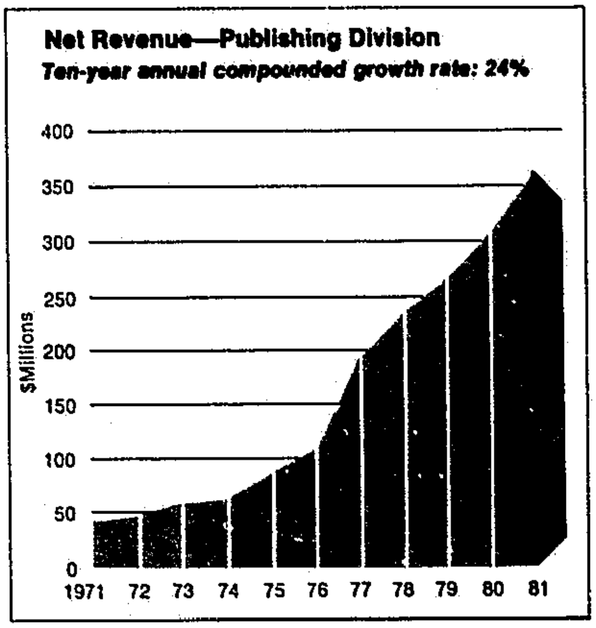
The Professional Press, Inc., consisting of three ophthalmic magazines and the *Journal of Learning Disabilities*, was acquired in May 1980. The group incurred revenue declines in 1981 and operated at a loss. Reinforced sales efforts, including the redesign of *Optical Index* to better reflect the fashion and merchandising trends in the eyewear business, were started in the latter half of 1981 in an effort to produce significant revenue improvement in 1982.

A television pilot, seeking to bring some of the fashion and life-style content of *W* to television audiences, was produced in the last quarter of 1981. The marketability of this rather different approach to video programming is now being explored, and additional features will be produced in 1982 as appropriate.

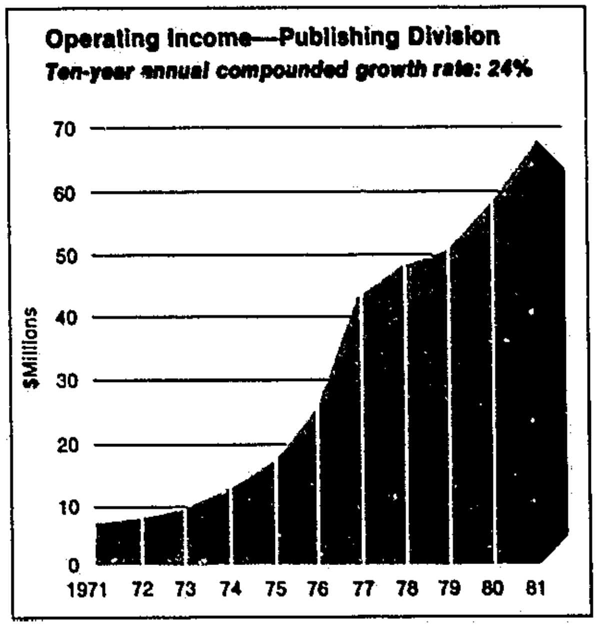
In 1981, the Specialized Publications Group's policy of selective acquisitions and investment in the start-up of new publications produced solid returns for the Company. Publication acquisitions and start-ups since Fairchild Publications joined Capital Cities in 1968 accounted for 39 percent of revenue and 30 percent of operating earnings for the group in 1981. We continue to look for new opportunities, through acquisitions and start-ups, to expand this group.

Newspapers

In 1981, The Kansas City Star Company again was required to operate in a difficult local economic environment. Revenues for 1981 increased by 7 percent, with operating profits showing a slight improvement over 1981.



Net revenues in 1981 rose 18%, to $359,286,000, from the $305,098,000 reported in 1980. On a pro forma basis, excluding 1981 and 1980 acquisitions and new publication start-ups, revenues increased 13% over the prior year.



Operating income increased 16%, to $67,520,000, from the $58,186,000 reported in 1980. On a pro forma basis, operating income was also up 16%.

Total linage for the Kansas City newspapers was down 2 percent in 1981, comparing somewhat favorably with the linage losses of other midwest newspapers, which averaged approximately 4 percent in 1981. The keys to this relative success in compensating for the loss of linage from major accounts have been the broadening of the newspapers' customer base, new product improvements, and increased special sales efforts.

A zoned edition expansion project culminated in October 1981 with the publishing of a seven-zone package. This has resulted in much-improved editorial presentation as well as in a substantial increase in suburban advertising by small- to medium-sized retailers.

During 1981, circulation continued its overall decline, though at a slower pace than in 1980. Audit Bureau of Circulation figures for September 1981 placed the morning *Times* at 290,000, down 3 percent from 1980. The afternoon *Star* showed a circulation of 245,000, down 4 percent from the previous year. In 1980, circulation had declined 6 percent and 9 percent for the *Times* and the *Star*, respectively. The Sunday *Star* remained virtually unchanged in 1981, at 399,000.

All other news events in Kansas City in 1981 were overshadowed by the collapse in July of two sky walks at the Hyatt Hotel that killed 113 and injured 186 others. The *Star* and *Times* devoted more than fifty pages to news coverage of the tragedy in the first week after it occurred. By the end of the year, the papers had published more than 325 stories and hundreds of pictures on the event. The investigative efforts of the newspapers contributed to the ultimate determination of the cause of this tragic accident.

On July 31, 1981, a Federal judge entered a permanent injunction against The Kansas City Star Company, barring it from proceeding with its plans to further expand its proposed agent delivery system. The Court found injury and causation issues in favor of the independent carriers. The Kansas City Star Company believed the permanent injunction to be onerous and overreaching, and filed for a stay of the injunction pending appeal to the United States Court of Appeals. The stay was granted and an appeal is awaiting decision.

On November 4, 1981, the Antitrust Division of the United States Justice Department filed an *amicus curiae* brief with the United States Court of Appeals in which it urged the Court to reverse an earlier decision that had found the Company's plans to be in violation of antitrust laws. A more detailed description of the proceedings is contained under Item 3 in the Form 10-K section of this report.

The *Fort Worth Star-Telegram* celebrated its 75th anniversary in 1981 with another successful year. Revenues and profits were up 17 percent and 18 percent, respectively. The highlight for the year, however, was the announcement in April that *Star-Telegram* photographer Larry C. Price had won the Pulitzer Prize for spot news photography. He and copy editor Paul Rowan went to Liberia immediately following the 1980 coup there, and Larry Price was the only photographer present to record the upheaval and executions of former government officials.

In 1981, the *Star-Telegram* continued its zoning efforts, publishing four separate weekly sections covering 150,000 Tarrant County households, and expanded its supplemental weekly mailing to 70,000 nonsubscribers. This was made possible by the newspaper's new computerized circulation information system, one of the most sophisticated in the industry.

During 1981, circulation continued to experience modest declines. Although morning circulation for the *Star-Telegram* was unchanged in 1981, evening and Sunday circulation decreased 6 percent and 2 percent, respectively.

Investments in the editorial product continued in 1981. Twenty new positions in the editorial department were created and filled, and the proportion of space devoted to news increased 5 percent. *Star-Telegram* management is reviewing alternatives to expand press and other production capacities to meet the continuing rapid growth of Fort Worth and the Tarrant County area.

Advertising linage at *The Oakland Press*, in Pontiac, Michigan, an area severely affected by the problems of the auto industry, continued a decline which dates back to late 1979. With a revenue increase of only 5 percent, *The Oakland Press* was able, through continued cost controls, to report a small gain in operating profits. Circulation in 1981 continued to grow, with the daily and Sunday editions reaching 75,000 and 78,000, respectively.

During May, *The Oakland Press* sponsored a nationally recognized and highly successful auto rebate program to stimulate auto sales. The newspaper was chosen by *Production News* magazine for a national award for outstanding performance in the field of electronic text processing.

The *News-Democrat*, in Belleville, Illinois, reached all-time high levels of revenue and earnings in 1981, with gains of 13 percent in both categories. Although a weak local economy caused advertising linage reductions by many of the newspaper's large accounts, the *News-Democrat* was able to more than compensate by aggressively seeking new business from smaller accounts.

The sales accomplishments in 1981 were made possible in part by two new marketing efforts. In May, the *News-Democrat* began a total market coverage plan by delivering a complete Wednesday newspaper to 15,000 nonsubscriber households, thereby allowing advertisers to reach all homes within the newspaper's market area. In addition, a Belleville-only zoned edition was started, which provides the smaller local advertisers with a much more efficient and less expensive way to reach their customers.

The Wilkes-Barre Times Leader continued to make progress in 1981. Revenue increased by 13 percent, while the operating loss was again reduced—this time by over 20 percent. The newspaper has been operating under strike conditions since October 1978, when a number of union-represented employees walked off their jobs and started to publish a competing strike newspaper.

In June, the *Times Leader* started a major effort to strengthen its editorial product, with emphasis on local community coverage. Additional newsroom personnel were hired, and the total editorial content of the paper was increased. The improvements have been well received and have contributed to the newspaper's growth in paid circulation.

Capital Cities' Oregon newspapers again operated in a difficult environment during 1981. The unemployment rate in most of the communities where the newspapers are published exceeded 13 percent, principally as a result of the continued slump in the forest products industry. Revenues for the group increased by less than 4 percent, with some of the publications showing decreases from 1980 levels. The group's operating earnings in 1981 were flat with the prior year.

The Shore Line Newspapers group in southern Connecticut, which was acquired in August 1980, made substantial progress in 1981. Two publications were added to this group, bringing the total number of community newspapers to eleven. In June 1981, the *Hamden Chronicle* was acquired, and at the end of the year, the United States Navy awarded Shore Line Newspapers the license to publish *The Dolphin*, a weekly newspaper with 10,000 circulation, at the New London, Connecticut, submarine base.

Electronic Publishing

The Publishing Division continues to monitor developments in the electronic publishing area. Increased cable television coverage of the country offers potential opportunity for our publications to extend their market penetrations through multichannel access to the home. In 1981, plans were developed for the introduction of simple electronic newscasts of our newspapers' material to markets we serve. Implementation of these newscasts will be contingent upon negotiation of favorable leases for a channel or channels from the cable television systems operating in markets where we publish daily or weekly newspapers.

In October, the Belleville *News-Democrat* began providing its local cable television system with four 15-minute video newscasts a day.

The *Fort Worth Star-Telegram* and the Tandy Corporation, the nation's largest retailer of personal computers, have agreed to provide Tarrant County residents with constantly updated textual news and information. Owners of Tandy terminals who subscribe to the service will be able to access a central computer in Fort Worth and receive business, agricultural, sports and other news and information of their choice. The service, to be known as *Star-Text*, is slated to begin in early 1982.

In 1981, the Company also agreed to invest in an electronic information system, *Viewtron*, being developed in Florida by Knight-Ridder Newspapers and American Telephone & Telegraph Company. *Viewtron* is a sophisticated means of providing text and graphic information to subscribers, which also allows shopping, banking and other transactional services to be conducted at home. If additional market testing scheduled to begin in 1983 in south Florida is successful, Capital Cities' newspapers in Fort Worth and Kansas City could use *Viewtron* technology. Knight-Ridder would be a minority partner in ventures in these cities.

The Kansas City and Fort Worth newspapers are also negotiating with local cable television operators to provide various information services. As a result of those negotiations, the *Fort Worth Star-Telegram* already has begun publishing a guide, called *The Cable Connection*, for subscribers of the cable television system in that city.

Multichannel News, which chronicles the new video technologies, is taking advantage of one. Beginning in early 1982, a daily electronic version of *Multichannel News* will be provided to subscribers to *The Source* for certain additional fees. *The Source* is an electronic communication service marketed by Source Telecomputing Corporation, a subsidiary of the Reader's Digest Association, Inc.

Energy User News will become available in 1982 on a historical basis through *Nexis*, a service of Mead Data Central. Other specialized publications are also investigating possible applications in electronic publishing.

Publishing Division

John B. Sias, *President*

NEWSPAPERS

THE KANSAS CITY STAR/TIMES (Kansas City, MO)
James H. Hale, *President & Publisher*
THE OAKLAND PRESS (Pontiac, MI)
Bruce H. McIntyre, *President & Publisher*
NEWS-DEMOCRAT (Belleville, IL)
HIGHLAND NEWS LEADER (Highland, IL)
Darwin C. Wile, *President & Publisher*
THE WILKES-BARRE TIMES LEADER (Wilkes-Barre, PA)
Richard L. Connor, *Publisher*
THE ARLINGTON CITIZEN-JOUNAL (Arlington, TX)
R. Thomas Cronk, *Publisher*
SHORE LINE NEWSPAPERS (Guilford, CT)
John Coots, *Publisher*

Carter Publications

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

Democrat-Herald Group

ALBANY DEMOCRAT-HERALD (Albany, OR)
THE DAILY TIDINGS (Ashland, OR)
GRESHAM OUTLOOK (Gresham, OR)
NEWPORT NEWS-TIMES (Newport, OR)
SPRINGFIELD NEWS (Springfield, OR)
COTTAGE GROVE SENTINEL (Cottage Grove, OR)
LEBANON EXPRESS (Lebanon, OR)
SANDY POST (Sandy, OR)
STAMP COLLECTOR (Albany, OR)
STAMP WHOLESALER (Albany, OR)
Glenn Cushman, *President*

SPECIALIZED PUBLICATIONS GROUP

John B. Fairchild, *Chairman & Chief Executive Officer*
Daniel Newman, *President & Chief Operating Officer*
Philip L. McGovern, *Senior Vice President & Treasurer*
Richard J. Lynch, *Senior Vice President-Operations*
George T. Groh, *Vice President-General Services*
Ann L. Regan, *Secretary*

Fairchild Publications (New York, NY)

WOMEN'S WEAR DAILY
W
Michael F. Coady, *Senior Vice President*
Eugene F. Fahy, *Vice President & Advertising Director*
DAILY NEWS RECORD
MEN'S WEAR
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*
HFD—RETAILING HOME FURNISHINGS
ENTRÉE
ELECTRONICS RETAILING
HOME FASHIONS TEXTILES
SUPERMARKET NEWS
David S. Branch, *Senior Vice President*
Ernest D. Obermeyer, *Vice President & Publisher, SN*
Robert Freeman, *Vice President & Publisher, Entrée & ER*
AMERICAN METAL MARKET
METALWORKING NEWS
METAL/CENTER NEWS
HEAT TREATING
FOOTWEAR NEWS
Kenneth Share, *Senior Vice President*
James M. Lamoree, *Publisher, M/CN & HT*
ELECTRONIC NEWS
MIS WEEK
Martin P. Rosenblum, *Senior Vice President*
James J. Lydon, *Vice President & Editor, EN*
ENERGY USER NEWS
James G. Chapman, *Publisher*
MULTICHANNEL NEWS
Paul Maxwell, *Publisher*

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FAIRCHILD NEWS SERVICE
FAIRCHILD BOOK DIVISION

International Medical News Group (Rockville, MD)

FAMILY PRACTICE NEWS
INTERNAL MEDICINE NEWS
OB. GYN. NEWS
PEDIATRIC NEWS
SKIN & ALLERGY NEWS
CLINICAL PSYCHIATRY NEWS
ACHES & PAINS
MERCURY PRESS
Charles J. Siegel, *Vice President & Publisher, IMNG*
Meadie E. Pace, *Manager, Washington Operations, IMNG & Mercury Press*
William Rubin, *Editor, IMNG*

Professional Press Group (Chicago, IL)

OPTOMETRIC MONTHLY
OPTICAL INDEX
INTERNATIONAL CONTACT LENS CLINIC
JOURNAL OF LEARNING DISABILITIES
William Topaz, *President & Publisher*

PENNYSAVERS

PENNYPOWER SHOPPING NEWS
(Wichita and Topeka, KS; and Springfield, MO)
William Kurz, *Vice President*

We Talk to People

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

Capital Cities Special Reports and Family Specials produced over the past year included (left to right): *A Step too Slow,* featuring Judge Reinhold; *The Trouble with Grandpa,* telecast in February 1982 and featuring Meg Tilly and Elisha Cook; and *For Better? For Worse? The American Family,* hosted by Robert MacNeil.

