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CAPITAL CITIES ABC INC 10-K

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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															
☐ Name	A	A	■				■	A	A		A	A	■	A	
☐ Opinion	A	A	■						A			A		A	
☐ Changes				A			■								
Compensation Plans															
☐ Equity	■		■				F	F	A		F		■	■	
☐ Monetary	■		■					F	A		F		■		
Company Information															
☐ Nature of Business	A	A				F		A	A		A	■	■		
☐ History	F	A						A			A	■	■		
☐ Organization and Change	F	F		A	■	F	■	A		F	A	■			
Debt Structure	A					F	■	A	A		A	A		A	
Depreciation & Other Schedules	A	A				F		A	A		A				
Dilution Factors	A	A		F		F		A	A		A	A			
Directors, Officers, Insiders															
☐ Identification	F	A				F	A	A	A		A	F			
☐ Background	■	A				F	F	A	■		A	■			
☐ Holdings	■	A		■			A	A	A		A				
☐ Compensation	■	A		■			A	A	A		A				
Earnings Per Share	A	A	A			F			A			A		A	
Financial Information															
☐ Annual Audited	A	A							A			A		A	
☐ Interim Audited		A					■	■			■				
☐ Interim Unaudited	■		A	■		F		F			F				
Foreign Operations	A						■	A	A		A	■	F		
Labor Contracts		■		■			■		F		F				
Legal Agreements	F	■		■					F		F				
Legal Counsel				■				A			A		■		
Loan Agreements	F		F	■			■		F		F			■	
Plants and Properties	A	F		■				F	A		F	■			
Portfolio Operations															
☐ Content (Listing of Securities)															A
☐ Management														A	
Product-Line Breakout	A							A			A	■			
Securities Structure	A	A			■			A	A		A				
Subsidiaries	A	A					■	A	A		A	■	■		
Underwriting				■				A	A		A				
Unregistered Securities	■			■			■	F			F				
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
Exhibits	F		F	F	F	F

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Capital Cities/ABC, Inc.

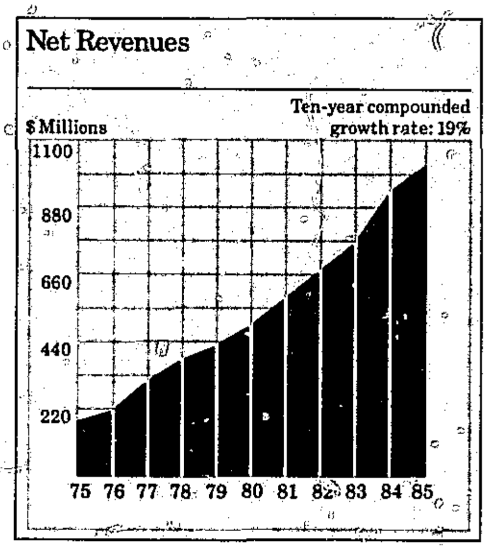
ANNUAL REPORT AND FORM 10-K

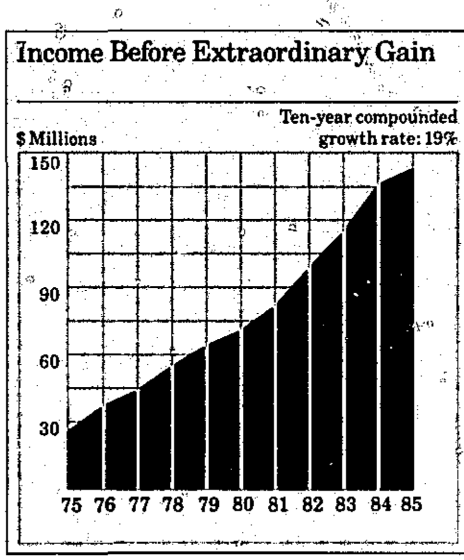
Decentralization is the cornerstone of our management philosophy. Our goal is to hire the best people we can possibly find and give them the responsibility and authority they need to perform their jobs. All decisions are made at the local level, consistent with the basic legal and moral responsibilities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

On January 3, 1986, Capital Cities Communications, Inc., acquired American Broadcasting Companies, Inc., and the Company's name was changed to Capital Cities/ABC, Inc.

Operating Highlights

	1985	1984
Net revenues	$1,020,880,000	$939,722,000
Operating income	$ 277,501,000	$267,512,000
Income before extraordinary gain	$ 142,222,000	$135,193,000
Income per share before extraordinary gain	$10.87	$10.40
Return on equity (before extraordinary gain)	17.5%	19.9%





To Our Shareholders

The year 1985 was surely the most significant in the thirty-one-year history of Capital Cities Communications, Inc. On March 18, 1985, announcement was made of an agreement whereby American Broadcasting Companies, Inc., would be acquired by Capital Cities for $3,520,000,000. On January 3, 1986, the transaction was completed through a merger between ABC and a subsidiary of Capital Cities, and the Company's name was changed to Capital Cities/ABC, Inc. The combined company emerged as one of the largest all-media companies in the United States.

The management and Board of Directors of Capital Cities believe that the acquisition of ABC represents a unique opportunity for the Company to accelerate its growth in the broadcasting industry, while at the same time providing an opportunity to safely leverage upward its stockholders' equity for the long-term advantage of its shareholders. Despite concerns about the current slowdown in the growth of network advertising and the level of prime-time ratings at the ABC Television Network, management at Capital Cities believes that the acquisition of ABC will, over the longer term, result in superior rates of growth for the Company and greater returns to its shareholders. We will discuss the opportunities and concerns in more depth in later sections of this report.

Capital Cities and ABC have long enjoyed close and mutually beneficial business relationships. At the time the proposed merger was announced, the four largest Capital Cities' television stations had been affiliated with the ABC Television Network for over fifteen years, and in 1985 delivered together an average of 7 percent of the daily prime-time audience of the network. Combining the two companies was made possible by a change in the Federal Communications Commission's rules pertaining to television station ownership. The former rule had limited one owner to seven television stations (only five of which could be VHF); the new rule allows a single entity to own or control as many as twelve television stations, provided they do not in the aggregate reach more than 25 percent of television households in the United States. Compliance with this new standard and other FCC regulations required that Capital Cities and ABC sell four television stations before the merger was completed. The FCC rule prohibiting cable television system ownership by television networks necessitated the sale of the Company's Cable Television Division. Long-standing FCC regulations regarding ownership of multiple media operations in the same market required the sale of eight radio stations and a daily newspaper.

The proceeds from these dispositions, which were accomplished just prior to the closing of the merger, yielded approximately $920,000,000 after related taxes are paid in 1986. The remainder of the purchase price, approximately $2,600,000,000, was financed by: $250,000,000 in available cash of Capital Cities; $1,375,000,000 in long-term debt at an average interest rate of 10.2 percent; $517,500,000 in new equity through the sale of 3,000,000 shares of common stock to Berkshire Hathaway Inc.; issuance of $100,000,000 in warrants (to acquire up to 2,900,000 shares of the Company's common stock at $250 per share); and the balance through the sale of commercial paper.

In 1985, Capital Cities attained record net revenues and earnings, but the increases were modest. Net revenues exceeded $1 billion for the first time in the Company's thirty-one-year history, reaching $1,020,880,000, a 9 percent gain over 1984. Net income in 1985 was $142,222,000, a 5 percent increase over the $135,193,000 earned a year earlier (before extraordinary gain). Earnings per share for 1985 of $10.87 also increased 5 percent over the $10.40 reported in 1984 (before extraordinary gain).

Results in 1985 for American Broadcasting Companies, Inc., declined from the record levels achieved in 1984. Net revenues for 1985 were $3,298,475,000, a 10 percent decrease from 1984, while net income of $158,441,000 declined 19 percent from the $195,332,000 earned in 1984. Earnings per share in 1985 were $5.51, an 18 percent decrease from 1984.

Operating results for both Capital Cities and ABC during 1985 are of particular interest because they foreshadow the problems and opportunities that await Capital Cities/ABC, Inc., in 1986 and the years beyond. Both companies enjoyed record years in 1984, when results were enhanced significantly by ABC telecasts of the Winter Olympics in Sarajevo and the Summer Olympics in Los Angeles. The 1985 plans for both Capital Cities and ABC took into account that difficult comparisons would result in the first and third quarters from the absence of the Olympics; however, neither company correctly forecast the degree of weakness in the demand for national advertising, especially television network and certain categories of publishing. Radio network and station operations proved favorable exceptions.

Segment results for 1985 for Capital Cities and for ABC are summarized below:

(Dollars in millions)	1985	1984	Percent change
Capital Cities			
Net revenues			
Broadcasting	$ 293.7	$ 271.8	8 %
Publishing	642.6	591.6	9 %
Cable Television	84.6	76.3	11 %
Total	$1,020.9	$ 939.7	9 %
Operating income			
Broadcasting	$ 145.8	$ 141.6	3 %
Publishing	138.5	133.2	4 %
Cable Television	5.2	2.6	100 %
Total operations	289.5	277.4	4 %
Corporate G&A	12.0	9.9	21 %
Total	$ 277.5	$ 267.5	4 %
ABC*			
Net revenues			
Broadcasting	$2,847.4	$3,304.3	(14)%
Publishing	322.1	316.2	2 %
Other	129.0	64.3	101 %
Total	$3,298.5	$3,684.8	(10) %
Operating income			
Broadcasting	$ 340.8	$ 427.8	(20) %
Publishing	35.5	34.2	4 %
Other	(17.3)	(44.6)	NA
Total operations	359.0	417.4	(14)%
Corporate G&A	58.2	39.6	47 %
Total	$ 300.8	$ 377.8	(20)%

*Excludes discontinued operations. Amounts reclassified to conform to Capital Cities' presentation.

While television and radio stations, as well as publishing operations, at both Capital Cities and ABC achieved moderately favorable results in 1985—a year of modest revenue growth—there were problems at the ABC Television Network beyond the absence of revenues, ratings, and profits from the Olympics.

The alternatives for viewers and for advertisers using the ABC, CBS and NBC networks have increased as independent, non-network-affiliated stations and modern multichannel cable systems have become available to more and more television homes. As recently as the fall of 1981, these three television networks accounted for approximately 87 percent of all prime-time viewing; for the same period in 1985, their combined shares had fallen to 77 percent. This general trend has put downward pressure on the revenues of all three commercial networks, and at the same time, the emergence of new competition has forced upward the cost of sports, entertainment and even news programming. Partially offsetting these concerns is the perceptible slowdown in the decline in network audience share. Audience levels in the fall of 1985 increased for the three networks combined versus the same period a year earlier. Moreover, since the number of television homes increases each year (current annual growth is 1.2 percent) and the average household keeps adding television sets and viewing time, the networks' audience share is of an increasing number of viewers. Overall, we believe that network revenue and profit prospects will be favorable into the future.

Of more specific and immediate concern is the fact that, during the last two years, audience shares for the ABC Television Network have fallen below acceptable levels in the very important prime evening viewing hours. The same leverage which makes television such an attractive business when audiences are large and growing causes precipitous declines in earnings when expensive programming does not appeal to adequate numbers of viewers. Network success has tended to be cyclical over the years, and we are confident that the ABC Television Network will recover its momentum in the years ahead. We expect, however, that this recovery will take several years and will be both difficult and expensive. We and all of our colleagues in the newly combined company are totally committed to an ABC Television Network that is strong and competitive in all dayparts. It is important to note that, despite its current third-place standing in prime-time ratings, ABC continues to enjoy very solid audience positions in early morning, daytime, and news.

While the vitality and profitability of the ABC Television Network are, and should be, the major concern at this time, the strength and potential of the rest of the Company's media holdings should be stressed. These properties, which are currently in the forefront of industry profitability, also offer excellent growth opportunities for the future.

- **Television stations**—Eight affiliates of the ABC Television Network capable of reaching just under 25 percent of all television homes and serving markets which represent 26 percent of retail buying in the United States. At the present time, all of these stations are rated either first or second in their markets in local news and from sign-on to sign-off.

- **Radio stations and networks**—Nine AM and eight FM stations serving nine markets, including seven of the ten largest radio markets in the United States; and seven radio networks, with over 1,900 affiliated radio stations. Radio operations of the two companies generated larger 1985 earnings than those of any other radio group in the United States. Both Capital Cities and ABC have had long and successful histories in radio, and we have great confidence in its future.

- **Satellite-delivered program services for cable television**—Thanks to the foresight of ABC, the Company is well positioned—as owners of 80 percent of ESPN, 38 percent of Arts & Entertainment, and 33⅓ percent of Lifetime—to take full advantage of continuing growth of viewer and advertiser interest in these services.

- **Publishing**—The broad assortment of daily and weekly newspapers, weekly and monthly consumer and business publications, special purpose newsletters and book publishing activities represents a very strong and growing segment of the Company.

Following the completion of the acquisition, there has been a major reassignment of responsibilities at the executive management level of the combined Company:

- John B. Sias, who was President of Capital Cities Publishing Division, is now President of the ABC Network Division.
- Michael P. Mallardi, who was Executive Vice President of ABC, is now President of the Broadcasting Division.
- Phillip J. Meek, President and Publisher of the *Fort Worth Star-Telegram,* is now, in addition, President of the Publishing Division.
- Ronald J. Doerfler, who was Senior Vice President and Chief Financial Officer of Capital Cities, continues in that position for the combined Company.
- Stephen A. Weiswasser, who was a partner at Wilmer, Cutler & Pickering, Capital Cities' communications counsel, joined the Company as Senior Vice President and General Counsel.

We are pleased to welcome to the Board of Directors of Capital Cities/ABC, Inc., Warren E. Buffett, Chairman of the Board of Berkshire Hathaway Inc., and the following seven former Directors of American Broadcasting Companies, Inc.:

- Frank T. Cary, former Chairman of the Board, International Business Machines Corporation
- Leonard H. Goldenson, retired Chairman of the Board, American Broadcasting Companies, Inc., and Chairman of the Executive Committee of Capital Cities/ABC, Inc.
- Alan Greenspan, President and Chairman of the Board, Townsend-Greenspan & Company, Inc.

- Leon Hess, Chairman of the Board, Amerada Hess Corporation
- George P. Jenkins, Consultant to W. R. Grace & Co., and retired Chairman, Metropolitan Life Insurance Company
- Thomas M. Macioce, Chairman of the Board and Chief Executive Officer, Allied Stores Corporation
- Frederick S. Pierce, former President and Chief Operating Officer of American Broadcasting Companies, Inc., and Consultant to Capital Cities/ABC, Inc.

We see the following priorities for Capital Cities/ABC in 1986 and ensuing years as being consistent with our continuing obligations to provide the highest level of service to our viewers, listeners, subscribers and advertisers, and to maximize return for the stockholders of Capital Cities/ABC:

- Completion of the combination of the two companies into a single entity which can operate with maximum efficiency and competitiveness in a working environment which is even-handed, stimulating and rewarding for employees.
- Restoration of prime-time audience levels for the ABC Television Network to at least parity with CBS and NBC.
- Continuance of excellence in news and information programming at both the ABC Television Network and the Company's other broadcasting and publishing operations.
- Maintenance, and where possible enhancement, of the franchises of all of the broadcasting and publishing properties owned by Capital Cities/ABC.
- Encouragement of new ideas and concepts which can result in improved or new programs, formats, and products.
- Continued search for affordable acquisitions which will strengthen the Company's current operations.

We would like to close this letter to you by expressing our complete confidence in the future of Capital Cities/ABC. Two outstanding media companies are rapidly coming together, and the benefits and great potential of the merger are becoming increasingly apparent.

Although it is clear that 1986 will be a difficult year, with earnings likely to be unfavorable compared to Capital Cities' results for 1985, we believe that the businesses in which the combined Company is engaged are excellent, and its individual operations are, for the most part, in fine shape competitively. The debt which the Company has undertaken is conservative and manageable, both in terms of size relative to earning power and in terms of length of maturity. Capital Cities/ABC has all of the organizational experience and enthusiasm it will need to take full advantage of its exciting prospects.

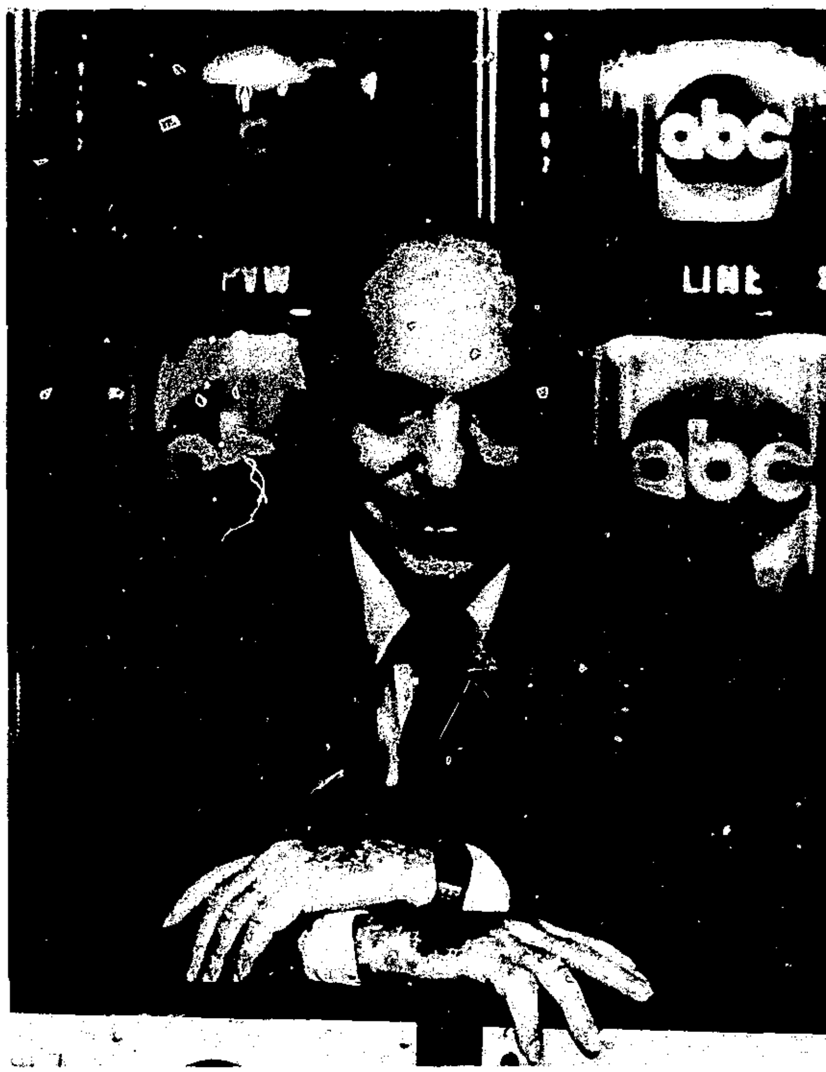
We appreciate your continuing support and look forward to providing you with updates on the Company's progress in the months and years ahead.

Thomas S. Murphy

THOMAS S. MURPHY
Chairman

Daniel B Burke

DANIEL B. BURKE
President



The retirement of Leonard H. Goldenson as Chairman and Chief Executive Officer of American Broadcasting Companies, Inc., marks the passing of an era.

He is one of the triumvirate of pioneers who founded the American television network system and shaped it to its present form. Leonard Goldenson guided ABC from its first days as a fledgling broadcast network through more than thirty years as chief executive—the only job with the company he ever held.

Under his leadership, ABC grew to become a powerful force in broadcasting, an advertising medium vital to the nation's economy and a significant part of American life. He built a competitive and imaginative company with the resources to meet the challenges of a dynamic environment.

But the legacy of Leonard Goldenson is more than the contribution of an important business. He is a visionary who saw beyond television's novelty and recognized its potential as the most powerful medium of communications in history. Leonard Goldenson's role in realizing that promise is an enduring achievement.

Broadcasting Division

Although Capital Cities' Broadcasting Division once again achieved record levels of revenues and operating income in 1985, the gains for the year were modest. Net revenues increased 8 percent to $293,717,000, while operating income was up 3 percent to $145,764,000. Excluding a 1984 television acquisition, net revenues increased 5 percent. The largest percentage increases in revenues were posted by our television stations in New Haven-Hartford and Durham-Raleigh, and by our radio stations in Los Angeles and Detroit. Adverse local economic conditions in Houston and Fresno negatively impacted our television stations in those markets. Excluding the 1984 television station acquisition, operating costs of the Broadcasting Division in 1985 increased by 8 percent over 1984.

Television

A direct comparison of 1985 revenues to the prior year is complicated by the significant infusion of Olympics and political advertising dollars in 1984. The Winter and Summer Olympics, broadcast on our four ABC-affiliated stations, along with local and national elections, generated almost $15,000,000 of incremental advertising revenues in 1984, or approximately 7 percent of our total net television revenues for that year. Replacing such a significant amount of business was a difficult task, especially in a low-inflation environment.

Competition for television advertising dollars continues to intensify, with growing challenges from independent stations, barter syndicators, and cable television. These newer rivals are obtaining an increasing portion of advertising dollars that were formerly the exclusive domain of network affiliates.

The number of independent television stations has dramatically increased—from 120 in 1980 to 283 in 1985. During the same period, their gross advertising revenues have also more than doubled, reaching an estimated $2,500,000,000 in 1985, or a 25 percent share of spot television advertising dollars.

Barter program syndicators withhold one or more 30-second spots within each program for sale to national advertisers, while the station presumably pays less cash for the program rights. Rapidly increasing program costs have made this reduced cash outlay very attractive to independent stations, some of which are more willing to part with commercial time than cash. The result is an estimated $530,000,000 of advertising sold by barter syndicators during 1985, which represents substantial growth over 1984 levels.

During 1985, cable television penetration (homes with cable television) in the continental United States increased from 42 percent to 45 percent, according to Arbitron. Cable television advertising outpaced its penetration growth in 1985, increasing more than 20 percent over the prior year to an estimated $700,000,000. Most of this is national advertising carried on superstations, such as WTBS (Atlanta), and on satellite-delivered cable television programming channels, principally ESPN, CNN, MTV, and USA. While it is uncertain what the exact impact of cable television advertising is on our stations, it is clear that such advertising is eroding the total national spot advertising dollars available to over-the-air television stations.

Given the increasingly competitive television environment, audience delivery becomes an even more crucial element of our business. Our stations continued their excellence in this regard, as they achieved strong audience shares in all dayparts, particularly local news. Based on the November 1985 Arbitron ratings, our local news programs throughout the day continued to be the dominant leaders in Philadelphia, Houston, Buffalo and Fresno, while our stations in Durham-Raleigh and New Haven-Hartford each ran a very close second. The strength of news and other local programming on our affiliated stations is the key factor in our consistent success, because this viewer loyalty helps to counteract periodic adverse fluctuations in network ratings. Indeed, all of our affiliated stations consistently outdeliver their network's average in terms of prime-time audience shares.

The acquisition of ABC led us to take several significant actions affecting our television stations in order to comply with FCC regulations:

- the sale on January 2, 1986, of WKBW-TV (Buffalo), WTNH-TV (New Haven), and WFTS-TV (Tampa);
- the securing of a permanent FCC waiver to retain WPVI-TV and WABC-TV; and
- the switching of network affiliations of WTVD (Durham) and KFSN-TV (Fresno) from CBS to ABC.

WKBW-TV, which had been part of the Capital Cities family since 1961 and had 25 years of growth and local community support, was sold to Queen City Broadcasting Inc., a minority-owned enterprise.

WTNH-TV was acquired by Capital Cities in 1971 and has performed exceptionally well for the Company. The station was sold to Cook Inlet Communications L.P., a firm controlled by Alaskan natives.

WFTS-TV, acquired in August 1984, was the Company's first venture into independent television, and we are very proud of the considerable progress it had made. Audience levels had grown substantially, and net revenue for 1985 was almost triple the revenue for 1983—the last full year under the previous owners. WFTS-TV and ABC's WXYZ-TV (Detroit) were sold to Scripps Howard Broadcasting Company.