During 1981, Capital Cities Television Productions produced three one-hour documentaries and, in association with Paulist Productions, five dramas (four half-hour and a one-hour) dealing with problems confronting young people.

It is especially gratifying to report that in 1981 Capital Cities Family Specials won the prestigious Ohio State Award for "support of excellence in educational, informational, and public affairs broadcasting." In addition, one of our Family Specials, *Girl on the Edge of Town,* was selected for a Gabriel Award by Unda-USA (the U.S. Branch of International Catholic Association for Radio & TV) in competition with all new programs for young people.

We are also pleased to report that *Girl on the Edge of Town* ranked number one, and all of our first-run shows were in the top 25, in the 1981 Nielsen ratings for all syndicated specials. These ratings were made possible by the commitment of prime or prime access time by the 199 commercial television stations who joined us in ad hoc networks reaching more than 90 percent of the television homes in the United States.

These shows were once again produced at budget levels equal to network programming. Although the financial cost of these projects is not the most important criterion for judging their merits, the total expense for producing these programs in 1981 was $2,100,000. As in previous years, we retained half of the available commercial time, and sales to national advertisers generated net revenues of $1,500,000. Thus, Capital Cities underwrote approximately $600,000 of the total effort in 1981.

In order to fulfill our responsibilities as a group broadcaster to the communities we serve and to our nation as a whole, we intend to continue, as a matter of corporate policy, to produce programming of distinction and value for a national audience as an adjunct to the outstanding presentations offered every day of each year by our stations.

Capital Cities Special Reports

In 1981, we produced and distributed two documentaries in our continuing series of Capital Cities Special Reports.

For Better? For Worse? The American Family was reported by Robert MacNeil, of the PBS *MacNeil/Lehrer Report,* and focused on the dramatic changes which have occurred in the American family since the 1950s. Elements of the program included: a profile of a "blended family" (divorced adults with children, beginning a new family); the increase in counseling and support services for broken families as a result of the dramatic climb in the divorce rate to 50 percent; profiles of single-parent families and single people "in relationship" who see no reason for marriage. Professional counselors commented on the impact of these developments on the traditional "nuclear family" structure of the '50s and on the consequences for our society of these changes.

The American Family was telecast May 28, 1981, and was carried in prime or prime access time by a network of commercial stations representing more than 93 percent of the television homes in the United States. We estimate that approximately 16,000,000 people watched the documentary. A number of stations originated their own programming in conjunction with the telecast, including public service announcements, phone-in programs with local experts, and special news features.

The second program, *Runaway: Where Are They Now?,* afforded us the unique opportunity of following up our major documentary of the spring of 1980, entitled *Runaway.* We were able to trace the lives of the runaways who appeared on our first program to see what changes had occurred. We discovered that a youth who survived for almost five years on the streets as a male prostitute had dropped completely from sight; there was no record of his whereabouts anywhere. On the other hand, a girl who had been physically and psychologically abused by her family and who had lived on the streets and in runaway shelters, had found a job and a boyfriend and was about to be married. While the runaway population still numbers more than a million children a year, community runaway shelters and hot lines are providing some refuge and aid.

Runaway: Where Are They Now? was telecast between August 17 and September 20, 1981. More than 160 stations, representing in excess of 93 percent of the television homes in the United States, carried this program. It generated a national rating of 9.7, and we estimate it reached more than 20,000,000 viewers.

We also produced in 1981 for telecast in the first quarter of 1982, a one-hour documentary, *America's Battle with Crime.* The nation spends more than $26,000,000,000 annually to fight crime, and most officials call it a losing battle. This documentary examines the functioning of the various elements of the criminal justice system, describes how Americans are spending in excess of $120,000,000 annually on burglar alarms, self-defense weapons, training guard dogs, and the like, and probes in depth one American community that has successfully resisted the escalating crime rate.

Capital Cities Family Specials

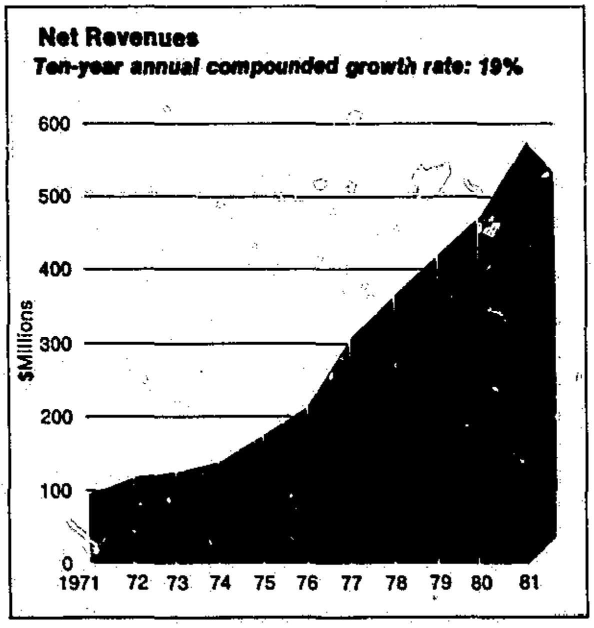
This series of half-hour original dramas designed to illuminate the complex issues facing teenagers and their families has treated such subjects as alcoholism, death of a parent, parent-teen relationships, teenage suicide, and peer pressure.

Our first one-hour dramatic special, *Girl on the Edge of Town* was telecast in April 1981 by more than 150 stations and received a 12.6 national rating, the highest ever attained by any of our programs. We estimate that rating translates into more than 22,000,000 viewers. Patty Duke Astin was nominated for an Emmy Award as Best Actress for her performance.

The third season (1980-1981) of these programs was carried by a network averaging more than 150 stations and 90 percent of the television homes in the United States. Bristol-Myers and Nabisco, advertisers from our previous seasons, continued their support.

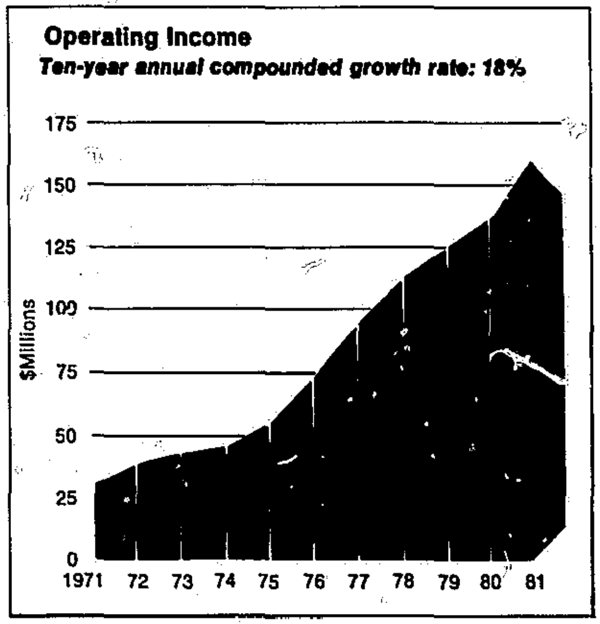
The acceptance of these dramas by our audiences, advertisers and fellow broadcasters encouraged us to continue the series into its fourth season. The first program in the new series, *A Step Too Slow,* was telecast during December 1981. It is the story of a high school basketball star who is cut from the team and, in the course of dealing with that disappointment, has to find new dimensions within himself. The other programs in the series, which will be telecast during 1982, are dramas dealing with a young man's search for some meaning to his life and with the problems caused by the generation gap between a grandfather and granddaughter. We estimate that an average of 160 stations will be carrying this fourth season of Family Specials.

Financial Highlights



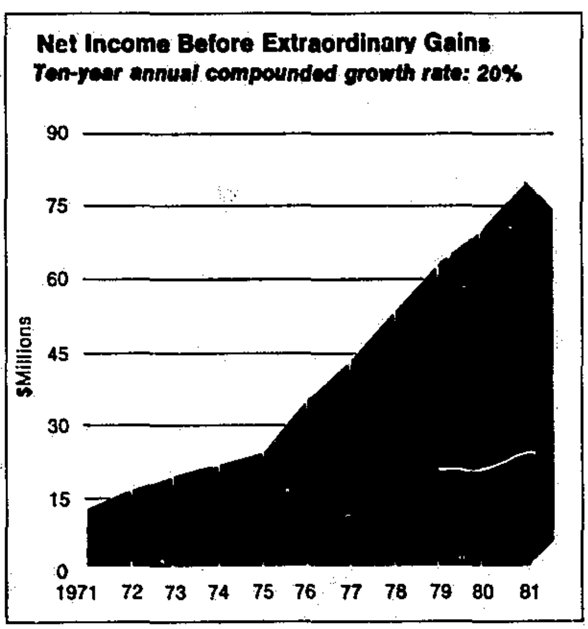
Net Revenues
Ten-year annual compounded growth rate: 19%

Net revenues for 1981 increased to $573,784,000, or 22% over the $472,108,000 reported in 1980. On a pro forma basis, excluding 1981 and 1980 acquisitions and start-ups, the Company's revenues increased by 14%.



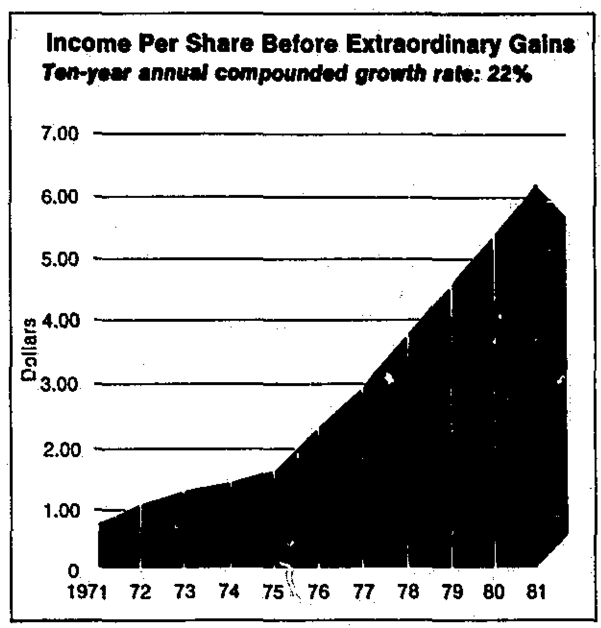
Operating Income
Ten-year annual compounded growth rate: 18%

Operating income in 1981 rose 16%, to $159,186,000, from $137,375,000 in 1980. On a pro forma basis, excluding 1981 and 1980 acquisitions and start-ups, the Company's operating income increased also 16% over the prior year.



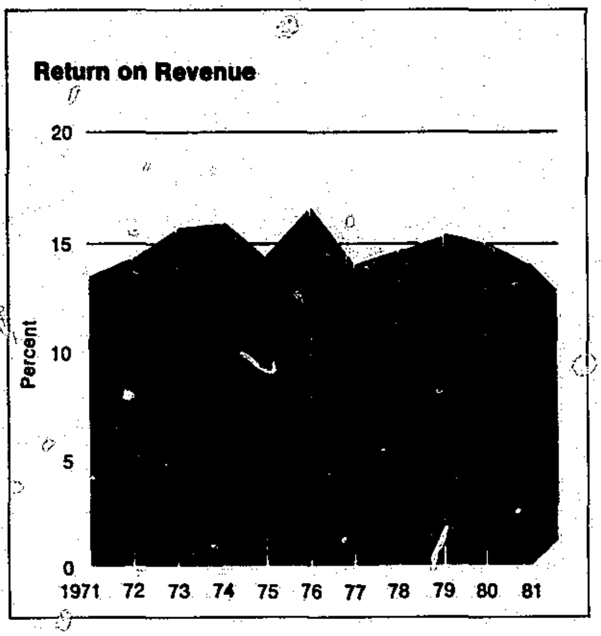
Net Income Before Extraordinary Gains
Ten-year annual compounded growth rate: 20%

Net income before extraordinary gain for 1981 increased 14%, to $80,518,000, from the $70,783,000 reported in 1980.

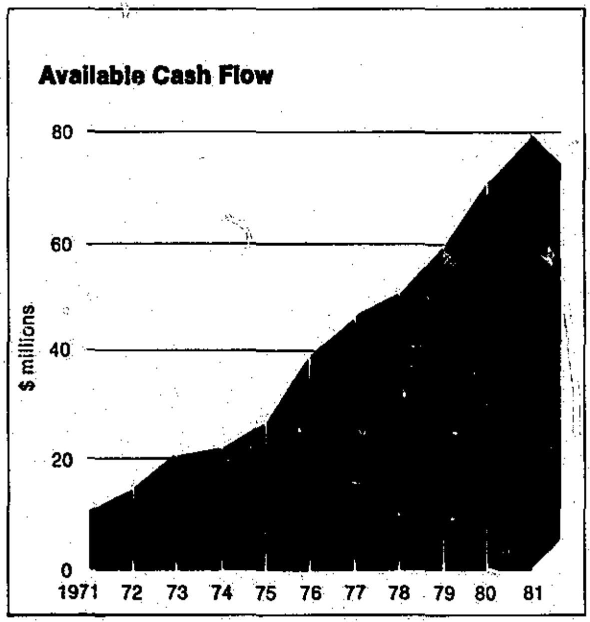


Income Per Share Before Extraordinary Gains
Ten-year annual compounded growth rate: 22%

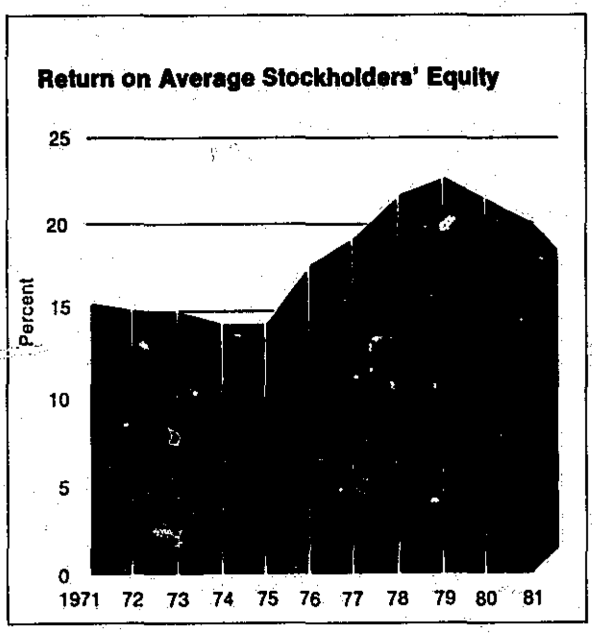
Income per share before extraordinary gain in 1981 increased 14%, to $6.12, from the $5.38 reported in the prior year.