Although the Company is losing some fine television stations, we look forward to working with the new owners of WKBW-TV, WTNH-TV and WXYZ-TV as ABC affiliates. The strong local presence and able management of these stations will be a big asset for the ABC Television Network.

Because of the signal overlap between WPVI-TV (Philadelphia) and WABC-TV (New York), the Company required a permanent waiver of FCC rules in order to retain both stations. As part of its proposal, Capital Cities undertook to significantly increase local and national news coverage in the outlying Philadelphia area. WPVI-TV will establish auxiliary studios in Trenton, New Jersey, and in Wilmington, Delaware, as well as local news bureaus in Atlantic City, New Jersey, and in Harrisburg, Pennsylvania. In addition, ABC News will open a national bureau in Philadelphia. The Company feels that these moves will strengthen an already solid commitment to the local community, while providing improved coverage to two states without adequate VHF service, Delaware and New Jersey.

WTVD and KFSN-TV switched their network affiliations from CBS to ABC during the third quarter of 1985. The affiliation changes resulted in the normal amount of viewer confusion and dislocation, which in turn translated into slight declines in ratings for both stations during the November rating period. The negative effects of a network affiliation switch are usually temporary, and we hope for ratings recoveries in 1986.

The completion of the various merger-related actions described above leaves the Company with an impressive array of eight ABC-affiliated television stations. The Capital Cities/ABC Television Stations group is currently the largest in the country, reaching over 21,000,000 ADI (Area of Dominant Influence) television homes and just under the maximum allowed by the FCC of 25 percent of total ADI television homes, as shown in the following table:

Station and market	Market rank	No. of ADI TV homes	% of ADI TV homes
WABC-TV (New York)	1	6,696,000	7.78%
KABC-TV (Los Angeles)	2	4,401,300	5.11
WLS-TV (Chicago)	3	3,006,300	3.49
WPVI-TV (Philadelphia)	4	2,640,400	3.07
KGO-TV (San Francisco)	5	2,043,800	2.37
KTRK-TV (Houston)	10	1,417,500	1.65
WTVD (Durham-Raleigh)	38	602,600	.70
KFSN-TV (Fresno)	64	396,100	.23*
Total ADI TV homes		21,204,000	24.40%

Source: *Arbitron ADI Market Rankings 1985-1986*
*For FCC purposes, only one-half of homes reached by a UHF station are counted.

The new television group not only is large in size, but is also very successful within its local markets. We believe that local news programming is an accurate barometer of the competitive position of any network-affiliated station, and the following table indicates our strong news position in each market:

Station and market	No. of commercial stations in market	News program rank: Early evening	News program rank: Late evening
WABC-TV (New York)	6	1(T)	2(T)
KABC-TV (Los Angeles)	8	1	1
WLS-TV (Chicago)	7	1	2
WPVI-TV (Philadelphia)	6	1	1
KGO-TV (San Francisco)	7	1	1(T)
KTRK-TV (Houston)	6	1	1
WTVD (Durham-Raleigh)	5	2	2
KFSN-TV (Fresno)	6	1	1

Source: Nielsen, November 1985, except KGO-TV and KFSN-TV which are Arbitron, November 1985.
(T) Tied

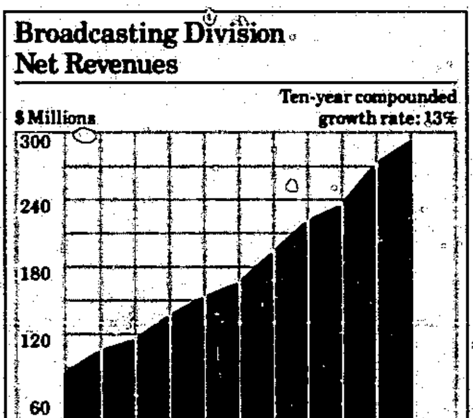
Radio

Our radio stations again achieved record revenues and operating income in 1985. WJR-AM (Detroit) continued its first-place dominance in audience share, as a result of the station's unique mix of personality, news and sports programming. KSCS-FM (Fort Worth-Dallas), the innovator of the "continuous country" format (more music and fewer commercials), improved its overall fall 1985 Arbitron audience share by more than 30 percent over the similar period in 1984. Coupled with WBAP-AM, KSCS-FM gives the Company an effective country combination for advertisers who wish to reach the valued 25-54 adult demographic age group in the rapidly growing Fort Worth-Dallas market.

On July 9, 1985, Capital Cities acquired WPLO-AM in Atlanta. This station, like our well-established station serving the Atlanta market, WKHX-FM, also features a country music format. A substantial capital investment was made to relocate and upgrade the WPLO-AM transmitter facility. We expect that combining the operations of these two stations will produce significant efficiencies and substantial returns on our investment.

To comply with FCC regulations, five of our radio stations were sold on January 2, 1986, just prior to the completion of the acquisition of ABC. WPAT-AM/FM (Paterson, New Jersey—serving metropolitan New York), the pioneer stations in easy listening music which were acquired by Capital Cities in 1961, were sold to Park Communications, Inc. KZLA-FM, acquired in 1966, was paired with KLAC-AM in 1984. The new Los Angeles combination, which enjoyed a very satisfactory first year in 1985, was sold to Malrite Communications Group, Inc. WKBW-AM (Buffalo), another 25-year member of our radio group, was purchased by Price Communications Corporation. In addition, ABC sold three radio stations: KSRR-FM (Houston) to Malrite Communications; KTKS-FM (Denton, Texas) to Gannett Co., Inc.; and WRIF-FM (Detroit) to Silver Star Communications-Detroit Inc., a minority-owned company.

Of the nine radio stations acquired as a result of the ABC merger, seven (AM and FM stations in New York, Los Angeles, and Chicago; and an AM station in San Francisco) are subject to temporary 18-month FCC waivers and must



be sold by the end of this time period. The Company sought the deferral so that we could carefully study the relationship between these radio stations and the ABC Radio Networks.

The stations in the Capital Cities/ABC Radio Stations group at the present time are shown in the following table:

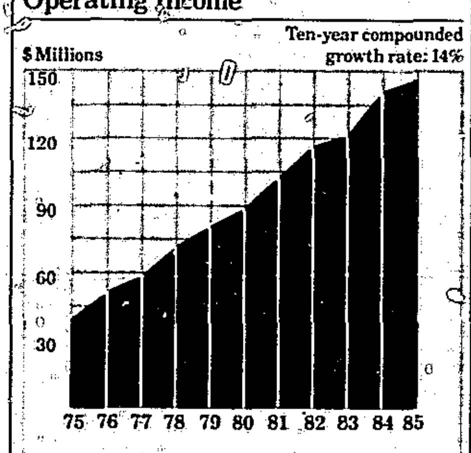
Station and market	Market rank	1985 Metro population (age 12 or older)
WABC-AM*/WPLJ-FM* (New York)	1	14,613,900
KABC-AM*/KLOS-FM* (Los Angeles)	2	8,303,600
WLS-AM*/WYTZ-FM* (Chicago)	3	6,567,400
KGO-AM* (San Francisco)	4	4,889,900
WJR-AM/WHYT-FM (Detroit)	6	3,564,900
WMAL-AM/WRQX-FM (Washington, D.C.)	9	2,854,300
WBAP-AM/KSCS-FM (Fort Worth-Dallas)	10	2,790,100
WPLO-AM/WKHX-FM (Atlanta)	15	1,956,400
WPRO-AM/WPRO-FM (Providence)	26	1,223,300

Source: Arbitron *1985 Metro Population Rankings*
*Subject to 18-month temporary FCC waiver

Current FCC regulations allow ownership of a maximum of twelve AM and twelve FM radio stations. We believe that radio, an efficient and universal medium, will continue to grow and remain an excellent business for the future, and we hope to replace the radio stations which must be sold.

The acquisition has also added to our radio group the seven ABC Radio Networks, which provide a variety of news, music, sports and talk programming. A major asset of the radio networks is Paul Harvey, who continues to be the most popular national radio personality by a wide margin. Recent audience surveys indicate that during an average week the ABC Radio Networks combine to reach over 89,000,000 people 12 years of age and older, or 46 percent of that population. The ABC Radio Networks are carried by over 1,900 affiliated stations nationwide.

Broadcasting Division Operating Income



Public Affairs

Our stations continued to place great emphasis in 1985 on serving their local communities through various types of public affairs programming and received many awards during the year. For example, a National CEBA (Communications Excellence to Black Audiences) Award was presented to WPVI-TV for a documentary that chronicled a Philadelphia doctor's battles against social injustice.

KFSN-TV received a National Education Association Award for the Advancement of Learning through Broadcasting for its *Stay in School* series of public service announcements. Other issues covered by award-winning local programming by our stations in 1985 included: missing and exploited children, the rights of working women, illegal immigration, local government corruption, teenage drinking and driving, and organ donation.

A documentary on cocaine abuse, *High on the Job,* narrated by Stacy Keach, achieved record station clearance for an independently produced documentary and was available to 98 percent of the television households in the United States. Unfortunately, this will be the last program for Capital Cities Television Productions, our national public affairs programming unit, as it had to be disbanded prior to the completion of the merger to comply with the FCC's network syndication and financial interest rules.

Capital Cities Television Productions was reorganized in 1977 to produce and distribute quality television programs designed to illuminate important issues in unique ways. Since 1977, under the able direction of Charles Keller, we have telecast 67 dramas and documentaries over ad hoc networks that have averaged over 90 percent coverage of nationwide television homes. This effort has earned numerous awards—including an Emmy and two Action for Children's Television awards—and has been a source of pride throughout the Company. We fully intend to continue our commitment to public affairs and family programming through other avenues in the future.

* * * * *

We wish to thank the many employees at the divested properties for their dedicated and invaluable service to their communities and to Capital Cities. We wish these employees and the new owners much success, and we are confident that they will continue the fine traditions that have been established.

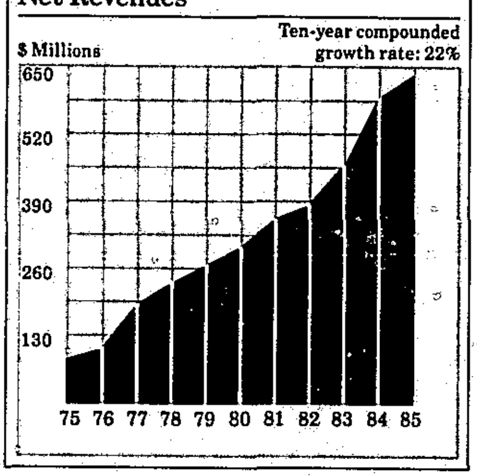
Capital Cities' Publishing Division revenues in 1985 were $642,583,000, up 9 percent from 1984, and operating income of $138,512,000 increased 4 percent from the previous year. Much of the revenue increase was due to recent acquisitions. On a pro forma basis, revenues and operating income were up 3 percent and 4 percent respectively.

The increases in revenues and operating income were much more modest in 1985 than the Division had recorded for the past several years. A low inflationary environment was reflected in the revenue gains at the major newspapers. In addition, many of the specialized publications were adversely affected by downturns in the market segments they represent.

Last year's Annual Report indicated that expense management in 1985 would be the most important task confronting our publishers and managers. The performance in this area was excellent, as Publishing Division expenses, excluding recent acquisitions and disposals, increased only 3 percent. Continued diligence in 1986 will be mandatory, as relative revenue softness is expected to continue.

Acquisition activity was down considerably in 1985. *Nickel Ads,* in Portland, Oregon, and *Nickel Nik* in Spokane, Washington, were purchased during the second half of the year. These free-distribution advertising publications complement *Little Nickel Want Ads* in Seattle, Washington, purchased in 1983.

Publishing Division
Net Revenues



The recently completed acquisition of ABC required the sale of *The Daily Register* in Shrewsbury, New Jersey, and the nearby twice-weekly *Ocean County Reporter.* These newspapers were sold in August 1985 to Price Communications Corporation.

Effective with the acquisition, ABC Publishing has been added to the Publishing Division. On a combined basis (including ABC), in 1985 the total Division would have had revenues of about $960,000,000, operating income of over $170,000,000, and about 9,100 employees. Under the able leadership of its President, Robert G. Burton, ABC Publishing includes a number of operating units which publish more than one hundred magazines and book titles monthly and release more than twenty-five records annually. The units include: Chilton Company; Word, Inc.; ABC Consumer Magazines; Hitchcock Publishing Company; ABC Publishing Agricultural Group; Nils Publishing Company; and *Los Angeles* magazine.

Specialized Publications

Fairchild Publications, which includes all of the Company's specialized and business publications other than *Institutional Investor* and electronic database publishing, achieved only slight revenue gains in 1985, which were more than offset by expense increases, resulting in a decline in operating income of nearly 6 percent.

Most of the industries served by Fairchild ultimately attract other publications which seek out narrow, vertical niches within each market. Although these publications have limited potential, they compete vigorously for the available advertising dollars and in the aggregate pose a considerable challenge to Fairchild to maintain and expand market shares.

This continuing competitive pressure, abatement of inflation, and less-than-robust retail markets, combined with significant reductions in fabric and fiber advertising expenditures, adversely affected most of the retail/merchandising publications. A large number of new publishing products were introduced during the year, particularly by *Women's Wear Daily,* to maintain share. These efforts were successful revenue producers, but the expenses of producing them eroded margins.

HFT and *Entrée* ran counter to the trend, with substantial gains in revenues and profits. *Supermarket News* also improved its profit performance on essentially flat revenues.

W's advertising pages increased modestly in 1985, as did its revenues and profits—a good performance versus most of its competition. *M*'s circulation grew according to plan, reaching 135,000 by the end of 1985. The magazine's advertising and circulation revenues increased, and operating losses were reduced in 1985.

Industrial group results were also mixed in 1985. *Electronic News* reflected the depressed state of the electronics industry, with substantial declines in revenues and profits. *MIS Week,* a less mature publication serving the information and communications industries, registered significant gains in revenues and profits despite some softness in its markets. *Multichannel News* consolidated its position as the leading cable television publication, with modest revenue and profit gains despite a lackluster year for the market. *American Metal Market* showed a profit improvement on flat revenues. *Metal Center News,* benefiting from the continuing rise in the amount of steel being sold via service centers, achieved another record year of revenues and profits.

The International Medical News Group declined somewhat in revenues and profits, reflecting reduced pharmaceutical advertising activity in 1985; however, market share was maintained. The American Traveler Group maintained its 1984 profit performance on essentially flat revenues.

Institutional Investor, Inc., which was acquired in August 1984, publishes *Institutional Investor* and a number of financial newsletters, and also conducts sponsored conferences. Revenues, operating income and margins were all at record levels in 1985. *Institutional Investor* received the 1985 Overseas Press Club Award for best business reporting in magazines and books.

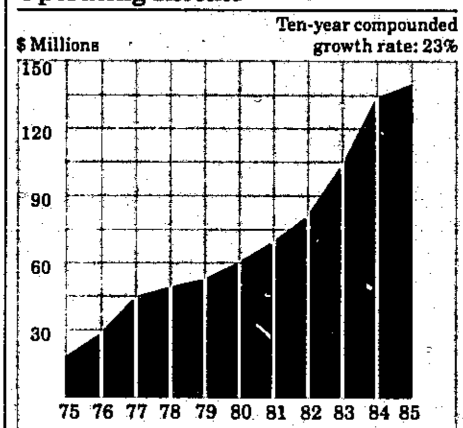
Securities Data Company, which provides on-line information from four databases to the investment banking community, had a profitable year. In 1985, we continued to add to our investment in Videolog, an electronic database publisher. In its first full year of operation, the customer base grew to over 3,000 users representing over 1,000 electronics companies, and continued growth is expected in 1986.

Newspapers

Newspaper revenues (excluding dispositions) increased 5 percent in 1985 to $334,532,000. Classified and preprinted insert revenues accounted for all of the increase, as local display revenues were flat and national advertising was down. Attention to expenses, aided by softness in newsprint prices, held expense increases to less than 4 percent, so that operating income of the newspapers rose more than 8 percent.

At *The Kansas City Star/Times,* revenues were up modestly, as was operating income. Circulation levels continued to decline somewhat. The year-end circulation of both the morning and evening papers was down about 3 percent, and the Sunday *Star* was off

Publishing Division Operating Income



less than 1 percent from the year-earlier level. The *Star* introduced four new sections in 1985, adding a science-health section, a home section, and two weekly suburban sections. In addition, the *Star* expanded its Sunday/Forum section by 50 percent. The morning *Times* underwent a major redesign and expanded its news coverage.

In November 1984, the Missouri appellate court decided in *Robert S. Miskimen et al. vs. The Kansas City Star Company, et al.* that the Star Company could not terminate its present carrier contracts without cause. The carriers are now asserting several liability theories against the Star Company and Capital Cities in support of their claims that the 1977 announcement by the Star Company of its intention to change its newspaper distribution system destroyed the values of their newspaper delivery routes. Trial of these claims is currently scheduled to commence in 1986. Detailed explanations of this and other related proceedings are contained in Item 3, *Legal Proceedings*, of the Company's Form 10-K, which is included elsewhere in this report.

Revenue and expense increases at the *Fort Worth Star-Telegram* were the lowest in years. Operating income, margins and circulation levels hit new records, and Sunday paid circulation passed the 300,000 mark before year-end.

The newspaper was awarded the coveted Pulitzer Prize gold medal for Meritorious Public Service for a series of articles about locally-produced helicopters in which a number of military deaths occurred. The investigation and resulting controversy drew national attention, and the military has taken action to fund safety changes in the aircraft.

The *Star-Telegram*'s new printing and distribution center project is on schedule and under budget. Three more press units have been ordered, bringing to 42 the number of offset units being installed.

The project has had an unusual degree of involvement by employees from the operating departments. The resulting feeling of "ownership," combined with extensive training, is expected to ensure a successful launch of the new facility.

The Company's other daily and weekly newspaper operations all reported improved operating results in 1985, paid circulation continued to grow, and a number of awards for editorial excellence were received.

- *The Oakland Press* (Pontiac, Michigan) had record profits, largely as a result of robust gains in classified advertising. Construction was completed on a new distribution facility to handle higher volumes of preprinted advertising inserts.
- The *Belleville News-Democrat* (Belleville, Illinois) again achieved record revenues and profits. A new circulation information system enabled the newspaper to initiate a mailed, total-market-coverage product to reach nonsubscribers.
- *The Times Leader* (Wilkes-Barre, Pennsylvania) continued to decrease losses, increase circulation and improve its dominant market share in advertising. Advertising and circulation revenues increased 10 percent and 13 percent, respectively.
- The Democrat-Herald group in Oregon had slightly increased revenues and operating income. The newspapers continue to be adversely affected by the soft timber-based Oregon economy.
- Shore Line Newspapers (southern Connecticut and Rhode Island) had another record year. The group now consists of 19 publications with circulation of about 200,000.

Shopping Guides

Results at Sutton Industries, Inc., which was acquired in March 1984, were somewhat disappointing, as operating income was relatively flat in 1985. Sutton publishes and distributes direct-mail shopping guides to approximately 1,300,000 homes weekly in southern Orange County, San Diego County, Palm Springs, Sacramento and Stockton, California. *Pennypower Shopping News*, with operations in Wichita and Topeka, Kansas, and in Springfield, Missouri, had a record year.

Financial Overview

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

Results of Operations—1985 Compared to 1984

Net revenues in 1985 increased $81,158,000, to $1,020,880,000, or 9% over the $939,722,000 reported in 1984. Broadcasting Division revenues were up 8%, or $21,869,000, with radio operations showing the larger percentage gain. Excluding a 1984 television acquisition, Broadcasting Division revenues were up 5%. Cable Television Division revenues increased 11%, due primarily to the growth in the number of basic subscribers and higher average monthly rates. Publishing Division revenues increased $50,967,000, or 9%, principally as a result of higher advertising rates, and the effect of 1984 and 1985 acquisitions and start-ups. Excluding these acquisitions and start-ups, Publishing Division revenues increased 3%, with newspaper linage remaining flat and specialized publications linage decreasing 7%.

Total costs and expenses for 1985 were up $71,169,000, or 11%, over 1984. Expenses for the Broadcasting Division were up $17,743,000, or 14%, partially due to a 1984 television acquisition. Excluding this acquisition, Broadcasting Division expenses were up 8%, reflecting higher programming and news costs, and increased selling and administrative expenses. Cable Television costs increased 8%, reflecting higher depreciation expense and variable costs associated with unit growth. Publishing Division costs increased $45,634,000, or 10%, primarily as a result of 1984 and 1985 acquisitions and start-ups. Excluding these acquisitions and start-ups, Publishing Division costs increased only 3%.

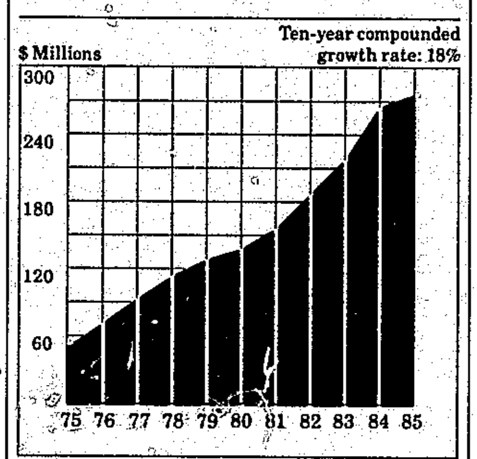
Operating income for 1985 increased 4% to $277,501,000 from the $267,512,000 reported in 1984, with the Broadcasting and Publishing Divisions reporting gains of 3% and 4%, respectively. Operating income for the Cable Television Division increased $2,662,000.

Net financial expense (interest expense less interest income) for 1985 increased $3,896,000 compared to 1984, principally reflecting lower short-term interest rates in 1985. Interest of $4,554,000 and $1,248,000 was capitalized in 1985 and 1984, respectively. During 1985, the Company issued $500,000,000 of long-term debt in connection with the acquisition of American Broadcasting Companies, Inc., (see Note 5 to the Consolidated Financial Statements). In connection with this debt, related interest expense of $19,787,500, and interest income of $13,969,500 earned from the investment of these borrowings, were deferred as acquisition costs.

The Company's effective tax rate was 48.6% in 1985 and 49.7% in 1984.

Consolidated income before extraordinary gain for 1985 of $142,222,000 was up $7,029,000, or 5%, while income per share before extraordinary gain of $10.87 increased $0.47, or 5%. The sale of the Company's investment in St. Regis Corporation in 1984 resulted in an extraordinary gain of $7,585,000, net of taxes, or $0.58 per share. The effect of the amortization of all intangible assets of the Company was to reduce income per share by $1.51 in 1985, as compared to $1.07 in 1984.

Operating Income



Recently completed acquisitions (primarily Institutional Investor and WFTS-TV) and costs related to the acquisition of ABC had a combined effect of reducing 1985 earnings by approximately $7,800,000, or $0.60 per share. Also in connection with the ABC acquisition, the Company sold its New Jersey newspaper operations in 1985, resulting in a gain of $800,000, or $0.06 per share.

On January 3, 1986, the Company acquired American Broadcasting Companies, Inc., and was required to divest itself of certain operating properties in order to comply with regulations of the Federal Communications Commission. For additional information concerning the acquisition and related divestitures see Note 4 to the Consolidated Financial Statements.

Results of Operations—1984 Compared to 1983

Net revenues in 1984 increased $177,427,000 to $939,722,000, or 23% over the $762,295,000 reported in 1983. Broadcasting Division revenues were up 15%, or $36,094,000, with television and radio operations showing comparable gains over 1983, principally reflecting increased demand for advertising time during the year. The Cable Television Division revenues increased $9,227,000, or 14%, due primarily to the growth in the number of basic subscribers and premium units and higher average monthly rates. Publishing Division revenues were up $132,106,000, or 29%, mainly as a result of higher advertising rates, increased linage and the effect of 1983 and 1984 acquisitions and start-ups. Excluding these acquisitions and start-ups, Publishing Division revenues increased 15%, with specialized publications and newspapers each reporting gains of 15%. Linage for the specialized publications and newspapers increased 2% and 10%, respectively.