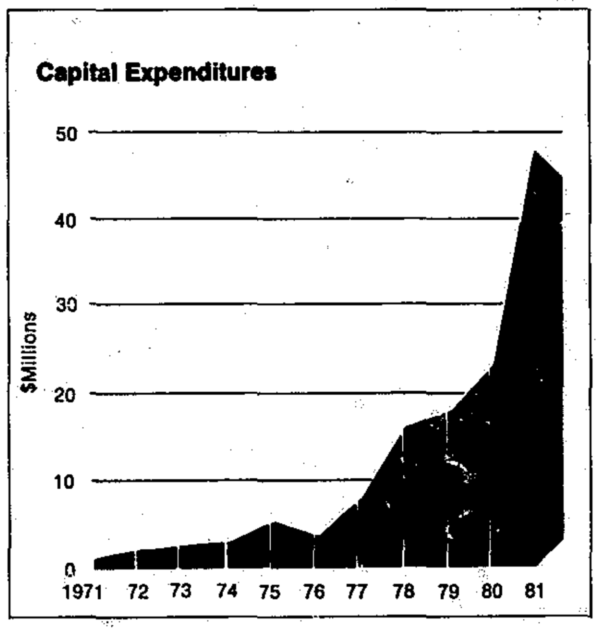
Return on revenue, the percentage relationship of net income to net revenue, was 14.0% for 1981, compared to 15.0% reported in 1980. Capital Cities' return on revenue has remained relatively constant since 1971, with periodic minor downturns resulting from acquisitions and start-up activity.



Available cash flow is defined as cash flow from operations, less capital expenditures other than amounts for the construction of new cable television systems. In 1981, available cash flow increased 12%, to $79,940,000, from $71,297,000 in 1980.



Return on average stockholders' equity for 1981 was 20.1%, compared to 21.5% in 1980.



Capital expenditures in 1981 amounted to $48,634,000, up from $23,611,000 in 1980.

Financial Overview

Results of Operations

Management's discussion of the results of operations for 1981 compared to 1980, and 1980 compared to 1979, is included on pages 27 and 28 of this report.

Available Cash Flow

Available cash flow is defined as cash flow from operations, less funds reinvested for capital expenditures. In determining Capital Cities' available cash flow, construction expenditures for new cable television systems are excluded from capital spending, as they are considered to be essentially acquisition spending and not capital reinvested in existing operations.

In 1981, Capital Cities available cash flow amounted to $79,940,000, an increase of $8,643,000 or 12% over 1980.

Unlike most industrial companies, Capital Cities' does not require large amounts of capital to be reinvested each year in physical assets and inventories to maintain the same level of production or operations. The Company's available cash flows have historically been almost equal to reported net income. The continued generation of such available cash flow will allow the Company to continue to make selective acquisitions, invest in new business start-ups, reduce debt and, when deemed appropriate, repurchase its common stock. The judicious employment of this available cash flow should enhance the Company's future growth in earnings and stockholders' equity.

Capital Expenditures

In 1981, capital expenditures amounted to $48,634,000, a 106% increase from the $23,611,000 spent in 1980. The largest portion of 1981 capital spending was in the Cable Television Division, where a total of $27,000,000 was spent—$20,000,000 for the construction of new systems and $7,000,000 for extensions, upgrades and rebuilds of the Cablecom systems.

For 1982, the Company's capital budget anticipates expenditures of approximately $55,000,000. The Cable Television Division is expected to spend $27,500,000 in 1982—$15,000,000 completing the construction of new systems, with the balance for rebuilds, upgrades and extensions of older Cablecom systems.

The Broadcasting Division anticipates spending $15,000,000 in 1982. Major projects include the completion of a 2,000-foot tower and transmitter facility for KTRK-TV in Houston, the construction of a new studio building in New Haven for WTNH-TV, and the conversion to one-inch videotape technology.

Publishing Division capital expenditures in 1982 are budgeted at $12,000,000 and anticipate the start of a facility expansion at the *Fort Worth Star-Telegram*, together with the continuing upgrade and expansion of electronic data processing systems at the daily newspapers and specialized publications.

Capital Structure

Capital Cities' capital structure is made up of four components: stockholders' equity, interest-bearing debt, minority interest and deferred income taxes.

Stockholders' equity at December 31, 1981, amounted to $443,822,000, an increase of $84,[illegible]1,000 from the 1980 year-end total of $359,081,000.

Interest-bearing debt, both current and long-term, totaled $102,372,000 at the end of 1981, an increase of $43,705,000 from the year-end 1980. This increase is a result of borrowings related to the acquisition of Cablecom on July 2, 1981. At December 31, 1981, the Company's interest-bearing debt consisted primarily of $60,264,000 of commercial paper, $34,200,000 in term bank loans and $7,908,000 in other notes primarily due to former stockholders of acquired companies. The commercial paper is supported by a $100,000,000 bank revolving credit agreement (convertible into a term loan payable over four years, beginning January 1, 1985). During the second half of 1981, interest rates on the outstanding commercial paper averaged 2% less than the prevailing prime rate. The interest rates on virtually all of the other debt are fixed and average approximately 9%. It would be the Company's intent to replace its outstanding commercial paper with longer-term obligations if and when market conditions improve.

At December 31, 1981, minority interest in the Company's consolidated subsidiaries amounted to $14,432,000. This amount is almost entirely accounted for by the purchase of a 10% interest in Capital Cities Cable of Delaware, Inc., (the parent company of Cablecom-General, Inc.) by Whitcom Investment Company for $13,800,000 in late 1981.

Deferred income taxes amounted to $10,336,000 at year-end 1981 and are included in the capital structure, as they are considered to be essentially a permanent liability.

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

(dollars in millions)

	1981	1980	1979	1978	1977
Debt	$102.4	$ 58.7	$ 78.0	$103.0	$126.3
Total capital	$571.0	$427.2	$386.9	$372.5	$372.7
Debt to total capital ratio	18%	14%	20%	28%	34%

The Company's debt to total capital ratio at December 31, 1981, is a very conservative 18%, which would allow for a substantial increase in debt should attractive investment opportunities appear.

Return on Equity

Return on equity is an important measurement of the effectiveness with which the stockholders' equity is being employed. It is expressed as the percentage relationship that net income (before extraordinary items) bears to stockholders' equity. Capital Cities' return on equity has benefited both from the Company's ability to finance its growth from internally generated capital and debt rather than new equity capital, and from a program of repurchasing its common stock over recent years.

Capital Cities' return on average stockholders' equity for the last five years was:

(dollars in millions)

	1981	1980	1979	1978	1977
Average stockholders' equity	$401.4	$328.8	$278.3	$248.3	$222.7
Net income	$ 80.5	$ 70.8	$ 63.8	$ 54.0	$ 43.2
Rate of return	20.1%	21.5%	22.9%	21.8%	19.4%

Return on Total Capital

Another measure of management performance is the rate of return derived from total capital employed in the business. Total capital is defined as the sum of stockholders' equity, interest-bearing debt, minority interests and deferred income taxes. 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, business performance is measured without being affected by financing policies.

The Company believes this is as important a measure of the profitability of a business as is return on equity. Capital Cities' return on average total capital over the last five years was:

(dollars in millions)

	1981	1980	1979	1978	1977
Average total capital	$499.1	$407.0	$378.9	$372.6	$324.5
Return	$ 85.7	$ 73.6	$ 67.2	$ 58.3	$ 48.0
Rate of return	17.2%	18.1%	17.7%	15.6%	14.8%

A refinement of this approach to performance measurement is the return on operating capital. This calculation removes from total capital the nonoperating assets (short-term cash investments, marketable equity securities and other assets) and from the return the aftertax income associated with these assets. The table below indicates Capital Cities' return on average operating capital for the last five years:

(dollars in millions)

	1981	1980	1979	1978	1977
Average operating capital	$449.8	$348.1	$319.6	$309.5	$254.6
Return	$ 82.7	$ 70.2	$ 64.2	$ 55.7	$ 46.4
Rate of return	18.4%	20.2%	20.1%	18.0%	18.2%

Intangible Assets

At December 31, 1981, Capital Cities' intangible assets, before accumulated amortization, totaled $374,080,000—$123,685,000 in broadcasting, $166,158,000 in publishing and $84,237,000 in cable television. Together, these intangible assets accounted for more than 50% of the Company's total assets.

Intangible assets represent the amounts by which acquisition prices exceed the value of tangible assets acquired. In accordance with *Accounting Principles Board Opinion No. 17*, Capital Cities amortizes intangible assets for broadcasting and publishing properties acquired since 1970 over periods of up to 40 years. Such amortization is arbitrarily mandated by *Opinion No. 17* without regard to whether these assets have or have not declined in value. The substantial majority of acquired cable television intangible assets relate to the underlying system franchise agreements and are amortized over periods approximating the life of such franchises.

The majority of Capital Cities' intangible assets have resulted from the acquisition of broadcasting and publishing properties. Historically, such intangible assets have long and productive lives and have tended to increase in value. We believe that the majority of these 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 intangible assets significantly understate net income and stockholders' equity.

Broadcasting and publishing intangible assets of $162,044,000 are subject to amortization. This had the effect of reducing net income by $3,992,000, or $.30 a share, in 1981. This amortization of such broadcasting and publishing intangible assets is not a deductible item in computing income taxes.

Stock Repurchase

In late 1976, the Company began a program of repurchasing its common stock. As of December 31, 1981, 2,954,000 shares of common stock had been acquired for an aggregate purchase price of $102,680,000, or an average price of $34.76.

In December 1979, the Board of Directors authorized the purchase of an additional 600,000 shares. To date, 330,000 shares have been purchased.

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

The repurchases of stock have contributed to gains in earnings per share and return on stockholders' equity in recent years. The Company believes that the repurchase of its common stock is one of the more effective uses of its available cash flow for the benefit of its stockholders.

Financial Summary 1971-1981

(Dollars in Thousands Except Per Share Data)

	1981	1980	1979
RESULTS FOR THE YEAR			
Net revenues			
Broadcasting	$193,063	$166,980	$151,327
Cable Television	21,435	30	
Publishing	359,286	305,098	263,563
Total	573,784	472,108	414,890
Operating income (loss)			
Broadcasting	$102,230	$ 87,925	$ 80,319
Cable Television	(3,096)	(2,531)	
Publishing	67,520	58,186	50,668
Income from operations	166,654	143,580	130,987
General corporate expense	7,468	6,205	5,334
Total	159,186	137,375	125,653
Net income (a)	$ 80,518	$ 70,783	$ 63,758
Net income per share—Fully diluted (a) (b)	$6.12	$5.38	$4.68
Average shares—Fully diluted (000's omitted) (b)	13,150	13,165	13,615
Return on average stockholders' equity (c) (d)	20.1%	21.5%	22.9%
MAJOR CHANGES IN FINANCIAL POSITION			
Funds provided			
Operations	$108,208	$ 86,589	$ 77,888
Increase in long-term debt	111,640	3,834	1,900
Sale of operating properties			
Funds applied			
Acquisitions of operating properties	$160,734	$ 32,890	
Purchases of common stock for treasury	125	14,753	$ 24,736
Capital expenditures	48,634	23,611	18,178
Reduction of long-term debt	63,095	21,667	21,585
Dividends on common stock	2,603	2,573	2,669
AT YEAR-END			
Working capital (d)	$ 4,288	$ 35,408	$ 34,428
Long-term debt	102,372	58,667	77,955
Stockholders' equity (d)	443,822	359,081	298,497
Number of shares outstanding (000's omitted) (b)	13,025	12,902	13,058
Closing market price of common stock (b)	$73¾	$58¾	$48⅝
Price range of common stock (b)	$56½-80½	$40-72	$36¾-49⅞

(a) Income before extraordinary gains of $2,430,000 ($.18 per share) in 1980, $3,320,000 ($.22 per share) in 1977 and $18,168,000 ($1.19 per share) in 1971.
(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.
(d) Adjusted in 1980 and 1979 for restatement to reflect compensated absences as of January 1, 1979.

1978	1977	1976	1975	1974	1973	1972	1971
$133,360	$112,522	$104,307	$ 86,820	$ 78,576	$ 76,066	$ 69,885	$ 56,219
234,116	193,624	107,860	88,066	60,009	51,432	48,603	41,857
367,476	306,146	212,167	174,886	138,585	127,498	118,488	98,076
$ 70,080	$ 56,757	$ 50,277	$ 39,184	$ 36,359	$ 36,469	$ 31,553	$ 23,912
48,781	43,681	25,592	17,699	12,752	9,800	8,192	7,695
118,861	100,438	75,869	56,883	49,111	46,269	39,745	31,607
4,563	3,673	2,826	2,748	2,492	1,704	1,659	1,299
114,298	96,765	73,043	54,135	46,619	44,565	38,086	30,308
$ 54,033	$ 43,234	$ 35,620	$ 25,402	$ 22,025	$ 20,146	$ 17,015	$ 13,129
$3.80	$2.91	$2.30	$1.64	$1.43	$1.30	$1.11	$ .86
14,220	14,852	15,478	15,466	15,376	15,438	15,394	15,250
21.8%	19.4%	17.9%	14.4%	14.4%	15.2%	15.3%	15.7%
$ 66,811	$ 53,763	$ 43,309	$ 32,098	$ 25,833	$ 23,215	$ 20,167	$ 16,324
2,696	90,628			40,500			82,297
15,526	14,389						32,032
$ 9,622	$125,877	$ 6,099		$ 61,602	$ 1,136	$ 1,300	$103,834
31,097	17,111	14,858					
16,314	8,209	4,049	$ 5,546	3,206	2,859	2,465	1,351
26,928	33,470	16,275	16,275	11,663	12,125	17,913	25,073
2,438	1,467	1,524	384				
$ 18,980	$ 8,998	$ 38,058	$ 34,547	$ 23,864	$ 33,028	$ 22,075	$ 14,816
102,983	126,257	59,404	75,679	87,342	56,967	75,092	101,797
259,691	236,834	208,501	188,921	163,860	141,906	121,620	100,166
13,514	14,212	14,832	15,374	15,368	15,364	15,356	14,524
$39⅝	$30	$28¼	$21⅜	$11¼	$15⅞	$30½	$24¼
$27⅛-47¾	$22⅛-30½	$21⅛-28¼	$11-21¾	$8⅜-19⅝	$15-31¼	$24-32⅛	$14½-24⅞

Selected Financial Data
(Dollars in Thousands Except Per Share Data)

	Years Ended December 31,				
	1981	**1980**	**1979**	**1978**	**1977**
Results of Operations					
Net revenues	**$573,784**	$472,108	$414,890	$367,476	$306,146
Operating income	**$159,186**	$137,375	$125,653	$114,298	$ 96,765
Income before extraordinary gain	**$ 80,518**	$ 70,783	$ 63,758	$ 54,033	$ 43,234
Extraordinary gain, net of taxes	**—**	2,430	—	—	3,320
Net income	**$ 80,518**	$ 73,213	$ 63,758	$ 54,033	$ 46,554
Income per share					
Income before extraordinary gain	**$6.12**	$5.38	$4.68	$3.80	$2.91
Extraordinary gain	**—**	.18	—	—	.22
Net income	**$6.12**	$5.56	$4.68	$3.80	$3.13
Cash dividends declared per common share	**$ .20**	$ .20	$.20	$.175	$.10
At Year-End					
Total assets	**$697,620**	$519,958	$473,134	$444,797	$435,096
Long-term debt due after one year	**$ 87,082**	$ 38,537	$ 56,370	$ 76,055	$100,287
Stockholders' equity	**$443,822**	$359,081	$298,497	$259,691	$236,834
Average Shares					
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	**12,989**	12,883	13,358	13,993	14,710
Stock options	**161**	282	257	227	142
Total common shares and common share equivalents	**13,150**	13,165	13,615	14,220	14,852

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

Management's Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations — 1981 Compared to 1980

Net revenues in 1981 increased $101,676,000 or 22% over 1980. Broadcasting Division revenues were up $26,083,000, a 16% increase over 1980, with television operations showing an increase of 17% and radio operations an increase of 11%. The Cable Television Division provided $21,435,000 in revenues for 1981, due primarily to the acquisition of Cablecom-General, Inc. (Cablecom) on July 2, 1981. Revenues for the Publishing Division were up $54,188,000, or 18%, over 1980. Excluding new publication start-ups and 1981 and 1980 acquisitions, Publishing Division revenues increased 13%, primarily as a result of higher advertising and circulation rates offsetting a 2% decrease in newspaper advertising linage. Specialized publications and newspapers showed revenue gains of 15% and 13% respectively.