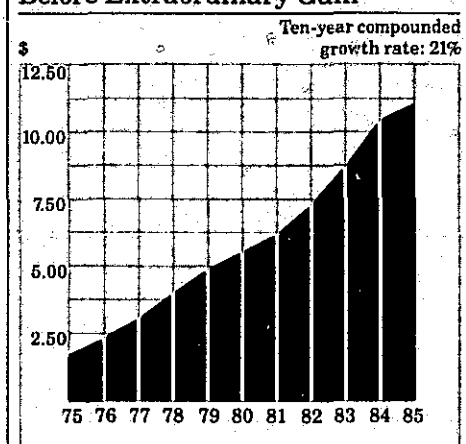
Total costs and expenses for 1984 were up $130,279,000, or 24%, over 1983. Expenses for the Broadcasting Division were up $17,101,000, or 15%, as a result of higher television programming and news costs and increased selling and administrative expenses. Cable Television costs were up $8,734,000, or 13%, reflecting higher depreciation expense and increased variable costs associated with rate and unit growth. Publishing Division expenses were up $102,961,000, or 29% over 1983, partially as a result of 1983 and 1984 acquisitions and start-ups. Excluding these acquisitions and start-ups, Publishing Division expenses increased 13% due to higher selling, administrative, circulation and editorial costs as well as increased newsprint volume.

Operating income for 1984 rose 21% to $267,512,000 from the $220,364,000 reported in 1983, with publishing and broadcasting operations showing gains of 28% and 15%, respectively. Operating income for the Cable Television Division increased $493,000.

Net financial income (interest income less interest expense) for 1984 decreased $1,594,000 compared to 1983, due primarily to a decrease in short-term interest rates. Interest of $1,248,000 and $1,320,000 was capitalized in 1984 and 1983, respectively. The Company's effective tax rate was 49.7% in 1984 and 48.9% in 1983.

Consolidated income before extraordinary gain for 1984 of $135,193,000 was up $20,489,000, or 18%, while income per share before extraordinary gain of $10.40, increased $1.87, or 22%. Income before extraordinary

Income Per Share
Before Extraordinary Gain



gain for 1984 includes the earnings of new operating properties from their respective dates of acquisition. These earnings, offset by related acquisition financing expense, the amortization of intangible assets, and net of related income taxes, resulted in a reduction in 1984 income per share of approximately $0.16. The effect of the amortization of all intangible assets of the Company was to reduce income per share by $1.07 in 1984 as compared to $0.72 in 1983. The sale of the Company's investment in St. Regis Corporation shares in 1984 resulted in an extraordinary gain of $7,585,000, net of taxes, or $0.58 per share.

Impact of Inflation

For information on the impact of inflation on the Company, see Note 15 to the Consolidated Financial Statements.

Return on Revenue

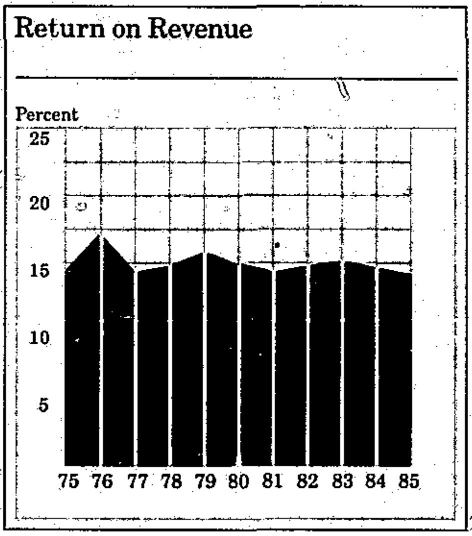
Return on revenue, expressed as the percentage relationship of net income before extraordinary gain to net revenues, was 13.9% for 1985, compared to 14.4% for 1984. The Company's return on revenue has remained relatively constant since 1974, with periodic minor downturns such as in 1985, resulting from acquisitions and start-up activity. As a result of the acquisition of ABC, the nature of the Company's operations will be substantially different in the future, and the return on revenue is expected to drop significantly in 1986.

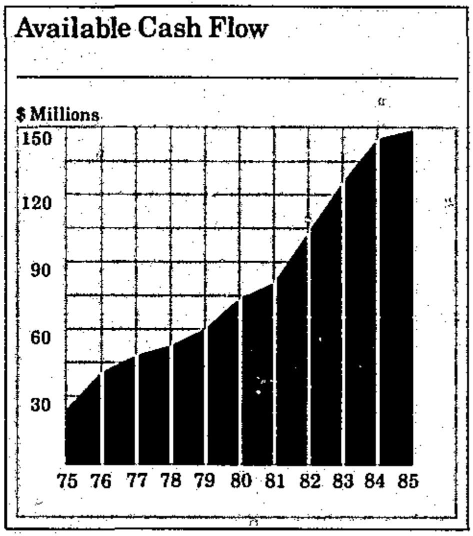
Available Cash Flow

Available cash flow is defined as cash from operations, less amounts reinvested in such operations for capital expenditures. In 1985, the Company's available cash flow amounted to $147,912,000, representing an increase of $5,178,000, or 4%, over the $142,734,000 reported in 1984.

Unlike most industrial companies, the Company generally has not required that large amounts of capital be reinvested each year in physical assets and inventories to maintain the same level of production or operations. However, in 1984, the Company began a major capital project of approximately $80,000,000, which will move all *Fort Worth Star-Telegram* printing and distribution functions to a new production facility by late 1986.

The Company's available cash flows have historically been almost equal to or higher than reported net income. The continued generation of such available cash flow has allowed the Company to make selective acquisitions, invest in new business start-ups, reduce debt and, when deemed appropriate, repurchase its common stock. The continued judicious employment of available cash flow should enhance the Company's future growth in earnings and stockholders' equity and enable it to reduce outstanding debt.

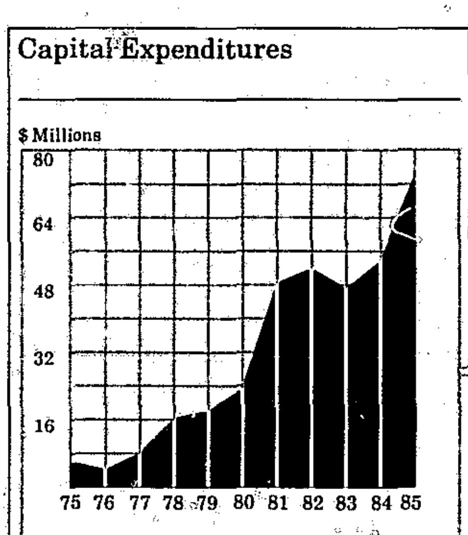




The available cash flow for 1985 of $147,912,000, increased by $493,329,000 from the issuance of long-term debt and $22,884,000 from other sources, resulted in total funds of $664,125,000. These funds provided $53,000,000 for the acquisition of an option to purchase 5.3 million shares of ABC stock, $51,109,000 for acquisitions of operating properties, $27,556,000 for other applications and resulted in an increase of $532,460,000 in cash and cash investments. Substantially all the Company's cash and cash investments were used to finance the acquisition of ABC in January 1986.

Capital Expenditures and Programming Commitments

In 1985, capital expenditures amounted to $75,384,000, a 40% increase from the $53,866,000 spent in 1984. The largest portion of 1985 capital spending was in the Publishing Division, where a total of $45,869,000 was spent, approximately two-thirds of which was for continued spending on the new production facility for the *Fort Worth Star-Telegram*. In the Cable Television Division, a total of $17,956,000 was spent for extensions, upgrades, rebuilds and improvements of the cable television systems. The Company, including ABC, anticipates 1986 capital expenditures will be $150,000,000 to $200,000,000.



As the operator of a major television network and eight affiliated television stations, the Company will continue to enter into programming commitments to purchase the broadcast rights to various feature films, sports events and other programming. Total commitments to purchase broadcast programming approximated $1.8 billion at the end of 1985. This amount is substantially payable over the next five years. The Company plans to fund its operations and commitments from internally generated funds and, if needed, from the various external sources of funds which are available.

Capital Structure

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

Stockholders' equity amounted to $889,260,000 at December 31, 1985, an increase of $154,805,000 from the 1984 year-end total of $734,455,000.

At December 31, 1985, total interest-bearing debt was $714,298,000, an increase of $491,303,000 from 1984. Of the total interest-bearing debt outstanding at December 31, 1985, $300,000,000 is represented by 11.625% debentures due 2015, $200,000,000 is represented by 10.50% notes due 1997, and $200,000,000 is represented by 11.75% subordinated debentures due 2013. Interest-bearing debt also includes $14,298,000 in other notes payable, primarily to former owners of acquired companies. The interest rates on these other notes are generally fixed, and average approximately 11%. In addition, subsequent to the end of the year, the Company issued additional debt to finance the acquisition of ABC (see Note 5 to the Consolidated Financial Statements).

At December 31, 1985, deferred income taxes amounted to $41,144,000 and minority interest in the Company's consolidated subsidiaries was $203,000.

The Company's ratio of debt to total capital at December 31, for the last five years was as follows:

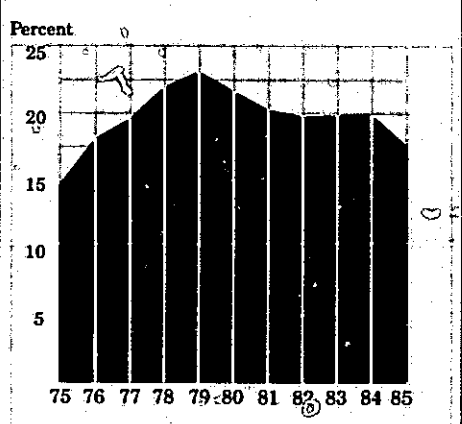
(Dollars in millions)	Debt	Total capital	Debt to total capital ratio
1985	$714.3	$1,644.9	43%
1984	$223.0	$ 997.4	22%
1983	$221.0	$ 883.8	25%
1982	$ 48.4	$ 619.1	8%
1981	$102.4	$ 571.0	18%

The Company's debt to total capital ratio at December 31, 1985, increased to 43%, which primarily reflects the issuance of $500,000,000 of long-term debt to finance the acquisition of ABC. The Company anticipates that subsequent to the acquisition of ABC and upon completion of all required divestitures, its debt to equity ratio will be slightly below 50%.

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 gain) bears to average stockholders' equity. The Company's return on equity was 17.5% and 19.9% in 1985 and 1984, respectively. The Company's return on equity has benefited both from the historical ability to finance its growth from internally generated capital and debt rather than new equity capital, and from its program of repurchasing its common stock over recent years. In 1985, modest growth in earnings combined with minimal repurchases of the Company's common stock resulted in a decrease in the return from recent levels.

Return on Average Stockholders' Equity



Return on Operating Capital

Another appropriate measure of management performance is the rate of return on operating capital. The Company believes that this return is as important a measure of the profitability of a business as is return on equity.

This calculation removes from total capital, as previously defined, the nonoperating assets (short-term cash investments and other assets) and from the return, the aftertax income associated with these assets.