Costs and expenses for 1981 were up $79,865,000 or 24% over 1980. Expenses for the Broadcasting Division were up $11,778,000, or 15%, reflecting higher television programming and news costs and general and administrative expenses. Cable Television Division costs and expenses were up $21,970,000 (including $3,000,000 in amortization of intangibles) over 1980, due primarily to the acquisition of Cablecom as well as the greater level of activity compared to the start-up phase of a year ago. Publishing Division costs and expenses, excluding new publication startups and 1981 and 1980 acquisitions, were up 13% over 1980, due to higher production, distribution and general and administrative costs.

Operating income for 1981 increased $21,811,000, or 16%, from 1980, with broadcasting and publishing operations each showing gains of 16%. 1981 results included $2,400,000 of pretax operating losses and shut down costs for the Dallas and Tulsa pennysaver operations, which were terminated in December 1981. Start-up losses for other new publications and the cable television systems under construction amounted to $6,300,000.

Net financial expense (interest expense less interest income) for 1981 increased $3,933,000 compared to 1980. This was due to an increase in net interest expense in the second half of 1981 as a result of borrowings to finance the Cablecom acquisition, offset by reductions in previously existing long-term debt and substantially higher rates earned on a larger portfolio of short-term investments in the first half of 1981. Interest of $2,282,000 and $450,000 was capitalized in 1981 and 1980, respectively. The Company's effective tax rate was 48.1% in 1981 as compared to 48.9% in 1980, due to higher investment tax credits in the current year.

Income before extraordinary gain for 1981 of $80,518,000 was up $9,735,000, while income per share before extraordinary gain of $6.12 increased $.74, both representing 14% increases over 1980. Net income for 1981 includes the earnings of Cablecom from its date of acquisition, July 2, 1981. Cablecom's earnings, together with the related acquisition financing expense, the amortization of franchise and other intangible assets, and net of related income tax benefits, resulted in a reduction in 1981 net income of approximately $.34 per share. Depreciation and amortization of the acquired Cablecom assets has been estimated, subject to a final determination of the appraised values and the useful lives of such assets.

Results of Operations — 1980 Compared to 1979

Net revenues in 1980 increased $57,218,000, or 14% over 1979. Broadcasting Division revenues were up $15,653,000, a 10% increase over 1979, with television operations showing an increase of 12% and radio operations an increase of 5%. Publishing Division revenues, excluding new publication start-ups and 1980 acquisitions, increased 9% primarily as a result of higher advertising and circulation rates offsetting a 3% decrease in newspaper advertising linage. Specialized publications and daily newspapers showed revenue gains of 8% and 10%, respectively.

Costs and expenses for 1980 were up $45,496,000, or 16% over 1979. Expenses for the Broadcasting Division were up $8,047,000, or 11%, reflecting higher television programming and news costs and general and administrative expenses. Publishing Division costs and expenses, excluding new publication start-ups and 1980 acquisitions, were up 7% over 1979, with favorable cost comparisons resulting from lower volume together with substantially reduced expenses at the Company's Wilkes-Barre newspaper, which has been operating under strike conditions since October 1978. Excluding the publishing start-ups and the 1980 acquisitions and investment spending at the Company's new Cable Television Division, total Company costs and expenses rose $24,066,000, or 8% from 1979.

Operating income for 1980 increased $11,722,000, or 9%, from 1979, with broadcasting and publishing operations showing gains of 9% and 15%, respectively. Excluding the Company's Cable Television Division start-up losses, and Publishing Division start-ups and 1980 acquisitions, operating income increased 12% over 1979.

Net financial expense (interest expense less interest income) for 1980 declined $1,773,000 compared to 1979 as a result of the reduction in long-term debt and higher rates realized on short-term investments. The Company's effective tax rate was 48.9% in both 1980 and 1979.

Income before extraordinary gain for 1980 was up $7,025,000, or 11%, while income per share before extraordinary gain increased $.70, or 15%. The higher percentage increase in income per share resulted from a 3% reduction in average shares outstanding as a result of stock repurchases by the Company in 1980 and 1979.

Impact of Inflation

For information on the impact of inflation on the Company, see Note 14 to the Consolidated Financial Statements.

Liquidity and Capital Resources

Working capital decreased $31,120,000 to $4,288,000 at December 31, 1981. Internally generated funds from operations increased $21,619,000 from 1980. The 1981 funds from operations of $108,208,000 represented 44% of the Company's total sources of funds. These funds, along with long-term debt issued or assumed on acquisitions of $111,640,000, $23,318,000 from other sources and the reduction of $31,120,000 of working capital, provided $160,734,000 for acquisitions of operating properties, $63,095,000 for debt reduction, $48,634,000 for capital expenditures, $2,603,000 for dividends to stockholders and $125,000 for treasury stock repurchases.

During 1981, the Company completed the acquisition of Cablecom for $132,200,000 and radio station WKHX-FM for $7,500,000. The acquisition of Cablecom on July 2, 1981 was initially financed by $90,000,000 of borrowings provided under a bank revolving credit agreement with the balance by a reduction of short-term cash investments. Shortly thereafter the borrowings from the bank were replaced by the issuance of commercial paper. The acquisition of WKHX-FM was also financed through the issuance of commercial paper.

On December 8, 1981, pursuant to an existing agreement, Whitcom Investment Company purchased a 10% minority interest in Capital Cities Cable of Delaware, Inc., parent company of Cablecom, for $13,800,000.

At December 31, 1981 total interest bearing debt was $102,372,000 an increase of $43,705,000 from 1980. Of the total interest bearing debt outstanding at year-end, $60,264,000 is represented by commercial paper, which is supported by a $100,000,000 bank revolving credit agreement convertible into term loans (payable over four years) starting January 1, 1985. Management continues to review additional acquisition and investment opportunities which would be financed by the issuance of commercial paper or other long-term debt. In addition, if market conditions are favorable, management intends to replace the existing commercial paper with other long-term obligations. At December 31, 1981 interest-bearing debt represented 18% of the total capitalization as compared to 14% at the end of 1980.

Capital expenditures in 1981 of $48,634,000 increased $25,023,000 from 1980 primarily due to greater spending in the Cable Television segment. The Company anticipates 1982 capital expenditures for property, plant and equipment will be approximately $55,000,000 of which $13,600,000 was firmly committed at December 31, 1981. Reference is made to the Financial Overview Section on pages 22 and 23, for additional discussion of the Company's available cash flow, capital structure, and capital expenditures.

Segment Information

The Company is engaged in television and radio broadcasting, providing cable television service to subscribers and the publishing of newspapers and specialized publications. Operations are classified into three business segments: Broadcasting, Cable Television and Publishing.

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

Cable Television consists of 51 systems providing service to subscribers in 16 states.

Publishing operations consist of nine daily newspapers in seven communities (four of which have Sunday editions), 22 weekly community newspapers and shopping guides and 32 business and specialized newspapers, 18 of which are paid circulation and 14 of which are controlled circulation.

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

(Dollars in Thousands)	1981	1980	1979	1978	1977
Broadcasting					
Net revenues	**$193,063**	$166,980	$151,327	$133,360	$112,522
Direct operating costs	**85,791**	74,457	67,018	59,619	52,317
Depreciation	**4,782**	4,366	3,758	3,429	3,216
Amortization of intangible assets	**260**	232	232	232	232
Total operating costs	**90,833**	79,055	71,008	63,280	55,765
Income from operations	**$102,230**	$ 87,925	$ 80,319	$ 70,080	$ 56,757
Assets at December 31	**$214,524**	$191,039	$188,314	$178,739	$167,019
Capital expenditures	**9,593**	6,032	7,472	8,157	4,559
Cable Television					
Net revenues	**$ 21,435**	$ 30			
Direct operating costs	**17,731**	2,504			
Depreciation	**3,800**	57			
Amortization of intangible assets	**3,000**	—			
Total operating costs	**24,531**	2,561			
(Loss) from operations	**$ (3,096)**	$ (2,531)			
Assets at December 31	**$185,985**	$ 9,008			
Capital expenditures	**27,085**	8,319			
Publishing					
Net revenues	**$359,286**	$305,098	$263,563	$234,116	$193,624
Direct operating costs	**280,655**	236,932	204,260	176,909	142,713
Depreciation	**7,379**	6,748	5,790	5,665	4,823
Amortization of intangible assets	**3,732**	3,232	2,845	2,761	2,407
Total operating costs	**291,766**	246,912	212,895	185,335	149,943
Income from operations	**$ 67,520**	$ 58,186	$ 50,668	$ 48,781	$ 43,681
Assets at December 31	**$259,385**	$257,998	$215,576	$209,255	$190,810
Capital expenditures	**6,498**	6,527	10,185	7,818	2,835
Consolidated					
Net revenues	**$573,784**	$472,108	$414,890	$367,476	$306,146
Income from operations	**$166,654**	$143,580	$130,987	$118,861	$100,438
General corporate expense	**7,468**	6,205	5,334	4,563	3,673
Operating income	**159,186**	137,375	125,653	114,298	96,765
Interest expense	**(9,933)**	(5,446)	(6,835)	(8,603)	(9,545)
Interest and other income	**5,765**	6,454	6,040	5,138	3,014
Income before income taxes	**$155,018**	$138,383	$124,858	$110,833	$ 90,234
Assets employed by segments	**$659,894**	$458,045	$403,890	$387,994	$357,829
Investments and corporate assets	**37,726**	61,913	69,244	56,803	77,267
Total assets at December 31	**$697,620**	$519,958	$473,134	$444,797	$435,096

Consolidated Statement of Income

Years Ended December 31, 1981, 1980 and 1979
(Dollars in Thousands Except Per Share Amounts)

	1981	1980	1979
Net revenues	$573,784	$472,108	$414,890
Costs and expenses			
Direct operating expenses	245,702	205,152	185,234
Selling, general and administrative	145,780	114,650	90,932
Depreciation	16,124	11,467	9,994
Amortization of intangible assets	6,992	3,464	3,077
	414,598	334,733	289,237
Operating income	159,186	137,375	125,653
Other income (expense)			
Interest expense	(9,933)	(5,446)	(6,835)
Interest income	4,745	4,191	3,807
Miscellaneous, net	1,020	2,263	2,233
	(4,168)	1,008	(795)
Income before income taxes	155,018	138,383	124,858
Income taxes			
Federal	65,200	59,700	53,100
State and local	9,300	7,900	8,000
	74,500	67,600	61,100
Income before extraordinary gain	80,518	70,783	63,758
Extraordinary gain, net of taxes	—	2,430	—
Net income	$ 80,518	$ 73,213	$ 63,758
Income per share			
Income before extraordinary gain	$6.12	$5.38	$4.68
Extraordinary gain	—	.18	—
Net income	$6.12	$5.56	$4.68
Average shares outstanding (000's omitted)	13,150	13,165	13,615

See accompanying notes

Consolidated Statement of Changes in Financial Position

Years Ended December 31, 1981, 1980 and 1979
(Dollars in Thousands)

	1981	1980	1979
Funds provided			
Operations			
Income before extraordinary gain	$ 80,518	$ 70,783	$ 63,758
Depreciation	16,124	11,467	9,994
Amortization of intangible assets	6,992	3,464	3,077
Other, net	4,574	875	1,059
Total funds from operations	108,208	86,589	77,888
Common stock issued under Employee Stock Plans	6,951	4,697	4,135
Long-term debt issued or assumed on acquisitions	111,640	3,834	1,900
Sale of minority interest in subsidiary	13,808	—	—
Increase in unearned subscription revenue	2,559	505	1,394
Proceeds from sale of investment in affiliate, net of taxes	—	3,772	—
	243,166	99,397	85,317
Funds applied			
Additions to fixed assets	48,634	23,611	18,178
Reduction of long-term debt	63,095	21,667	21,585
Acquisitions of operating properties	160,734	32,890	—
Dividends	2,603	2,573	2,669
Purchases of common stock for treasury	125	14,753	24,736
Other, net	(905)	2,923	1,019
	274,286	98,417	68,187
(Decrease) increase in working capital	$(31,120)	$ 980	$ 17,130
Working capital changes			
Cash and short-term cash investments	$(30,178)	$ (3,047)	$ 11,534
Accounts and notes receivable	18,390	5,048	4,704
Inventories	(891)	1,964	2,157
Film contract rights and other current assets	1,707	1,602	978
Taxes on income	(229)	57	(5,529)
Long-term debt due within one year	4,840	1,455	5,343
Film contracts and other current liabilities	(24,759)	(6,099)	(2,057)
(Decrease) increase in working capital	$(31,120)	$ 980	$ 17,130

See accompanying notes

Consolidated Balance Sheet

December 31, 1981 and 1980
(Dollars in Thousands)

ASSETS	1981	1980
Current assets		
Cash	$ 5,243	$ 6,741
Short-term cash investments	4,660	33,340
Accounts and notes receivable (less allowance for doubtful accounts of $4,914 in 1981 and $3,899 in 1980)	90,015	71,625
Inventories	7,824	8,715
Film contract rights	5,919	4,128
Other current assets	4,054	4,138
Total current assets	117,715	128,687
Property, plant and equipment, at cost		
Land	16,212	14,452
Buildings	56,521	46,472
Broadcasting, printing, cable television and other equipment	209,679	124,786
	282,412	185,710
Less accumulated depreciation	96,784	85,492
Property, plant and equipment, net	185,628	100,218
Intangible assets (net of accumulated amortization of $21,018 in 1981 and $14,026 in 1980)	353,062	266,745
Marketable equity securities	11,649	11,649
Film contract rights	2,834	2,025
Other assets	26,732	10,634
	$697,620	$519,958

See accompanying notes

LIABILITIES AND STOCKHOLDERS' EQUITY

	1981	1980
Current liabilities		
Accounts payable	$ 25,744	$ 15,929
Accrued compensation	12,729	11,913
Accrued expenses and other current liabilities	27,636	14,021
Film contracts	5,174	4,661
Taxes on income	26,854	26,625
Long-term debt due within one year	15,290	20,130
Total current liabilities	113,427	93,279
Deferred compensation	9,747	6,084
Deferred income taxes	10,336	9,425
Unearned subscription revenue	14,716	12,157
Film contracts	4,058	1,395
Long-term debt due after one year	87,082	38,537
Total liabilities	239,366	160,877
Minority interest	14,432	—
Stockholders' equity		
Convertible preferred stock, $1 par value (600,000 shares authorized)	—	—
Common stock, $1 par value (40,000,000 shares authorized)	15,394	15,394
Additional paid-in capital	4,012	463
Retained earnings	511,654	433,739
	531,060	449,596
Less common stock in treasury, at cost (2,368,388 shares in 1981 and 2,491,350 shares in 1980)	87,238	90,515
Total stockholders' equity	443,822	359,081
	$697,620	$519,958

Consolidated Statement of Stockholders' Equity

Years Ended December 31, 1981, 1980 and 1979
(Dollars in Thousands)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Total
Balance January 1, 1979, as restated	$15,394	$ —	$301,891	$(59,276)	$258,009
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	363,099	(80,358)	298,497
Net income for 1980	—	—	73,213	—	73,213
327,760 shares purchased for treasury	—	—	—	(14,753)	(14,753)
93,080 shares issued under Employee Stock Purchase Plan	—	729	—	2,476	3,205
78,563 shares issued on exercise of employee stock options	—	(628)	—	2,120	1,492
Cash dividends	—	—	(2,573)	—	(2,573)
Balance December 31, 1980	15,394	463	433,739	(90,515)	359,081
Net income for 1981	—	—	80,518	—	80,518
2,150 shares purchased for treasury	—	—	—	(125)	(125)
87,837 shares issued under Employee Stock Purchase Plan	—	1,218	—	2,394	3,612
37,275 shares issued on exercise of employee stock options	—	2,331	—	1,008	3,339
Cash dividends	—	—	(2,603)	—	(2,603)
Balance December 31, 1981	$15,394	$ 4,012	$511,654	$(87,238)	$443,822

See accompanying notes

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 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
Cable television plant	10

Leasehold improvements are amortized over the terms of the leases.

Cable Television—Certain preoperating costs incurred by cable television systems have been deferred in accordance with the policy prescribed by the *Financial Accounting Standards Board Statement No. 51,* "Financial Reporting by Cable Television Companies." Such deferrals have been capitalized as part of cable television plant in the amounts of $1,985,000 and $1,614,000 in 1981 and 1980, respectively.

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,* intangible assets other than those attributable to cable television franchises are being amortized over periods of up to 40 years. Cable television intangible assets relating to cable television franchises are generally amortized over the remaining terms of the franchises.

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 would be charged to stockholders' equity; permanent declines would be 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.

Inventories—Inventories, primarily of newsprint and other paper stock, are valued at the lower of cost (last-in first-out) or market.

Capitalized Interest—Effective January 1, 1980, the Company capitalizes interest in accordance with *Financial Accounting Standards Board Statement No. 34,* "Capitalization of Interest Cost." As a result, $2,282,000 and $450,000 have been capitalized in 1981 and 1980, respectively.

2. INCOME PER SHARE

The calculation of average shares of stock used in the computation of income per share for 1981, 1980 and 1979 is included in the Selected Financial Data on page 26.

3. EXTRAORDINARY GAIN

In 1980, the Company sold its investment in New York Subways Advertising Co., Inc., an unconsolidated affiliate, which resulted in a gain of $4,130,000 less applicable taxes of $1,700,000, for an extraordinary gain of $2,430,000.

Consolidated Notes to Financial Statements—(Continued)

4. ACQUISITIONS

Cable Television—1981

On July 2, 1981, the Company acquired all of the outstanding stock of Cablecom-General, Inc. (Cablecom) for an aggregate price of $139,200,000, consisting of $132,200,000 in cash and the assumption of approximately $7,000,000 in debt, which Cablecom had incurred to retire certain equity securities in connection with the acquisition. Cablecom owns and operates 43 cable television systems in 12 states. The cash purchase price included $52,800,000 for property, plant and equipment, $83,000,000 for intangible assets and $3,600,000 for the excess of liabilities over investments and all other assets. These amounts are estimated, and are subject to a final determination of the appraised values of the tangible and intangible assets.

The consolidated statement of income for the year ended December 31, 1981 includes the results of operations of Cablecom since the date of acquisition. Had the Cablecom acquisition taken place prior to January 1, 1980, it is estimated that on a pro forma basis, consolidated net revenues, operating income, income before extraordinary gain, net income, and income per share before extraordinary gain would be as follows (000's omitted, except per share):

	Year Ended December 31, 1981	1980
Net revenues	$591,732	$502,966
Operating income	160,621	138,961
Income before extraordinary gain	77,307	62,689
Net income	77,307	65,119
Income per share before extraordinary gain	$5.88	$4.76

Depreciation and amortization of the acquired Cablecom assets has been estimated, subject to a final determination of the appraised values and the useful lives of such assets. For the purposes of the above pro forma presentation, financing costs of 15% have been assumed for periods prior to July 2, 1981.

Management of the Company does not believe that the above pro forma results are necessarily indicative of the consolidated results which would have been achieved had the Cablecom acquisition taken place prior to January 1, 1980.

On December 8, 1981, pursuant to an existing agreement, Whitcom Investment Company purchased a 10% minority interest in Capital Cities Cable of Delaware, Inc., parent company of Cablecom for $13,800,000.

Broadcasting—1981

On November 5, 1981, the Company acquired the assets of WBIE-FM (call letters changed to WKHX-FM), an FM radio station serving the Atlanta, Georgia market (licensed to Marietta, Georgia) for approximately $7,500,000 in cash. Virtually all of the purchase price was allocated to intangible assets.

Publishing—1980

During 1980, the Company acquired all of the outstanding stock of Pennypower Shopping News, Inc., publisher of three weekly shopping guides; Shore Line Newspapers, Inc., publisher of nine weekly newspapers and shopping guides; The Professional Press, Inc., publisher of four ophthalmic journals; and the remaining 75% of the Democrat-Herald Publishing Company (Democrat-Herald) which publishes two daily newspapers, six weekly newspapers and two stamp collector publications in Oregon. In a prior year the Company had acquired 25% of the Democrat-Herald.

The aggregate purchase price for the 1980 publishing acquisitions was $32,890,000; $29,358,000 in cash, and $3,834,000 in notes issued and assumed. Included in the purchases were $8,640,000 of fixed assets, $28,713,000 of intangibles and $1,040,000 of other net long-term liabilities. The 1980 purchase price excluded the carrying value of the 25% equity investment in the Democrat-Herald previously acquired, in the amount of $3,423,000.

Cable Television—1980

During 1980, the Company entered the cable television business by acquiring majority interests in seven cable television companies with undeveloped franchises.

Consolidated Notes to Financial Statements—(Continued)

5. 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 1981, 1980 and 1979 were $3,583,000, $3,174,000 and $2,530,000, respectively.

Other employees, not covered by the profit-sharing plans, are covered by Company noncontributory pension plans. In connection with these plans, contributions of $1,873,000, $1,735,000 and $1,503,000 were charged to expense in 1981, 1980 and 1979, respectively. Provision is made for normal cost and amortization of prior service costs over periods of 30 years. The Company's policy is to fund the amounts expensed.

A comparison of accumulated plan benefits and plan net assets for the Company's pension plans is presented below (000's omitted):

	January 1,	
	1981	1980
Actuarial present value of accumulated plan benefits:		
Vested	$37,997	$36,072
Nonvested	1,118	1,126
	$39,115	$37,198
Net assets available for benefits	$41,405	$37,310

The weighted average assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 6½% for 1981 and 1980.

6. INCOME TAXES

The provision for income taxes differs from the amount of tax determined by applying the Federal statutory rate for the following reasons (000's omitted):

	1981		1980		1979	
	Amount	%	Amount	%	Amount	%
Income before taxes at Federal income tax rate	$71,308	46.0%	$63,656	46.0%	$57,434	46.0%
State and local income taxes, net of Federal income tax benefit	5,012	3.2	4,266	3.1	4,320	3.5
Amortization of intangible assets	2,213	1.4	1,594	1.2	1,415	1.1
Investment tax credit	(3,676)	(2.3)	(1,100)	(.8)	(1,500)	(1.2)
Other, net	(357)	(.2)	(816)	(.6)	(569)	(.5)
	$74,500	48.1%	$67,600	48.9%	$61,100	48.9%

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 an exchange of securities gave rise to a provision for deferred income taxes of $1,700,000. The remaining deferred taxes of approximately $3,536,000 at December 31, 1981, result primarily from the excess of tax over financial accounting depreciation offset by deferred compensation which is not deductible until paid.

7. COMPENSATED ABSENCES

To conform with *Statement of Financial Accounting Standards No. 43,* "Accounting for Compensated Absences", the Company, in 1981, fully adopted the practice of recording the cost of employee vacation pay benefits as they are earned. The effect of the Company-wide adoption of this policy has been applied retroactively, and retained earnings at January 1, 1979 was reduced by $1,682,000.

8. MARKETABLE EQUITY SECURITIES

Marketable equity securities were carried at an aggregate cost of $11,649,000 and had an aggregate market value of $17,199,300 and $17,270,000 at December 31, 1981 and 1980, respectively. Included therein, at December 31, 1981 and 1980, were 394,570 shares of St. Regis Paper Company carried at a cost of $10,184,000 with a market value of $12,429,000 and $13,613,000, respectively.

Consolidated Notes to Financial Statements—(Continued)

9. 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, cable television and publishing properties. The broadcasting and publishing 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. Cable television intangible assets, all acquired in 1981, principally represent amounts related to individual cable television franchises. Such cable television franchise intangibles are generally amortized over the remaining lives of the franchises; other cable intangible assets are amortized over 40 years. Cable television intangibles and the amortization thereon, related to the Cablecom-General, Inc. acquisition, have been estimated, subject to a final determination of the appraised values of such assets. At December 31, 1981, the Company's intangible assets were as follows (000's omitted):

	Total	Broadcasting	Publishing	Cable
Intangible assets not subject to amortization	$127,799	$107,083	$ 20,716	$ —
Intangible assets required to be amortized	246,281	16,602	145,442	84,237
	374,080	123,685	166,158	84,237
Accumulated amortization	(21,018)	(1,686)	(16,332)	(3,000)
	$353,062	$121,999	$149,826	$81,237

10. LONG-TERM DEBT

Long-term debt at December 31, 1981 is as follows (000's omitted):

	Total	Commercial Paper	Banks	Other
Payable during:				
1982 (current year)	$ 15,290	$ —	$10,800	$4,490
1983	11,812	—	10,800	1,012
1984	11,212	—	10,800	412
1985	17,278	15,066	1,800	412
1986	15,478	15,066	—	412
1987 and after	31,302	30,132	—	1,170
	$102,372	$60,264	$34,200	$7,908

To finance the acquisitions of Cablecom and WKHX-FM, the Company issued commercial paper, $60,264,000 of which is outstanding at December 31, 1981, with a weighted average interest rate of 12.7%. The commercial paper is supported by a $100,000,000 bank revolving credit agreement, convertible into term loans (payable over four years) starting January 1, 1985. The agreement requires a commitment fee of ½ of 1% of the unused portion of the available credit. Under terms of the bank revolving credit agreement, 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, 1981, unrestricted retained earnings under the credit agreement were $63,036,000. The credit agreement also provides that the Company maintain stockholders' equity of at least $300,000,000.

The amount of commercial paper outstanding at December 31, 1981 is classified as long-term, since the Company intends to renew or replace with long term borrowings all, or substantially all, of the commercial paper. However, the amount of commercial paper outstanding in 1982 is expected to fluctuate and may be reduced from time to time.

The Company also has a bank loan agreement which contains the same restrictions as the aforementioned bank revolving credit agreement. The bank debt bears interest at 8.2%. All other notes payable bear interest at a weighted average of 11.2%.

11. BUSINESS SEGMENT DATA

The Company's business segment data for 1981, 1980 and 1979 is presented on page 29.

12. STOCK OPTION AND PURCHASE PLANS

The Company has stock option plans under which certain key personnel have been given the right to purchase shares of common stock over an 11-year period from the date of grant at prices equal to market value on the grant date. Each option is cumulatively exercisable as to 25% of the total shares represented thereby for each of the first four years after grant, provided that the individual remains in the employ of the Company.

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

	1981	1980	1979
Outstanding options, beginning of year	546,150	498,963	507,369
Authorized	—	—	—
Granted	3,000	133,250	14,000
Cancelled or expired	(9,875)	(7,500)	(1,555)
Exercised	(37,275)	(78,563)	(20,851)
Outstanding options, end of year	502,000	546,150	498,963
Average price of options exercised during the year	$16.54	$14.36	$14.28
Exercise price of outstanding options, end of the year	$9.13 to $76.25	$9.13 to $63.88	$9.13 to $40.56
Options exercisable, end of year	398,125	391,775	447,663
Options available for future grant	—	54	132,804

In 1977, the Company's stockholders 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. During 1981, an additional 400,000 shares were approved for the five-year period ending in April, 1987. 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 87,837, 93,080 and 116,977 shares under the Plan in 1981, 1980 and 1979, respectively.

13. COMMITMENTS

The Company has entered into agreements for future delivery of syndicated and feature film programming for its television stations, which aggregate $6,978,000, payable from 1982 through 1993.

The Company anticipates 1982 capital expenditures for property, plant and equipment to be approximately $55,000,000, of which $13,600,000 was firmly committed at December 31, 1981.

The Company has guaranteed a bank loan made to the Whitcom Investment Company (Whitcom) in the amount of $13,800,000. The bank loan provides that Whitcom maintain certain levels of partnership net worth, excluding their 10% investment in Capital Cities Cable of Delaware, Inc. (Delaware). The loan, and the Company's guarantee, are secured by a pledge of Whitcom's investment in Delaware.

The Company has no material lease commitments.

14. SUPPLEMENTARY INFORMATION ON THE EFFECTS OF CHANGING PRICES (Unaudited)

The following supplementary data is presented pursuant to the requirements of the *Financial Accounting Standards Board Statement No. 33, "Financial Reporting and Changing Prices" (FAS No. 33).* This statement requires two supplementary computations of operating results; one based on the effect of general inflation as measured by the Consumer Price Index for All Urban Consumers ("constant dollar") and the other based on the effect of the changes in specific prices of inventories and property, plant and equipment used in the operations of the Company ("current cost").

The constant dollar method measures the impact of general inflation by adjusting historical financial data to dollars of equal purchasing power (average 1981 dollars).