The table below indicates the Company's return on average operating capital for the last five years:

(Dollars in millions)	Average operating capital	Return	Rate of return
1985	$775.2	$142.6	18.4%
1984	$657.3	$134.5	20.5%
1983	$568.2	$112.6	19.8%
1982	$537.7	$ 98.6	18.3%
1981	$449.8	$ 82.7	18.4%

Financial Summary 1975-1985

(Dollars in thousands except per share data)

	1985	1984	1983
RESULTS FOR THE YEAR			
Net revenues			
Broadcasting	$ 293,717	$ 271,848	$ 235,754
Cable Television	84,580	76,258	67,031
Publishing	642,583	591,616	459,510
Total	1,020,880	939,722	762,295
Operating income (loss)			
Broadcasting	$ 145,764	$ 141,638	$ 122,645
Cable Television	5,206	2,544	2,051
Publishing	138,512	133,179	104,034
Income from operations	289,482	277,361	228,730
General corporate expense	11,981	9,849	8,366
Total	277,501	267,512	220,364
Net income (a)	$ 142,222	$ 135,193	$ 114,704
Net income per share (a) (b)	$10.87	$10.40	$8.53
Cash dividends declared per common share (b)	$ 0.20	$ 0.20	$0.20
Average shares (000's omitted) (b)	13,080	13,000	13,455
Return on average stockholders' equity (c)	17.5%	19.9%	19.6%
MAJOR CHANGES IN FINANCIAL POSITION			
Cash provided			
Operations	$ 223,296	$ 196,600	$ 169,363
Increase in long-term debt	493,329	18,065	202,527
Disposition of interest in operating properties	7,222	5,000	3,200
Cash applied			
Acquisitions of operating properties	$ 51,109	$ 146,843	$ 22,016
Purchase of common stock for treasury	484	46,135	43,619
Capital expenditures	75,384	53,866	47,595
Reduction of long-term debt	7,872	16,030	32,766
Dividends on common stock	2,595	2,570	2,656
AT YEAR-END			
Working capital	$ 830,986	$ 240,985	$ 265,847
Total assets	1,884,931	1,208,172	1,052,912
Long-term debt	714,298	222,995	220,960
Stockholders' equity	889,260	734,455	625,255
Number of shares outstanding (000's omitted) (b)	12,998	12,867	13,103
Closing market price of common stock (b)	$224½	$164⅝	$144
Price range of common stock (b)	$152¼-229	$123½-174½	$114¾-157½

(a) Income before extraordinary gains of $7,585,000 ($.58 per share) in 1984, $2,430,000 ($.18 per share) in 1980 and $3,320,000 ($.22 per share) in 1977.
(b) All per share information has been adjusted for the two-for-one stock split in 1978.
(c) Income before extraordinary items divided by average stockholders' equity.

1982	1981	1980	1979	1978	1977	1976	1975
$220,996	$193,063	$166,980	$151,327	$133,360	$112,522	$104,307	$ 86,820
53,302	21,435	30					
389,282	359,286	305,098	263,563	234,116	193,624	107,860	88,066
663,580	573,784	472,108	414,890	367,476	306,146	212,167	174,886
$116,228	$102,230	$ 87,925	$ 80,319	$ 70,080	$ 56,757	$ 50,277	$ 39,184
1,678	(3,090)	(2,531)					
79,010	67,520	58,186	50,668	48,781	43,681	25,592	17,699
196,91[illegible]	166,654	143,580	130,987	118,861	100,438	75,869	56,883
7,128	7,468	6,205	5,334	4,563	3,673	2,826	2,748
189,788	159,186	137,375	125,653	114,298	96,765	73,043	54,135
$ 96,317	$ 80,518	$ 70,783	$ 63,758	$ 54,033	$ 43,234	$ 35,620	$ 25,402
$7.25	$6.12	$5.38	$4.68	$3.80	$2.91	$2.30	$1.64
$0.20	$0.20	$0.20	$0.20	$0.175	$0.10	$0.10	$0.025
13,280	13,150	13,165	13,615	14,220	14,852	15,478	15,466
19.5%	20.1%	21.5%	22.9%	21.8%	19.4%	17.9%	14.4%
$137,529	$108,208	$ 86,589	$ 77,888	$ 66,811	$ 53,763	$ 43,309	$ 32,098
1,944	111,640	3,834	1,900	2,696	90,628		
	13,808			15,520	14,389		
$ 21,588	$157,128	$ 32,308		$ 10,017	$132,159	$ 6,500	
676	125	14,753	$ 24,736	31,097	17,111	14,858	
51,651	48,634	23,611	18,178	16,314	8,209	4,049	$ 5,546
55,867	67,935	23,122	26,928	25,970	23,775	16,275	11,663
2,627	2,603	2,573	2,669	2,438	1,467	1,524	384
$ 16,353	$ 4,288	$ 35,408	$ 34,428	$ 18,980	$ 8,99[illegible]	$ 38,058	$ 34,547
776,013	697,620	519,958	473,134	444,797	435,09[illegible]	328,522	315,128
48,449	102,372	58,667	77,955	102,983	126,257	59,404	75,679
544,267	443,822	359,081	298,497	259,691	236,834	208,501	188,921
13,180	13,025	12,902	13,058	13,514	14,212	14,832	15,374
$119⅝	$73¾	$58¾	$48⅝	$39⅝	$30	$28¼	$21⅜
$64⅜-136¾	$56½-80½	$40-72	$36¾-49⅞	$27⅞-47¾	$22⅛-30½	$21⅛-28¼	$11-21¾

Consolidated Statement of Income

Years ended December 31, 1985, 1984 and 1983
(Dollars in thousands except per share amounts)

	1985	1984	1983
Net revenues	$1,020,880	$939,722	$762,295
Costs and expenses			
Direct operating expenses	428,992	388,110	311,788
Selling, general and administrative	256,687	232,383	189,870
Depreciation	37,990	34,084	28,099
Amortization of intangible assets	19,710	17,633	12,174
	743,379	672,210	541,931
Operating income	277,501	267,512	220,364
Other income (expense)			
Interest expense	(22,738)	(27,161)	(14,633)
Interest income	19,033	27,352	16,418
Miscellaneous, net	3,026	1,090	2,355
	(679)	1,281	4,140
Income before income taxes	276,822	268,793	224,504
Income taxes			
Federal	117,700	116,000	95,800
State and local	16,900	17,600	14,000
	134,600	133,600	109,800
Income before extraordinary gain	142,222	135,193	114,704
Extraordinary gain, net of taxes	—	7,585	—
Net income	$ 142,222	$142,778	$114,704
Income per share			
Before extraordinary gain	$10.87	$10.40	$8.53
Extraordinary gain	—	.58	—
Net income	$10.87	$10.98	$8.53
Average shares outstanding (000's omitted)	13,080	13,000	13,455

See accompanying notes

Consolidated Statement of Changes in Financial Position

Years ended December 31, 1985, 1984 and 1983
(Dollars in thousands)

	1985	1984	1983
Cash provided			
Operations			
Income before extraordinary gain	$142,222	$135,193	$114,704
Depreciation	37,990	34,084	28,099
Amortization of intangible assets	19,710	17,633	12,174
Other, net	23,374	9,690	14,386
Total cash from operations	223,296	196,600	169,363
Less capital expenditures for operations	75,384	53,866	44,418
Available cash flow from operations	147,912	142,734	124,945
Proceeds from issuance of long-term debt	493,329	4,500	197,250
Common stock sold under employee stock plans	15,662	15,127	12,559
Disposition of interest in operating properties	7,222	5,000	3,200
Long-term debt issued or assumed on acquisitions	—	13,565	5,277
Proceeds from sale of investment in stock, net of taxes	—	17,769	—
	664,125	198,695	343,231
Cash applied			
Acquisitions of operating properties	51,109	146,843	22,016
Acquisition of stock purchase option	53,000	—	—
Purchase of common stock for treasury	484	46,135	43,619
Changes in other working capital items	3,960	1,747	13,320
Reduction of long-term debt	7,872	16,030	32,766
Dividends	2,595	2,570	2,656
Other, net	12,645	20,851	(2,558)
	131,665	234,176	111,819
Increase (decrease) in cash and cash investments	532,460	(35,481)	231,412
Cash and cash investments			
Beginning of period	236,399	271,880	40,468
End of period	$768,859	$236,399	$271,880

See accompanying notes

Consolidated Balance Sheet

December 31, 1985 and 1984
(Dollars in thousands)

Assets	1985	1984
Current assets		
Cash	$ 8,031	$ 7,737
Short-term cash investments	760,828	228,662
Accounts and notes receivable (less allowance for doubtful accounts of $6,745 in 1985 and $7,369 in 1984)	145,382	134,224
Inventories	9,791	10,744
Film contract rights	14,637	11,912
Stock purchase option	53,000	—
Other current assets	14,726	9,149
Total current assets	1,006,395	402,428
Property, plant and equipment, at cost		
Land	22,726	21,941
Buildings	77,419	74,716
Broadcasting, printing, cable television and other equipment	418,347	343,750
	518,492	440,407
Less accumulated depreciation	200,596	166,014
Property, plant and equipment, net	317,896	274,393
Intangible assets (net of accumulated amortization of $81,003 in 1985 and $61,497 in 1984)	481,512	477,537
Other assets	79,128	53,814
	$1,884,931	$1,208,172

See accompanying notes

Liabilities and Stockholders' Equity	1985	1984
Current liabilities		
Accounts payable	$ 31,663	$ 32,433
Accrued compensation	30,041	28,838
Accrued interest	21,601	3,608
Accrued expenses and other current liabilities	46,232	36,328
Film contracts	15,342	14,252
Taxes on income	24,446	38,094
Long-term debt due within one year	6,084	7,890
Total current liabilities	175,409	161,443
Deferred compensation	23,897	22,495
Deferred income taxes	41,144	25,537
Unearned subscription revenue	22,258	21,285
Other liabilities	18,546	13,424
Long-term debt due after one year	708,214	215,105
Total liabilities	995,468	459,289
Minority interest	203	14,428
Stockholders' equity		
Preferred stock	—	—
Common stock, $1 par value (80,000,000 shares authorized)	15,394	15,394
Additional paid-in capital	37,844	26,111
Retained earnings	997,227	857,600
	1,050,465	899,105
Less common stock in treasury, at cost (2,395,831 shares in 1985 and 2,526,305 shares in 1984)	161,205	164,650
Total stockholders' equity	889,260	734,455
	$1,884,931	$1,208,172

Consolidated Statement of Stockholders' Equity

Years ended December 31, 1985, 1984 and 1983
(Dollars in thousands)

	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Total
Balance December 31, 1982	$15,394	$ 7,431	$605,344	$ (83,902)	$544,267
Net income for 1983	—	—	114,704	—	114,704
304,407 shares purchased for treasury	—	—	—	(43,619)	(43,619)
103,201 shares issued under Employee Stock Purchase Plan	—	4,249	—	2,663	6,912
124,735 shares issued on exercise of employee stock options	—	2,414	—	3,233	5,647
Cash dividends	—	—	(2,656)	—	(2,656)
Balance December 31, 1983	15,394	14,094	717,392	(121,625)	625,255
Net income for 1984	—	—	142,778	—	142,778
347,691 shares purchased for treasury	—	—	—	(46,135)	(46,135)
56,088 shares issued under Employee Stock Purchase Plan	—	5,089	—	1,527	6,616
55,462 shares issued on exercise of employee stock options	—	6,928	—	1,583	8,511
Cash dividends	—	—	(2,570)	—	(2,570)
Balance December 31, 1984	15,394	26,111	857,600	(164,650)	734,455
Net income for 1985	—	—	142,222	—	142,222
2,444 shares purchased for treasury	—	—	—	(484)	(484)
58,314 shares issued under Employee Stock Purchase Plan	—	5,627	—	1,711	7,338
74,604 shares issued on exercise of employee stock options	—	6,106	—	2,218	8,324
Cash dividends	—	—	(2,595)	—	(2,595)
Balance December 31, 1985	$15,394	$37,844	$997,227	$(161,205)	$889,260

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. Leasehold improvements are amortized over the terms of the leases. 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	10-12

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. Intangible assets relating to cable television franchises are amortized over the remaining terms of the franchises.

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 primarily 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—Interest is capitalized in accordance with *Financial Accounting Standards Board Statement No. 34*. As a result, $4,554,000, $1,248,000, and $1,320,000 have been added to property, plant and equipment in 1985, 1984 and 1983, respectively.

2. Preferred Stock

On June 25, 1985, the Company's shareholders approved the authorization of 4,000,000 new shares of no-par value preferred stock, and the cancellation of the existing authorized convertible $1.00 par value preferred stock. There are no preferred shares outstanding.

3. Extraordinary Gain

In September 1984, the Company sold its investment in St. Regis Corporation, which resulted in an extraordinary gain of $7,585,000, net of applicable taxes.

4. Acquisitions and Related Dispositions

Acquisition of American Broadcasting Companies, Inc. (ABC)
Subsequent to the end of the year, on January 3, 1986, the Company acquired ABC through a cash merger for an aggregate cash purchase price of approximately $3,375,000,000, and changed its name to Capital Cities/ABC, Inc. Each share of ABC common stock was converted into $118.108 plus 0.1024 of a warrant. Each whole warrant entitles the holder to purchase one share of the Company's common stock at $250.00 per share until July 29, 1988; and until April 3, 1986 warrant holders may require the Company to redeem all or a portion of the warrants at $30.00 per warrant.

ABC owns and operates the ABC Television Network, four television stations, nine radio stations, seven radio networks, various consumer and trade magazines and periodicals, and produces and supplies cable and subscription television programming. Pursuant to temporary waivers granted to the Company by the Federal Communications Commission, the Company is required to effect divestitures of seven of the radio stations within 18 months after the acquisition.

In order to comply with certain regulations of the Federal Communications Commission, on January 2, 1986 and January 3, 1986, the Company sold the following properties: television stations in New Haven, Buffalo and Tampa; radio stations in Paterson, New Jersey (AM and FM), Los Angeles (AM and FM) and Buffalo (AM); and all of its cable television systems. The aggregate net proceeds from these sales was approximately $650,000,000. Also, in August 1985, the Company sold its New Jersey newspaper operations (one daily and one weekly), which resulted in an after-tax gain of $800,000.

The aggregate cash purchase price was financed by proceeds from the disposal of certain Capital Cities and ABC operating properties, the issuance of debt (see Note 5), the sale of 3,000,000 shares of the Company's Common Stock to Berkshire Hathaway, Inc., for $517,500,000, and available cash.

The consolidated statement of income for the year ended December 31, 1985, does not include the results of operations of ABC. The following unaudited condensed combined pro forma financial information for the year ended December 31, 1985, reflects the pro forma effect of the merger and related transactions, assuming they had taken place on January 1, 1985, for income statement data and on December 31, 1985, for balance sheet data.

The pro forma information is based on preliminary estimates of the acquired assets and liabilities and is subject to a final determination of the fair market value and the useful lives of such assets. Management of the Company does not believe that the pro forma financial information is necessarily indicative of the consolidated results which would have been achieved had the ABC acquisition taken place as of January 1, 1985.

	Year ended Dec. 31, 1985
	(000's, except per share)
Income statement data	
Net revenues	$4,002,000
Net income (a)	141,000
Net income per share (a)	$8.77
Balance sheet data	
Total assets	$4,798,000
Long-term debt	1,766,000
Stockholders' equity	1,806,000

(a) Excludes gains from disposal of the Company's operating properties.

1985
In 1985, the Company purchased a cable television system in Union City, California, the assets of WPLO-AM, which serves the Atlanta, Georgia market and two shopping guides in Washington and Oregon. In addition, the Company purchased from Whitcom Investment Company their 10% investment in Capital Cities Cable, Inc.

The aggregate cash purchase price for the 1985 acquisitions was $51,109,000. Included in the purchases were $9,402,000 of fixed assets, $26,803,000 of intangibles, the repurchase of $14,196,000 of minority interest and $708,000 of other net assets.

1984
In 1984, the Company acquired certain assets of WFTS-TV, serving the Tampa-St. Petersburg market, the assets of radio station KLAC-AM and sold the

assets of radio station KZLA-AM, both in Los Angeles. In addition, the Company acquired Sutton Industries, Inc., Institutional Investor, Inc., four weekly newspapers in Connecticut and Rhode Island and a cable television system in Frederick, Oklahoma.

The aggregate purchase price for the 1984 acquisitions was $146,843,000. Included in the purchases were $10,940,000 of fixed assets, $128,289,000 of intangibles and $7,614,000 of other net assets.

5. Long-Term Debt

Long-term debt at December 31, 1985 and 1984 is as follows (000's omitted):

	1985	1984
11⅝% debentures due 2015, with annual sinking fund payments beginning in 1996	$300,000	$ —
10½% notes due 1997	200,000	—
11¾% subordinated debentures due 2013, with annual sinking fund payments beginning in 1994	200,000	200,000
Bank debt and other notes payable, weighted average interest rate of 11.2%	14,298	22,995
	$714,298	$222,995

The aggregate payments of long-term debt outstanding at December 31, 1985, for the next five years are summarized as follows: 1986—$6,084,000, 1987—$4,188,000, 1988—$500,000, 1989—$1,274,000, 1990—$1,000,000.

The 11⅝% debentures and the 11¾% subordinated debentures are redeemable at the option of the Company, in whole or in part, at a declining premium to par until 2005 and 2003, respectively, and at par thereafter. The 10½% notes are redeemable at par starting in 1992.

On January 3, 1986, to finance the acquisition of ABC, Capital Cities/ABC Finance Company, Inc., an indirect wholly owned subsidiary of the Company issued $375,000,000 of 10.8% Senior Notes, due January 3, 1994. The Senior Notes are subject to an annual sinking fund payment of $93,750,000 beginning in 1991 and are not redeemable prior to 1992, at which time they may be redeemed at a price of 104% until maturity.

Primarily to finance the acquisition of ABC, a subsidiary of the Company issued commercial paper, $725,270,000 of which was outstanding at February 28, 1986, at a weighted average interest rate of 7.9%. The commercial paper is supported by a $1,000,000,000 bank revolving credit agreement terminating on January 31, 1989, unless otherwise extended. The agreement requires a commitment fee on the unused portion of the available credit of ¼% until March 20, 1986 and 3/16%, thereafter. Under terms of the bank revolving credit agreement, the Company and its consolidated subsidiaries (including ABC) are required to maintain a consolidated net worth of $1,400,000,000 through December 31, 1986, increasing annually by one-third of the consolidated net income of the previous year. In addition, the Company has an arrangement with a bank under which it may borrow up to $200,000,000 from time to time.

The Company has unconditionally guaranteed the 10.8% Senior Notes, the commercial paper, and any borrowings which may be made by a subsidiary under the bank revolving credit agreement or the $200,000,000 bank arrangement.

On March 4, 1986, Capital Cities/ABC Finance Company, Inc., issued $200,000,000 of 8¼% notes due March 15, 1996 and $300,000,000 of 8¾% sinking fund debentures due March 15, 2016. Both issues are unconditionally guaranteed by the Company. Proceeds were used to replace borrowings under the commercial paper program.

At December 31, 1985, ABC has $123,677,000 of long-term debt outstanding, consisting of $81,969,000 of 9.35% sinking fund debentures, due July 15, 2000, $20,219,000 of 7% subordinated notes due through 1992 and $21,489,000 of other long-term debt.

6. Employees' Profit Sharing and Pension Plans

The Company has qualified profit sharing or noncontributory pension plans for most employees. The profit sharing plans provide for contributions by the Company in such amounts as the Board of Directors may annually determine. For the pension plans, provision is made for normal cost and amortization of prior service costs over periods of up to 30 years. The Company's policy is to fund the amounts expensed. In connection with these plans, contributions of $6,605,000, $6,857,000, and $6,510,000 were charged to expense in 1985, 1984, and 1983, respectively.

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

	January 1, 1985	January 1, 1984
Actuarial present value of accumulated plan benefits:		
Vested	$45,171	$45,419
Nonvested	1,980	1,909
	$47,151	$47,328
Net assets available for plan benefits	$72,844	$66,057

The weighted average assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 8.0% for 1985 and 7.4% for 1984.

7. 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):

	1985 Amount	1985 %	1984 Amount	1984 %	1983 Amount	1983 %
Taxes on income at Federal tax rate	$127,338	46.0	$123,645	46.0	$103,272	46.0
State income taxes, net of Federal tax benefit	9,126	3.3	9,504	3.5	7,560	3.4
Amortization of intangible assets	5,601	2.0	4,791	1.8	3,292	1.4
Investment tax credit	(5,653)	(2.0)	(4,600)	(1.7)	(4,100)	(1.8)
Other, net	(1,812)	(.7)	260	.1	(224)	(.1)
	$134,600	48.6	$133,600	49.7	$109,800	48.9

The 1985 provision for income taxes includes $15,600,000 of deferred income taxes. The deferred tax provision is comprised of accelerated tax depreciation of $11,200,000 and other items, such as deferred compensation. The Company's deferred income taxes payable of $41,144,000 at December 31, 1985, results primarily from the excess of tax over financial accounting depreciation, the deferred gain on the 1971 sale of a television station, and deferred compensation which is not deductible until paid.

8. Intangible Assets

The broadcasting and substantially all 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 up to 40 years, even though in the opinion of Management, there has been no diminution of value of the properties. Cable television intangible assets principally represent amounts related to individual cable television franchises. Such franchise intangibles are amortized over the remaining lives of the franchises; other cable television intangible assets are amortized over 40 years. At December 31, 1985, the Company's intangible assets were as follows (000's omitted):

	Total	Broadcasting	Cable Television	Publishing
Intangible assets not subject to amortization	$123,815	$103,099	$ —	$ 20,716
Intangible assets required to be amortized	438,700	54,877	120,769	263,054
	562,515	157,976	120,769	283,770
Accumulated amortization	81,003	4,398	30,817	45,788
	$481,512	$153,578	$ 89,952	$237,982

9. Commitments

The Company (excluding ABC and disposed operations) has entered into agreements for future delivery of syndicated and feature film programming for its television stations, which aggregate $10,881,000, payable from 1986 through 1990.

At December 28, 1985, ABC is obligated for payments for the purchase of broadcast rights to various feature films, sports events and other programming aggregating approximately $1.8 billion.

10. Income Per Share

The calculation of average common shares and common share equivalents outstanding during the year is as follows (000's omitted):

	1985	1984	1983
Common shares	12,955	12,875	13,295
Stock options	125	125	160
Total	13,080	13,000	13,455

11. Segment Data

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

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.

The segment data follows (000's omitted):

	1985	1984	1983	1982	1981
Broadcasting					
Net revenues	$ 293,717	$ 271,848	$ 235,754	$220,996	$193,063
Direct operating costs	138,556	122,239	106,214	98,842	85,791
Depreciation	8,111	7,376	6,480	5,511	4,782
Amortization of intangible assets	1,286	595	415	415	260
Total operating costs	147,953	130,210	113,109	104,768	90,833
Income from operations	$ 145,764	$ 141,638	$ 122,645	$116,228	$102,230
Assets at December 31	$ 304,683	$ 286,460	$ 232,286	$222,827	$214,524
Capital expenditures	8,371	9,180	11,572	14,778	9,593
Cable Television					
Net revenues	$ 84,580	$ 76,258	$ 67,031	$ 53,302	$ 21,435
Direct operating costs	53,693	50,628	45,389	36,068	17,731
Depreciation	18,600	15,881	12,409	9,211	3,800
Amortization of intangible assets	7,081	7,205	7,182	6,345	3,000
Total operating costs	79,374	73,714	64,980	51,624	24,531
Income (loss) from operations	$ 5,206	$ 2,544	$ 2,051	$ 1,678	$ (3,096)
Assets at December 31	$ 233,114	$ 220,973	$ 223,055	$212,396	$173,384
Capital expenditures	17,956	17,190	25,210	31,130	27,085
Publishing					
Net revenues	$ 642,583	$ 591,616	$ 459,510	$389,282	$359,286
Direct operating costs	482,333	438,414	342,253	298,444	280,655
Depreciation	10,395	10,190	8,646	7,920	7,379
Amortization of intangible assets	11,343	9,833	4,577	3,908	3,732
Total operating costs	504,071	458,437	355,476	310,272	291,766
Income from operations	$ 138,512	$ 133,179	$ 104,034	$ 79,010	$ 67,520
Assets at December 31	$ 455,274	$ 430,997	$ 287,523	$260,890	$259,385
Capital expenditures	45,869	26,700	10,666	5,535	6,498
Consolidated					
Net revenues	$1,020,880	$ 939,722	$ 762,295	$663,580	$573,784
Income from operations	$ 289,482	$ 277,361	$ 228,730	$196,916	$166,654
General corporate expense	11,981	9,849	8,366	7,128	7,468
Operating income	277,501	267,512	220,364	189,788	159,186
Interest expense	(22,738)	(27,161)	(14,633)	(7,982)	(9,933)
Interest and other income	22,059	28,442	18,773	3,511	5,765
Income before income taxes	$ 276,822	$ 268,793	$ 224,504	$185,317	$155,018
Assets employed by segments	$ 993,071	$ 938,430	$ 742,864	$696,113	$647,293
Investments and corporate assets	891,860	269,742	310,048	79,900	50,327
Total assets at December 31	$1,884,931	$1,208,172	$1,052,912	$776,013	$697,620

12. Stock Option and Purchase Plans

The Company has stock option plans under which certain key personnel have been granted the right to purchase shares of common stock over a 10-or 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:

	1985	1984	1983
Outstanding options, beginning of year	325,983	379,358	420,595
Granted	19,845	6,825	85,500
Cancelled or expired	(5,425)	(4,738)	(2,002)
Exercised	(74,604)	(55,462)	(124,735)
Outstanding options, end of year	265,799	325,983	379,358
Average price of options exercised during the year	$32.66	$19.94	$18.69
Exercise price of outstanding options, end of year	$12.50 to $220.69	$9.13 to $160.00	$9.13 to $147.62
Options exercisable, end of year	201,604	254,983	259,515
Options available for future grant	192,855	207,275	211,250

The Company has an Employee Stock Purchase Plan which provides for the issuance of a maximum of 400,000 shares during the five-year period ending in April 1987. The Plan provides that eligible employees, through contributions of up to 15% of their compensation, 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 58,314, 56,088 and 103,201 shares under the Plan in 1985, 1984 and 1983, respectively.