The current cost method reflects the changes in specific costs of the Company's assets from the dates they were originally acquired to the present. Current costs for the Company's property, plant, and equipment and inventories were determined by reference to recent vendor's quotations, invoice prices or independent appraisals. These

Consolidated Notes to Financial Statements—(Continued)

current costs represent estimates for existing assets, without regard to technological improvements and efficiencies which generally result from normal replacement. The current costs reported, while believed to be reasonable, are subjective and do not necessarily represent amounts for which the assets could be disposed.

In the accompanying data, the Statement of Income restates depreciation expense for general inflation and changes in specific prices. The effect of revaluing inventories on the supplementary Statement of Income is not material. No adjustment has been made to the actual provision for income taxes because FAS No. 33 does not permit the recognition of tax benefit arising from the pro forma effects of general inflation.

During periods of inflation, 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 is part of the overall effect of inflation on the Company's operations. However, since this gain does not represent a receipt of funds, it should not be considered as providing funds in the current period for distribution or reinvestment.

The unaudited supplementary data presented 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 the best representation of the impact of inflation upon the Company.

STATEMENT OF INCOME ADJUSTED FOR CHANGING PRICES

Years Ended December 31, 1981 and 1980
(in thousands of average 1981 dollars)

	1981	1980
Income before extraordinary gain	$80,518	$78,125
Adjustment to restate depreciation for the effect of general inflation	(6,955)	(5,950)
Income before extraordinary gain adjusted for general inflation	73,563	72,175
Adjustment to restate depreciation for the difference between general inflation and changes in specific prices (current cost)	(4,373)	(4,092)
Income before extraordinary gain adjusted for changes in specific prices	$69,190	$68,083
Gain from decline in purchasing power of net monetary liabilities	$ 5,214	$ 6,186
Increase in value of inventories and property, plant and equipment:		
Due to changes in current cost	$25,676	$16,286
Due to general inflation	18,265	20,685
Increase due to general inflation under (over) increase due to changes in current cost	$ 7,411	$(4,399)

At December 31, 1981 and 1980, the current cost of inventories was $10,218 and $10,992 respectively, and the current cost of net property, plant and equipment was $261,962 and $173,223, respectively.

FIVE-YEAR COMPARISON OF SELECTED SUPPLEMENTARY FINANCIAL DATA ADJUSTED FOR EFFECTS OF CHANGING PRICES

(Average 1981 dollars in thousands except per share data)

	1981	1980	1979	1978	1977
Net revenues	$573,784	$521,079	$519,853	$512,285	$459,472
CONSTANT DOLLAR INFORMATION:					
Income before extraordinary gain	$73,563	$72,175	$75,144		
Income per share before extraordinary gain	$5.59	$5.49	$5.52		
Net assets at year-end	$509,255	$451,640	$382,016		
CURRENT COST INFORMATION:					
Income before extraordinary gain	$69,190	$68,083	$70,483		
Income per share before extraordinary gain	$5.26	$5.18	$5.18		
Increase in value of inventories and property, plant, and equipment due to general inflation under (over) increase due to changes in current cost	$7,411	$(4,399)	$519		
Net assets at year-end	$517,150	$461,761	$406,974		
OTHER INFORMATION:					
Gain from decline in purchasing power of net monetary liabilities	$5,214	$6,186	$9,958		
Cash dividends per share	$0.20	$0.22	$0.25	$0.24	$0.15
Market price per share at year-end	$71.37	$61.93	$57.61	$53.20	$44.00
Average Consumer Price Index (1967=100)	272.4	246.8	217.4	195.4	181.5
HISTORICAL FINANCIAL INFORMATION *(Dollars in thousands except per share data):*					
Net revenues	$573,784	$472,108	$414,890	$367,476	$305,146
Income before extraordinary gain	$80,518	$70,783	$63,758	$54,033	$43,234
Income per share before extraordinary gain	$6.12	$5.38	$4.68	$3.80	$2.91
Net assets at year-end	$443,822	$359,081	$298,497	$259,691	$236,834
Cash dividends per share	$0.20	$0.20	$0.20	$0.175	$0.10
Market price per share at year-end	$73.75	$58.75	$48.63	$39.63	$30.00

Consolidated Notes to Financial Statements —(Continued)

15. QUARTERLY FINANCIAL DATA (Unaudited)

The results for each quarter of 1981 and 1980 are as follows (000's omitted except per share amounts):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
1981					
Net revenues	$122,912	$144,141	$143,579	$163,152	$573,784
Costs and expenses	92,502	98,156	106,405	117,535	414,598
Operating income	30,410	45,985	37,174	45,617	159,186
Interest expense	(993)	(890)	(4,612)	(3,438)	(9,933)
Interest and other income	2,137	1,906	1,102	620	5,765
Income before income taxes	31,554	47,001	33,664	42,799	155,018
Income taxes	15,200	22,700	16,200	20,400	74,500
Net income	$16,354	$ 24,301	$ 17,464	$ 22,399	$ 80,518
Net income per share	$1.25	$1.85	$1.32	$1.70	$6.12
1980					
Net revenues	$106,726	$120,502	$113,886	$130,994	$472,108
Costs and expenses	77,236	80,817	84,958	91,722	334,733
Operating income	29,490	39,685	28,928	39,272	137,375
Interest expense	(1,452)	(1,497)	(1,194)	(1,303)	(5,446)
Interest and other income	1,973	1,917	1,244	1,320	6,454
Income before income taxes	30,011	40,105	28,978	39,289	138,383
Income taxes	14,900	19,500	13,900	19,300	67,600
Income before extraordinary gain	15,111	20,605	15,078	19,989	70,783
Extraordinary gain, net of taxes	—	—	2,430	—	2,430
Net income	$ 15,111	$ 20,605	$ 17,508	$ 19,989	$ 73,213
Net income per share					
Income before extraordinary gain	$1.14	$1.57	$1.15	$1.52	$5.38
Extraordinary gain	—	—	.18	—	.18
Net income	$1.14	$1.57	$1.33	$1.52	$5.56

16. COMMON STOCK AND STOCKHOLDER INFORMATION (Unaudited)

Price Range	1981 High	1981 Low	1980 High	1980 Low
1st quarter	$69	$56½	$49¾	$40
2nd quarter	80½	68¼	54½	42
3rd quarter	77½	65⅜	72	51
4th quarter	79½	68	67¾	57

As of January 31, 1982, the approximate number of holders of common stock was 4,600. Dividends of $.05 per share have been paid every quarter for the last two years. For restrictions on the Company's ability to pay dividends, see Note 10 of Consolidated Notes to Financial Statements. The common stock is traded on the New York Stock Exchange.

ARTHUR YOUNG

ARTHUR YOUNG & COMPANY
277 PARK AVENUE
NEW YORK, NEW YORK 10172

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, 1981 and 1980, and the related consolidated statements of income, stockholders' equity and changes in financial position for each of the three years in the period ended December 31, 1981. 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, 1981 and 1980, and the consolidated results of operations and changes in financial position for each of the three years in the period ended December 31, 1981, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

Arthur Young & Company

February 26, 1982

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, 1981 **Commission file number 1-4278**

Capital Cities Communications, Inc.

(Exact name of registrant as specified in its charter)

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

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

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

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

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

The aggregate market value of the voting stock held by non-affiliates of the registrant is $885,600,000 as of March 1, 1982.

The number of shares outstanding of the issuer's common stock as of March 1, 1982: 13,026,368 shares, excluding 2,367,128 treasury shares.

Portions of Part I are incorporated herein by reference to the 1981 Annual Report to Shareholders and a definitive Proxy Statement for the annual meeting of shareholders on May 12, 1982.

Part II and Part IV, with the exception of certain schedules and exhibits, are incorporated herein by reference to the 1981 Annual Report to Shareholders.

Part III is incorporated herein by reference to a definitive Proxy Statement for the annual meeting of shareholders on May 12, 1982.

PART I

Item 1. *Business.*

Capital Cities Communications, Inc. (the "Company") has been engaged in radio broadcasting since 1947, in television broadcasting since 1953, in publishing since 1968 and in cable television since 1980. The Company has approximately 7,070 employees: 1,140 engaged in broadcasting operations, 730 engaged in cable television and 5,200 engaged in publishing.

Industry Segments

Information relating to the industry segments of the Company's operations is included on page 29 of the Company's Annual Report to Shareholders and is hereby incorporated by reference. The Company derives all broadcasting revenues and more than 80% of its publishing revenues from the sale of advertising. Subscription and other circulation receipts provide the balance of publishing revenues. The principal source of cable television revenues is the monthly service charges for basic and premium cable television services provided to subscribers. Other cable television revenues are derived from installation and reconnection charges.

Broadcasting

The Company presently owns and operates five high frequency (VHF) television stations, one ultra high frequency (UHF) television station, seven standard (AM) radio stations and seven frequency modulation (FM) radio stations. Market locations, frequencies, transmitter power and other station details are set forth below:

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, 1983
KTRK-TV .... Houston, Texas	13	Aug. 1, 1983	ABC	Apr. 2, 1983
WKBW-TV .... Buffalo, New York	7	June 1, 1984	ABC	July 2, 1983
WTNH-TV .... New Haven, Connecticut	8	Apr. 1, 1984(3)	ABC	Jan. 1, 1983
WTVD .... Durham, North Carolina	11	Dec. 1, 1986	CBS	Sept. 11, 1983
KFSN-TV .... Fresno, California	30	Dec. 1, 1983	CBS	Feb. 28, 1984

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	(2)	None
WJR Detroit, Michigan	760 K	50,000	Oct. 1, 1982	NBC(4)
WPAT Paterson, New Jersey (Metropolitan New York)	930 K	5,000	(2)	None
WBAP Fort Worth, Texas	820 K	50,000	Aug. 1, 1983	NBC(4)
WKBW Buffalo, New York	1520 K	50,000	June 1, 1984	None
WPRO Providence, Rhode Island	630 K	5,000	Apr. 1, 1984(3)	None
WROW Albany, New York	590 K	5,000 Day 1,000 Night	June 1, 1984	ABC(4)
WPAT-FM Paterson, New Jersey (Metropolitan New York)	93.1 M	12.5	June 1, 1984	None
WJR-FM Detroit, Michigan	96.3 M	50	Oct. 1, 1982	None(4)
KSCS-FM Fort Worth, Texas	96.3 M	100	Aug. 1, 1983	None(4)
WPRO-FM Providence, Rhode Island	92.3 M	39	(2)(3)	None
WROW-FM Albany, New York	95.5 M	8.3	June 1, 1984	None(4)
KZLA-FM Los Angeles, California	93.9 M	49	Dec. 1, 1983	None
WKHX-FM Marietta, Georgia (Metropolitan Atlanta)	101.5 M	100	Apr. 1, 1982(3)	None

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

(2) Regular renewal of the license of these stations has been delayed as described under *Renewal Matters* on page K-4 of this report.

(3) A petition for review of the grant of this station's most recent renewal application has been filed with the United States Court of Appeals for the District of Columbia Circuit. The FCC has filed a motion to dismiss on procedural grounds.

(4) Network affiliation agreements of WJR, WBAP, and WROW, expire on October 31, 1983, January 1, 1983, and January 7, 1984, respectively. The networks generally permit an FM station to duplicate programming covered under agreement with an associated AM station.

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. However, as discussed below, the FCC has initiated a proceeding which could result in the assignment of additional VHF channels to several of those cities.

There are sources of television service other than conventional television stations. The most common at present are cable television systems, also known as community antenna television systems ("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, have been modified by the FCC in ways intended to eliminate restrictions on CATV. 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 supply programming that is not available on conventional television stations. See "Licenses — Federal Regulation of Broadcasting — CATV and Other Television Services" for a discussion of CATV, pay cable and subscription television. See "Cable Television" for a description of the Company's cable television operations.

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 are granted for a maximum period of seven years, in the case of radio stations, and five years in the case of television stations, and are renewable upon application therefor. These new longer license periods were adopted in 1981 by the FCC and they will take effect in the case of each of the Company's stations at the time that their next renewal applications are granted. In 1981, WTVD was granted a five year 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.

On June 30, 1978, the New Jersey Coalition for Fair Broadcasting petitioned the Federal Communications Commission ("FCC") to deny the application for renewal of the licenses of WPVI-TV, Philadelphia. The Governor of New Jersey and the New Jersey Department of the Public Advocate filed petitions in support of the Coalition. Similar petitions were filed during 1978 with respect to most of the VHF television licensees in Philadelphia and New York. The petitions allege that the licensees have failed to fulfill special obligations to provide service to New Jersey that have been imposed by the FCC on the Philadelphia and New York City stations. The Company has opposed the petitions. The FCC decided that WPVI-TV has met its past New Jersey service commitments, but is considering whether those commitments should be expanded to include establishment of an office and news bureau in New Jersey. The Company has submitted to the FCC its proposal to establish an office and news bureau in Trenton. Action on the WPVI-TV renewal application has been deferred pending the FCC's consideration of the proposal and the response thereto by the Coalition, which criticizes the proposals in some respects.

The FCC has also initiated rulemaking to consider various ways in which television service generally to New Jersey may be increased, including adding six new UHF television channnel assignments to the State, waiver of existing subscription television rules to permit establishment of several over-the-air subscription stations in New Jersey, authorization of certain "low power" facilities to serve communities in the State, and possible transfer of one of the New York City VHF assignments to northern New Jersey. The Company cannot predict the outcome of these various proceedings involving New Jersey service, or their impact on WPVI-TV.

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.

On March 6, 1981, Anthony R. Martin-Trigona (Martin-Trigona) filed a "Petition to Deny Renewal of Broadcast Licenses" with respect to WTNH-TV, New Haven, Connecticut, and WPRO (AM and FM), Providence, Rhode Island, requesting that the Commission hold a hearing on a variety of charges before it granted Capital Cities' applications for renewal of those stations' licenses. The WTNH-TV renewal, which was granted by the FCC, has not been disturbed by the filing of the petition. On June 26, 1981, Martin-Trigona filed a "Petition to Deny Transfer of Control" with respect to the proposed assignment of the licenses for WBIE-FM, Marietta, Georgia, to the Company. In this document, Martin-Trigona purported to incorporate by reference the various charges contained in his March 6, 1981 pleading.

On July 23, 1981, the Commission's staff, acting pursuant to authority delegated under Commission rules, dismissed and denied Martin-Trigona's March 6, 1981 pleading. On November 3, 1981, the staff, again acting pursuant to delegated authority, denied Martin-Trigona's June 26, 1981 pleading.

On December 16, 1981, Martin-Trigona filed separate notices of appeal from the decisions dismissing and denying his petitions. The United States Court of Appeals for the District of Columbia Circuit consolidated both appeals on December 30, 1981. The Commission filed a motion to dismiss the consolidated appeals on January 12, 1982, on the ground, *inter alia*, that Martin-Trigona had failed to exhaust his administrative remedies before the Commission and thus that he could not seek judicial review of the staff's actions. Although management cannot predict the outcome of this appeal, it believes that the Court should grant the Commission's motion to dismiss.

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, seven 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. 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.

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. Finally, FCC rules also prohibit a television licensee from owning CATV systems in communities which are within the service contours of its television stations. Under these rules, the Company would generally be barred from making acquisitions or sales which would result in the creation of new combinations, or maintenance of existing combinations, inconsistent with the rules.

The Company presently owns one AM-VHF combination, WKBW-AM and WKBW-TV, Buffalo. In addition, the Company presently owns daily newspapers in two markets in which it also holds radio licenses. For purposes of these rules, *The Oakland Press* and WJR-AM and WJR-FM, licensed to Detroit, are treated as in the same market, as are the *Fort Worth Star-Telegram* and WBAP-AM and KSCS-FM, licensed to Fort Worth. Under the rules, therefore, these commonly owned broadcast and broadcast/newspaper combinations could not be transferred together. The Company owns certain CATV systems as described more fully in the section entitled "Cable Television" and controls Cablecom-General, Inc., a company with substantial CATV holdings. None of the Company's CATV systems violates the TV/CATV rules. However, the rules would prohibit the Company from acquiring CATV systems or franchises in communities within the service contours 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.

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.

CATV and Other Television Services

As previously noted, CATV can provide more competition to a television station by making additional signals available to its audience. FCC rules currently require CATV systems to carry the signals of the television stations in whose service areas they operate, and protect local network-affiliated stations' exclusive rights to broadcast network programming against the simultaneous broadcast of the programming on distant stations carried by CATV systems operating in their service areas.

The FCC has eliminated other rules restricting CATV importation of signals of distant non-network, independent stations into a market and its related rules protecting stations' rights to exclusive exhibition of syndicated programming in their markets. The FCC's decisions to eliminate these rules, will permit CATV systems operating in markets served by the Company's television stations to transmit into those markets signals of additional independent stations, as well as syndicated programming against which the stations could have claimed exclusivity protection under the former rules.

Some CATV systems supply 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 (premium or pay television). The FCC's rules do not place any restriction on the number of such premium services in a market. The FCC also permits an unlimited number of broadcast subscription television services (STV) in any market already served by at least four conventional television stations. FCC rules impose certain limitations on premium programming offered by STV stations but do not restrict similar programming offered by CATV systems. The Company cannot predict the future competitive impact of such premium services.

The FCC has taken other recent actions which offer the possibility of increased competition to conventional television stations. It has proposed to add a large number of additional VHF assignments to markets across the country, including a new channel to the Houston market served by KTRK-TV, ten new channels to the Fresno, California, market served by KFSN-TV, and two new channels to the Hartford market, served by WTNH-TV. Each new channel assignment or proposed assignment represents a potential new VHF station in the affected market. The FCC has also proposed rules facilitating direct broadcast satellite operations and has created a new service of low power television facilities to supplement existing conventional television broadcast service. The Company has applied for such low power facilities in Raleigh-Durham, Buffalo, Houston, Fresno and New Haven. The Company cannot predict what action the FCC will take on these applications, nor can it predict the competitive effect of this service.

Clear-Channel and Related Radio Proceedings

The FCC has rejected proposals to permit so-called clear-channel radio stations to increase their power and has decided to allow new radio stations to operate on the frequencies of such clear-channel stations, thereby reducing the range of clear-channel stations. WJR-AM and WBAP-AM both operate on clear channels. The Company is unable to predict the impact of the Commission's decision on the operation of WJR-AM or WBAP-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 the judicial proceedings.

In another action 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. This action would require, *inter alia,* some modifications of international treaties governing use of the ratio 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 is not able to 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. The Company is unable to predict the outcome of this proceeding or the effects on network-station relationships which any FCC action might have.

* * * * *

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 relating activities. For a complete statement of such provisions, reference is made to the Communication Act, to such rules and regulations and to such pending proposals.

Cable Television

At December 31, 1981, the Company had interests in 51 cable television systems serving 288,360 basic subscribers with 168,250 premium units. Cable television locations, ownership, number of basic subscribers and premium units and other details are set forth below:

Principal Community Served(1)	Percentage Owned by the Company	Number of Basic Subscribers	Number of Premium Units(2)	Estimated Dwelling Units Passed by Cable(3)	Number of Plant Miles
Arizona					
Clifton	100	2,480	1,780	2,690	40
Cottonwood	100	1,700	400	2,220	50
Globe	100	4,380	1,960	6,660	90
Holbrook	100	1,530	690	1,810	30
Page	100	1,350	1,110	1,500	20
Safford	100	4,450	1,470	5,230	110
Show Low	100	3,760	1,220	5,000	110
Winslow	100	2,550	1,050	2,740	40
California					
Burlingame (4)	100	—	—	12,000	80
Modesto	100	26,170	14,720	41,060	410
Oakdale	98.9	1,550	800	3,180	40
Santa Rosa	100	28,950	10,800	32,940	340
Illinois					
Highland Park (4)	80	480	1,210	16,080	190
Indiana					
Greenwood (4)	100	1,490	2,240	13,600	190
Iowa					
Sioux City	100	15,400	14,650	30,760	370
Kansas					
Abilene	100	2,590	770	3,160	30
Beloit	100	1,800	670	2,070	20
Clay Center	100	1,990	500	2,360	30
Concordia	100	2,450	700	3,060	30
Michigan					
Plymouth (4)	100	10,130	18,320	38,660	380
Saline (4)	100	1,250	2,000	9,630	110
Mississippi					
Clarksdale	100	6,590	1,710	8,260	70
Gulfport	100	11,090	4,300	15,700	180
Missouri					
Brookfield	100	2,330	520	2,560	40
Joplin	100	7,310	3,420	16,590	190
Kirksville	100	4,810	1,940	7,060	70
Trenton	50.4	2,680	660	3,050	50

Principal Community Served(1)	Percentage Owned by the Company	Number of Basic Subscribers	Number of Premium Units(2)	Estimated Dwelling Units Passed by Cable(3)	Number of Plant Miles
Nebraska					
Norfolk	100	4,460	4,480	8,640	110
New Mexico					
Rio Rancho (4)	80	890	1,070	4,500	90
Roswell	100	10,080	3,760	16,010	200
North Dakota					
Fargo	50	11,210	12,770	21,790	200
Ohio					
Green Township (4)	100	1,460	3,340	13,000	250
Oklahoma					
Altus	50.1	7,390	3,900	9,350	100
Ardmore	100	8,650	2,680	9,980	140
Hobart	100	1,950	540	2,210	30
Idabel	100	2,390	850	3,270	50
Mangum	100	1,640	360	2,020	30
Miami	100	3,750	1,930	7,050	90
Ponca City	100	11,440	5,170	14,230	170
Tennessee					
Dyersburg	100	4,580	1,330	5,630	60
Texas					
Aransas Pass (4)	80	3,220	5,970	7,200	110
Bonham	100	2,760	740	3,120	40
Childress	100	2,300	560	2,440	40
Denison	100	8,670	2,890	10,450	130
Lampasas	100	1,960	530	2,560	40
Lufkin	100	9,110	4,440	11,780	190
Memphis	100	1,210	310	1,520	20
Odessa	26	22,400	14,840	31,710	380
Port Lavaca	100	4,130	1,990	4,910	70
Sherman	100	10,280	3,910	12,950	140
Wellington	100	1,170	280	1,320	20
		288,360	168,250	497,270	6,010

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(1) Certain systems are comprised of more than one franchise and serve more than one community.

(2) A basic subscriber may subscribe to more than one premium service.

(3) A dwelling is deemed to be "passed by cable" if it can be connected by a drop without further extension of the distribution line.

(4) Systems under construction or not yet fully marketed. Number of dwelling units passed by cable and number of plant miles are estimated at completion for such systems.

A cable television system receives, amplifies and distributes to its subscribers television signals originating from local or distant television broadcasting stations. The signal may be received off-the-air by use of high antennas, by microwave relay or earth stations receiving satellite transmissions. The system may also distribute live, automated or other programs originated by the system or originated by other than a broadcasting station. The latter form of programming, for which a separate charge is made, is popularly called "premium service" or "pay cable".

Cable television systems operate in a highly competitive environment. They compete with the direct reception of broadcast television signals by the viewer's own antenna. The extent of such competition depends upon the quality and quantity of the broadcast signals being received by direct antenna reception as compared to the services rendered by such system. The systems also compete with translator stations and in varying degrees with other communication and entertainment media.

The Company is generally subject to the requirements of state and local governmental law and the interpretation thereof in the granting of a franchise and the operation of its systems. The franchises granted by local governmental authorities are typically nonexclusive, limited in time and generally contain various conditions and limitations relating to payment of fees to the local authority, determined generally as a percentage of revenues, limitations on installation and/or service charges, conditions of service, technical performance and various types of restrictions on transferability. Failure to comply with such conditions and limitations may give rise to rights of termination by the local governmental authority.

The cable television industry is subject to extensive regulation by the FCC, although the FCC has recently adopted proposals which eliminate many of its regulations concerning cable television. Existing FCC regulations contain detailed provisions concerning, among other things, television broadcast signals that may have to be carried by the cable system, carriage of distant additional signals, exclusivity of network and non-network programs, black-out of certain sporting events, technical standards, performance testing requirements, limitation on franchise fees (but not on service rates which are usually determined under local franchises), cross ownership of cable television systems and television broadcast stations and comprehensive annual reporting requirements. The FCC also has the authority, with certain limits, to regulate the rates charged by telephone and utility companies for the rental of poles used by cable television companies to attach their cable distribution network; however, the FCC's authority in this area may be preempted by any state which certifies to the FCC that it has the statutory authority to do so.

The FCC is considering proposals to remove the FCC limitation on the franchise fees which can be imposed by franchising authorities and to remove the FCC regulations which prohibit local authorities from regulating service rates for premium cable service. The removal of either such limitation could adversely affect the Company's cable television business. In the meantime, one Federal District Court has ruled that the limits on local franchising are unenforceable.

The FCC is constantly reviewing its rules, regulations and policies concerning the cable television industry. In addition, the Senate and House Communications Subcommittees are considering legislation that would also affect the industry. Any of such proposed laws, rules, regulations or policies could have a material adverse affect on the cable industry.

Publishing

The Company publishes 32 business and specialized publications, nine daily newspapers in seven markets, and a number of weekly community newspapers and pennysavers. Following is a summary by type of publication of inches or pages of advertising, advertising revenue and circulation revenue for the five years ending December 31, 1981 (000's omitted except pages of advertising):

	Actual					Pro Forma(a)	
	1981	1980	1979	1978	1977	1981	1980
Inches or pages of advertising							
Newspapers (inches)(b)	19,255	16,729	14,899	14,113	12,048	14,135	14,419
Specialized newspapers (inches)	1,906	1,764	1,725	1,550	1,488	1,777	1,742
Specialized magazines (pages)	6,364	5,889	4,562	5,211	5,337	5,382	5,172
Advertising revenue							
Newspapers(c)	$193,013	$168,631	$151,429	$132,118	$102,643	$178,825	$162,574
Specialized newspapers	80,153	67,402	60,955	52,338	45,785	76,999	66,519
Specialized magazines	13,762	11,827	9,681	10,680	10,320	12,627	11,223
Pennysavers	8,152	5,892	—	—	—	—	—
Circulation revenue							
Newspapers	$ 39,205	$ 30,179	$ 23,424	$ 21,965	$ 18,761	$ 32,708	$ 29,289
Specialized publications	15,966	13,915	12,644	10,999	10,985	15,281	13,555
Other operating revenue							
Newspapers	$ 3,028	$ 2,114	$ 1,321	$ 1,850	$ 1,484	$ 1,424	$ 1,424
Specialized publications	6,007	5,138	4,109	4,166	3,646	5,585	4,709
Total revenue							
Newspapers	$235,246	$200,924	$176,174	$155,933	$122,888	$212,957	$193,287
Specialized publications	115,888	98,282	87,389	78,183	70,736	110,492	96,006
Pennysavers	8,152	5,892	—	—	—	—	—

(a) Excludes 1981 and 1980 acquisitions and start-ups, and 1981 newspaper circulation revenue reclassification.

(b) Does not include inserts.

(c) Includes inserts.

Specialized Publications

The Specialized Publications Group 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
Fairchild Publications		
Newspapers		
Women's Wear Daily	Daily	63,000
Daily News Record	Daily	24,000
American Metal Market	Daily	16,000
HFD — Retailing Home Furnishings	Weekly	33,000
Energy User News	Weekly	17,000
Footwear News	Weekly	22,000
Supermarket News	Weekly	59,000
Electronic News	Weekly	70,000
Metalworking News	Weekly	31,000
MIS Week	Weekly	101,000(1)
Multichannel News	Weekly	12,000
W	Biweekly	200,000
SportStyle	Semimonthly	26,000(1)
Entrée	Monthly	14,000(1)
Magazines		
Men's Wear	Semimonthly	19,000
Metal/Center News	Monthly	12,000(1)
Home Fashions Textiles	Monthly	13,000(1)
Heat Treating	Monthly	20,000(1)
Electronics Retailing	Monthly	14,000(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	32,000(1)
Aches & Pains	Monthly	111,000(1)
Professional Press Group	Monthly	60,000

(1) Controlled circulation.

Daily Newspapers

		Year of Acquisition	Circulation(1) Daily	Sunday
The Oakland Press (Pontiac, Mich.)	Evening	1969	75,000	78,000
News-Democrat (Belleville, Ill.)	Afternoon	1972	40,000	44,000
Fort Worth Star-Telegram	Morning	1974	98,000	253,000
Fort Worth Star-Telegram	Evening	1974	126,000	
The Kansas City Times	Morning	1977	290,000	
The Kansas City Star	Evening	1977	245,000	399,000
The Wilkes-Barre Times Leader	All-day	1978	(2)	
Albany Democrat-Herald (Albany, Oregon)	Evening	1980	20,000	
The Daily Tidings (Ashland, Oregon)	Evening	1980	6,000	

(1) Total average paid circulation per the Audit Bureau of Circulation statement for the six months ended September 30, 1981.

(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.

Weekly Newspapers and Shopping Guides

The Company publishes weekly community newspapers and distributes pennysavers in six states. They include six weekly newspapers in Oregon, eleven in Connecticut, *The Arlington Citizen-Journal,* in Arlington, Texas and the *Highland News Leader,* in Highland, Illinois, with aggregate circulation of 42,000, 110,000, 41,000 and 10,000, respectively. Three pennysavers are distributed in Wichita and Topeka, Kansas, and in Springfield, Missouri, with an aggregate weekly circulation of 466,000.

In addition, the Company publishes, in Oregon, two magazines for stamp collectors with a combined circulation of 32,000.

Competition

The specialized publication 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 small-city or suburban papers carry business news. In addition to special magazines in the fields covered by these 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 Company's specialized publications.

The Company's newspapers and pennysavers compete with other advertising media such as broadcasting stations, magazines and billboards. Additionally, *The Oakland Press,* the *News-Democrat,* the *Citizen-Journal,* the *Gresham Outlook* (Oregon) and the *Shore Line* (Connecticut) newspapers 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 specialized 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	7	20%
Fort Worth Star-Telegram	6	37%
The Oakland Press	3	40%
News-Democrat	4	39%
The Arlington Citizen-Journal	5	70%
The Wilkes-Barre Times Leader	5	23%
Shore Line Newspapers	2	85%
Democrat-Herald Group	5	31%

Item 2. *Properties.*

The Company currently occupies executive offices at 24 East 51st Street in New York City under a lease expiring in 2011. 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. The editorial offices of the International Medical News Group are located in Rockville, Maryland and are also owned by the Company. 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, WKHX-FM, WPAT-FM, WJR-FM, and KZLA-FM, which are occupied under leases expiring at various dates through 1997. All broadcast studios and offices are owned except those in Albany, Detroit, New Haven and Buffalo (WKBW-AM), which are occupied under leases expiring at various dates through 1993.

The Company's Cable Television Division executive offices are located in Bloomfield Hills, Michigan under a lease expiring in 1985. In addition, the Cable Television Division leases other office space, warehouse and tower sites under terms ranging from month to month or expiring in 2010.

Item 3. *Legal Proceedings.*

The following constitute pending legal proceedings, other than ordinary routine litigation incidental to the business, to which the Company 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 Company.

On or about January 13, 1975, an action was commenced against The Kansas City Star Company (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 the Company in February 1977. On October 27, 1977, the Court issued a preliminary injunction prohibiting the Star from terminating its carriers as part of its proposed conversion to a direct distribution system utilizing independent delivery agents. Following further hearings, the Court found that the proposed terminations would violate Section 2 of the Sherman Act. A permanent injunction has recently been issued, and the case has been appealed to the U.S. Court of Appeals for the Sixth Circuit where it currently awaits decision. The District Court has recently awarded plaintiffs' counsel fees and disbursements of approximately $2,900,000. The Star intends to file an appeal from this award; in any event, the award would be vacated should the case be reversed on its merits by the Court of Appeals.

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 the Company 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 appeal in the Paschall case.

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 appeal 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 the Company 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 4. *Security Ownership of Certain Beneficial Owners and Management.*

Incorporated herein by reference to page 2 of the Company's definitive Proxy Statement for the annual meeting of shareholders on May 12, 1982.

Executive Officers of the Company

Name	Age	Director since	Officer since	Title
Thomas S. Murphy	56	1957	1958	Chairman of the Board of Directors and Chief Executive Officer
Daniel B. Burke	53	1967	1962	President, Director and Chief Operating Officer
Joseph P. Dougherty	57	1967	1959	Executive Vice President, President of Broadcasting Division and Director
John B. Fairchild	55	1968	1968	Executive Vice President, Chairman of the Board of Fairchild Publications and Director
John B. Sias	55	1977	1975	Executive Vice President, President of Publishing Division and Director
William R. James	48		1969	Senior Vice President and President of Cable Television Division
Robert K. King	53		1962	Senior Vice President
Ronald J. Doerfler	40		1977	Vice President and Chief Financial Officer
Andrew E. Jackson	47		1971	Vice President
Gerald Dickler	69	1954	1954	Secretary and Director
Robert W. Gelles	58		1963	Treasurer and Assistant Secretary
Allan J. Edelson	39		1981	Controller

All officers have been actively associated with the Company for more than five years with the exception of Mr. Edelson, and for all except Mr. Dickler such association has been their principal occupation. Mr. Edelson had been with Arthur Young & Company prior to joining the Company in 1980. Mr. Dickler 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. There is no relationship by blood, marriage, or adoption, not more remote than first cousin, among them. All officers hold office at the pleasure of the Board of Directors.

PART II

Item 5. *Market for the Registrant's Common Stock and Related Security Holder Matters.*

The information called for by this item is included on page 41 of the 1981 Annual Report to Shareholders and is incorporated herein by reference.

Item 6. *Selected Financial Data.*

The information called for by this item is included on page 26 of the 1981 Annual Report to Shareholders and is incorporated herein by reference.

Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations.*

The information called for by this item is included on page 27 of the 1981 Annual Report to Shareholders and is incorporated herein by reference.

Item 8. *Financial Statements and Supplementary Data.*

The information called for by this item is included on pages 30 through 41 of the 1981 Annual Report to Shareholders and is incorporated herein by reference.

PART III

Item 9. *Directors and Executive Officers of the Registrant.*

Incorporated herein by reference to pages 1 and 2 of the Company's definitive proxy statement for the annual meeting of shareholders on May 12, 1982. Information concerning the executive officers is included in Part I, on page K-16.

Item 10. *Management Remuneration and Transactions.*

Incorporated herein by reference to pages 3 through 7 of the Company's definitive proxy statement for the annual meeting of shareholders on May 12, 1982.

PART IV

Item 11. *Exhibits, Financial Statement Schedules and Reports on Form 8-K.*

(a) 1. *Financial statements and financial statement schedules*

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

2. *Exhibits*

The exhibits listed on the accompanying index to exhibits are filed as part of this annual report.

(b) Reports on Form 8-K.

None filed during Fourth Quarter 1981.

CAPITAL CITIES COMMUNICATIONS, INC.

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

(Item 11(a)1.)

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

Financial statements and schedules of Capital Cities Communications, Inc. (not consolidated) are omitted since the Company is primarily an operating company, and subsidiaries included in the consolidated financial statements in the aggregate, do not have minority interests and 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 which are included in the Annual Report to Shareholders for the year ended December 31, 1981, are hereby incorporated by reference. With the exception of the Items referred to in Items 1, 5, 6 and 7, the 1981 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. for the year ended December 31, 1981 of our report dated February 26, 1982 included in the 1981 Annual Report to Shareholders of Capital Cities Communications, Inc.

We also consent to the addition of the financial statement schedules listed in the accompanying index to financial statements and financial statement schedules to the financial statements covered by our report dated February 26, 1982 incorporated herein by reference.

We also consent to the incorporation by reference in the Registration Statements Form S-8 No. 2-58945 for the registration of 630,067 shares and Form S-8 No. 2-59014 for the registration of 287,195 shares of its common stock and in the related Prospectuses of our report dated February 26, 1982 with respect to the financial statements and schedules of Capital Cities Communications, Inc. incorporated by reference in this Annual Report on Form 10-K for the year ended December 31, 1981.

Arthur Young & Company

ARTHUR YOUNG & COMPANY

New York, New York
February 26, 1982

CAPITAL CITIES COMMUNICATIONS, INC.

Index to Exhibits (Item 11(a)2.)

(11) Computation of per share earnings is included on page 26 of the 1981 Annual Report to Shareholders and is incorporated herein by reference.

(13) The Company's 1981 Annual Report to Shareholders. (This report, except for the portions thereof which are incorporated by reference in this Form 10-K, is furnished for the information of the Securities and Exchange Commission and is not to be deemed "filed" as part of this Form 10-K.)

(22) Subsidiaries of the Company.

SCHEDULE V — PROPERTY, PLANT AND EQUIPMENT

(Thousands of Dollars)

	Balance at beginning of period	Additions at cost: Operating companies acquired	Additions at cost: Other	Retirement or sales	Other changes — reclassification(a)	Balance at close of period
Year ended December 31, 1981:						
Land and improvements	$ 14,452	$ 635	$ 464	$ (21)	$ 682	$ 16,212
Buildings and improvements	46,472	1,264	8,105	(741)	1,421	56,521
Broadcasting equipment	40,157	44	4,786	(263)		44,724
Printing machinery and equipment	60,847	156	5,522	(2,890)	(1,009)	62,626
Cable television distribution systems and equipment	2,541	41,635	26,222	(248)		70,150
Other, including construction-in-progress	21,241	7,879	3,535	(714)	238	32,179
	$185,710	$51,613	$48,634	$(4,877)	$ 1,332	$282,412
Year ended December 31, 1980:						
Land and improvements	$ 12,652	$ 709	$ 1,091	$ —		$ 14,452
Buildings and improvements	43,478	1,555	1,542	(103)		46,472
Broadcasting equipment	35,962	—	5,186	(991)		40,157
Printing machinery and equipment	53,794	4,203	4,014	(1,164)		60,847
Cable television distribution systems and equipment	—	—	2,541	—		2,541
Other, including construction-in-progress	12,057	489	9,237	(542)		21,241
	$157,943	$ 6,956	$23,611	$(2,800)		$185,710
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, including construction-in-progress	11,360		854	(157)		12,057
	$142,543		$18,178	$(2,778)		$157,943

(a) Represents, in 1981, final adjustments to the purchase price allocation of the 1980 acquisition of the Democrat-Herald Publishing Company.

Depreciation is generally provided on a straight-line basis over the estimated useful lives; buildings and improvements — 10 to 50 years; broadcasting equipment — 4 to 8 years; printing machinery and equipment — 5 to 10 years; cable television distribution systems — 10 years.

CAPITAL CITIES COMMUNICATIONS, INC.

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

(Thousands of Dollars)

	Balance at beginning of period	Charged to income	Retirements or sales	Other changes — reclassification(A)	Balance at close of period
Year ended December 31, 1981:					
Land and improvements	$ 497	$ 44	$ —	$ (3)	$ 538
Buildings and improvements	19,100	1,828	(675)	(56)	20,197
Broadcasting equipment	23,964	3,768	(216)		27,516
Printing machinery and equipment	35,360	5,359	(2,474)	(258)	37,987
Cable television distribution systems and equipment	34	3,274	(507)		2,801
Other	6,537	1,851	(608)	(35)	7,745
	$85,492	$16,124	$(4,480)	$ (352)	$96,784
Year ended December 31, 1980:					
Land and improvements	$ 443	$ 54	$ —		$ 497
Buildings and improvements	17,591	1,595	(86)		19,100
Broadcasting equipment	21,454	3,420	(910)		23,964
Printing machinery and equipment	31,224	5,056	(920)		35,360
Cable television distribution systems and equipment	—	34	—		34
Other	5,622	1,308	(393)		6,537
	$76,334	$11,467	$(2,309)		$85,492
Year ended December 31, 1979:					
Land and 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

(a) Represents, in 1981, final adjustments to the purchase price allocation of the 1980 acquisition of the Democrat-Herald Publishing Company.

SCHEDULE VIII — VALUATION AND QUALIFYING ACCOUNTS

(Thousands of Dollars)

	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, 1981	$3,899	$5,189	$(4,174)	$4,914
Year Ended December 31, 1980	$3,282	$3,929	$(3,312)	$3,899
Year Ended December 31, 1979	$2,429	$3,150	$(2,297)	$3,282

(A) Accounts written-off, net.

SIGNATURES

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)

/s/ GERALD DICKLER
Gerald Dickler, Secretary

March 15, 1982

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

Principal Executive Officer:

/s/ THOMAS S. MURPHY (Thomas S. Murphy)	March 15, 1982

Principal Financial Officer:

/s/ RONALD J. DOERFLER (Ronald J. Doerfler)	March 15, 1982

Controller:

/s/ ALLAN J. EDELSON (Allan J. Edelson)	March 15, 1982

Directors:

/s/ DANIEL B. BURKE (Daniel B. Burke)	March 15, 1982
/s/ AMON G. CARTER, JR. (Amon G. Carter, Jr.)	March 15, 1982
/s/ GERALD DICKLER (Gerald Dickler)	March 15, 1982
/s/ JOSEPH P. DOUGHERTY (Joseph P. Dougherty)	March 15, 1982
/s/ JOHN B. FAIRCHILD (John B. Fairchild)	March 15, 1982
/s/ WILLIAM S. LASDON (William S. Lasdon)	March 15, 1982
/s/ THOMAS S. MURPHY (Thomas S. Murphy)	March 15, 1982
/s/ JOHN H. MULLER, JR. (John H. Muller, Jr.)	March 15, 1982
/s/ JOHN B. SIAS (John B. Sias)	March 15, 1982
/s/ WILLIAM I. SPENCER (William I. Spencer)	March 15, 1982

Capital Cities: A Brief Chronology

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

1979 • Start-up of *Home Fashions Textiles*, a monthly magazine for the textile industry, and *Entrée*, a monthly newspaper for the gourmet cooking and housewares trade.

1980 • Company enters the cable television business by acquiring seven companies with unbuilt franchises in six states.
• Purchase of the Democrat-Herald Publishing Company, publisher of two daily newspapers and six weekly newspapers in Oregon, and two national stamp publications.
• Purchase of Pennypower Shopping News, Inc., publisher of weekly shopping guides in Wichita and Topeka, Kansas, and in Springfield, Missouri.
• Purchase of Shore Line Newspapers, Inc., publisher of nine weekly newspapers and shopping guides in Connecticut.
• Start-up of specialized publications: *MIS Week*, a weekly newspaper for the management information systems industry; *Multichannel News*, a weekly newspaper for the cable television industry; and *Aches & Pains*, a monthly clinical medical magazine.

1981 • Purchase of Cablecom-General, Inc., a major cable television operator with 43 systems.
• Purchase of radio station WKHX-FM, Marietta (Atlanta), Georgia.

SIGNATURES

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)

Gerald Dickler, Secretary

March 15, 1982

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

Principal Executive Officer:

(Thomas S. Murphy)	March 15, 1982

Principal Financial Officer:

(Ronald J. Doerfler)	March 15, 1982

Controller:

(Allan J. Edelson)	March 15, 1982

Directors:

(Daniel B. Burke)	March 15, 1982
(Amon G. Carter, Jr.)	March 15, 1982
(Gerald Dickler)	March 15, 1982
(Joseph P. Dougherty)	March 15, 1982
(John B. Fairchild)	March 15, 1982
(William S. Lasdon)	March 15, 1982
(Thomas S. Murphy)	March 15, 1982
(John H. Muller, Jr.)	March 15, 1982
(John B. Sias)	March 15, 1982
(William I. Spencer)	March 15, 1982

CAPITAL CITIES COMMUNICATIONS, INC.
24 EAST 51ST STREET · NEW YORK, N.Y. 10022

421-9595
AREA CODE 212

Subsidiaries of the Registrant

The following subsidiaries are owned by the Registrant at December 31, 1981 and are included in the consolidated financial statements:

	State of Incorporation	% of Ownership
Oakland Press Company	Michigan	100%
The Kansas City Star Company	Missouri	100%
Capital Cities Media, Inc.	New York	100%
Capital Cities Cable of Delaware, Inc.	Delaware	90%
Cablecom-General, Inc.	Oklahoma	100%

The names of certain subsidiaries are omitted from the above list; such subsidiaries, considered in the aggregate as a single subsidiary, would not constitute a significant subsidiary.

Exhibit (22)

Board of Directors

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

DANIEL B. BURKE
President and Chief Operating Officer

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

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 and Chairman of the Executive Committee, Warner-Lambert Company

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

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

WILLIAM I. SPENCER
President and Chief Administrative Officer, Citicorp and Citibank

Corporate Officers

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

DANIEL B. BURKE
President and Chief Operating Officer

JOSEPH P. DOUGHERTY
Executive Vice President

JOHN B. FAIRCHILD
Executive Vice President

JOHN B. SIAS
Executive Vice President

WILLIAM R. JAMES
Senior Vice President

ROBERT K. KING
Senior Vice President

RONALD J. DOERFLER
Vice President and Chief Financial Officer

ANDREW E. JACKSON
Vice President

ROBERT W. GELLES
Treasurer

GERALD DICKLER
Secretary

ALLAN J. EDELSON
Controller

Transfer Agent and Registrar

Chemical Bank
55 Water Street
New York, New York 10041

Executive Offices

24 East 51st Street
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 (Symbol: CCB)

END