13. Common Stock and Stockholder Information (Unaudited)

As of February 28, 1986, the approximate number of holders of common stock was 5,020. Dividends of $.05 per share have been paid for each quarter of 1985 and 1984. The common stock is traded on the New York Stock Exchange. The high, low and closing prices of the Company's common stock for each quarter of 1985 and 1984 are as follows:

	1985			1984		
	High	Low	Close	High	Low	Close
1st quarter	$222	$152¼	$213½	$147¾	$123½	$138
2nd quarter	228½	200½	223¼	166	136¼	161¼
3rd quarter	225½	191½	195½	174½	155	163
4th quarter	229	183¼	224½	167¼	150¼	164⅝

Notes to Consolidated Financial Statements—(Continued)

14. Quarterly Financial Data (Unaudited)

The following summarizes the Company's results of operations for each quarter of 1985, 1984 and 1983 (000's omitted except per share amounts):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
1985					
Net revenues	$234,105	$267,065	$248,218	$271,492	$1,020,880
Costs and expenses	178,666	184,558	183,911	196,244	743,379
Operating income	55,439	82,507	64,307	75,248	277,501
Interest expense	(6,298)	(5,933)	(5,597)	(4,910)	(22,738)
Interest and other income	5,399	4,552	6,034	6,074	22,059
Income before income taxes	54,540	81,126	64,744	76,412	276,822
Income taxes	26,800	39,900	31,300	36,600	134,600
Net income	$ 27,740	$ 41,226	$ 33,444	$ 39,812	$ 142,222
Net income per share	$2.13	$3.15	$2.55	$3.04	$10.87
1984					
Net revenues	$206,818	$243,568	$229,827	$259,509	$ 939,722
Costs and expenses	152,427	165,033	169,845	184,905	672,210
Operating income	54,391	78,535	59,982	74,604	267,512
Interest expense	(6,364)	(6,643)	[illegible]	(7,137)	(27,161)
Interest and other income	6,867	6,663	[illegible]	7,012	28,442
Income before income taxes	54,894	78,555	[illegible]	74,479	268,793
Income taxes	27,800	39,200	30,300	36,300	133,600
Income before extraordinary gain	27,094	39,355	30,565	38,179	135,193
Extraordinary gain	—	—	7,585	—	7,585
Net income	$ 27,094	$ 39,355	$ 38,150	$ 38,179	$ 142,778
Income per share					
Before extraordinary gain	$2.07	$3.03	$2.36	$2.94	$10.40
Extraordinary gain	—	—	.58	—	.58
Net income	$2.07	$3.03	$2.94	$2.94	$10.98
1983					
Net revenues	$170,128	$194,018	$184,004	$214,145	$ 762,295
Costs and expenses	128,531	132,187	134,414	146,799	541,931
Operating income	41,597	61,831	49,590	67,346	220,364
Interest expense	(1,110)	(844)	(6,279)	(6,400)	(14,633)
Interest and other income	1,329	2,254	6,991	8,199	18,773
Income before income taxes	41,816	63,241	50,302	69,145	224,504
Income taxes	20,700	30,700	24,000	34,400	109,800
Net income	$ 21,116	$ 32,541	$ 26,302	$ 34,745	$ 114,704
Net income per share	$1.58	$2.41	$1.95	$2.59	$8.53

15. Supplementary Information on the Effects of Changing Prices (Unaudited)

The following supplementary data is presented pursuant to the requirements of *Financial Accounting Standards Board Statement No. 33, "Financial Reporting and Changing Prices"*, as amended. This statement requires a supplementary computation of operating results based on the effect of changes in specific prices ("current cost") of inventories and property, plant and equipment used in the operations of the Company.

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 vendors' quotations, invoice prices, price indices or independent appraisals. These current costs represent estimates for replacement of 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 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 Statement No. 33 does not permit the recognition of any tax benefit arising from the pro forma effects of changes in specific prices.

In addition to the effect of changing prices on net income, during periods of inflation, monetary assets, such as cash, cash investments and receivables lose purchasing power since these assets will purchase fewer goods or services in the future. Monetary liabilities, payables and other debt, are also affected by inflation since less purchasing power will be required to satisfy these obligations. The net change in the Company's monetary liabilities during the current year resulted in a loss in purchasing power.

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 Statement No. 33, is or is not the best representation of the impact of inflation upon the Company.

Statement of Income Adjusted for Changing Prices

Year ended December 31, 1985
(Average 1985 dollars in thousands)

	1985
Income as reported in the consolidated statement of income	$142,222
Adjustment to restate depreciation for the effect of changes in specific prices	(14,985)
Income adjusted for changes in specific prices	$127,237
Loss of purchasing power on net monetary items	$ (318)
Increase in specific prices of inventories and property, plant and equipment held during the year	$ 7,360
Effect of increase in general price level	15,373
Excess of increase in general price level over specific prices	$ 8,013

At December 31, 1985, the current cost of inventories was $12,277,000 and the current cost of net property, plant and equipment was $415,038,000.

Five-Year Comparison of Selected Supplementary Financial Data Adjusted for Effects of Changing Prices	1985	1984	1983	1982	1981
(Average 1985 dollars in thousands except per share data)					
Net revenues	$1,020,880	$973,251	$823,095	$739,555	$678,683
Current cost information					
Income before extraordinary gain	$ 127,237	$122,964	$110,149	$ 94,422	$ 81,839
Income per share before extraordinary gain	$ 9.73	$ 9.46	$ 8.19	$ 7.11	$ 6.22
Increase in specific prices of inventory and property, plant and equipment (under) over increase in the general price level	$ (8,013)	$ 34,413	$ 5,204	$ 3,546	$ 8,766
Net assets at year-end	$ 988,072	$874,387	$759,536	$688,740	$611,695
Other information					
(Loss) gain of purchasing power on net monetary items	$ (318)	$ (117)	$ (599)	$ 3,750	$ 6,167
Cash dividends per share	$ 0.20	$ 0.21	$ 0.22	$ 0.22	$ 0.24
Market price per share at year-end	$220.93	$170.50	$155.49	$133.32	$ 87.23
Average Consumer Price Index (1967 = 100)	322.2	311.1	298.4	289.1	272.4
Historical financial information					
(Dollars in thousands except per share data)					
Net revenues	$1,020,880	$939,722	$762,295	$663,580	$573,784
Income before extraordinary gain	$ 142,222	$135,193	$114,704	$ 96,317	$ 80,518
Income per share before extraordinary gain	$ 10.87	$ 10.40	$ 8.53	$ 7.25	$ 6.12
Net assets at year-end	$ 889,260	$734,455	$625,255	$544,267	$443,822
Cash dividends per share	$ 0.20	$ 0.20	$ 0.20	$ 0.20	$ 0.20
Market price per share at year-end	$224.50	$164.63	$144.00	$119.63	$ 73.75

Report of Certified Public Accountants

The Board of Directors and Shareholders
Capital Cities/ABC, Inc.

We have examined the accompanying consolidated balance sheet of Capital Cities/ABC, Inc. at December 31, 1985 and 1984, and the consolidated statements of income, stockholders' equity and changes in financial position for each of the three years in the period ended December 31, 1985. 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/ABC, Inc. at December 31, 1985 and 1984, and the consolidated results of operations and changes in financial position for each of the three years in the period ended December 31, 1985, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

Arthur Young & Company

New York, New York
February 28, 1986

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, 1985 | **Commission file number 1-4278**

Capital Cities/ABC, Inc.
(Exact name of registrant as specified in its charter)

New York	**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 $3,139,000,000 as of February 28, 1986.

The number of shares outstanding of the issuer's common stock as of February 28, 1986: 16,035,988 shares, excluding 2,357,508 treasury shares.

Portions of Part I are incorporated herein by reference to the 1985 Annual Report to Shareholders and Proxy Statement for the annual meeting of shareholders to be held on May 15, 1986.

Part II and Part IV, with the exception of certain schedules and exhibits, are incorporated herein by reference to the 1985 Annual Report to Shareholders.

Part III is incorporated herein by reference to the definitive Proxy Statement for the annual meeting of shareholders on May 15, 1986.

PART I

Item 1. *Business.*

Capital Cities/ABC, 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. On January 3, 1986, the Company acquired American Broadcasting Companies, Inc. ("ABC") through a merger (the "Merger") of ABC and a wholly owned subsidiary of the Company. In order to comply with applicable statutory provisions, rules, regulations and policies of the Federal Communications Commission (the "FCC"), on January 2 and 3, 1986, the Company divested itself of its television properties in New Haven, Buffalo and Tampa, its radio properties in Paterson, New Jersey (AM and FM), Los Angeles (AM and FM) and Buffalo (AM), and all of its cable television systems; and ABC divested itself of its television property in Detroit and its radio properties in Detroit (FM), Houston (FM) and Denton, Texas (FM). Pursuant to temporary waivers granted to the Company by the FCC, the Company is required to effect divestitures of radio properties in New York (AM and FM), Los Angeles (AM and FM), Chicago (AM and FM) and San Francisco (AM) within 18 months after the Merger. (For a description of the FCC regulations which necessitated these divestitures, see below under "Licenses—Federal Regulation of Broadcasting/ Ownership Matters".) In addition, in August 1985, the Company divested itself of its New Jersey newspaper operations. Simultaneously with the Merger, the Company changed its name from Capital Cities Communications, Inc. to its present name.

Employees

At December 31, 1985, the Company had approximately 8,890 full-time employees: 1,250 in broadcasting operations, 6,780 in publishing operations, 825 in cable television operations and 35 in corporate. On January 3, 1986, subsequent to the Merger and the divestitures as described above, the Company had approximately 19,700 full-time employees.

Industry Segments

Information relating to the industry segments of the Company's operations prior to the acquisition of ABC is included on page 32 of the Company's Annual Report to Shareholders and is hereby incorporated by reference. In 1985 the Company derived all broadcasting revenues and more than 80% of its publishing revenues from the sale of advertising; subscription and other circulation receipts provided the balance of publishing revenues. The principal sources of cable television revenues were the monthly service charges for basic and premium television services provided to subscribers. Other cable television revenues were derived from installation and reconnection charges.

Broadcasting

Television and Radio Networks

The Company operates the ABC Television Network (acquired as a result of the Merger) which as of January 3, 1986, had 214 primary affiliated stations which cover approximately 99% of all U.S. television households. There are a number of secondary affiliated stations which add to the primary coverage. The ABC Television Network has a program schedule consisting of Week-Day Early Morning, Monday through Friday Daytime, Children's, Late Night, Sports, News and Prime Time Programming. The Company also operates the ABC Radio Networks (acquired as a result of the Merger) which had 1,944 affiliated stations as of January 3, 1986. The ABC Radio Networks consist of seven different network program services, each with its own group of affiliated stations. Through its Watermark unit, the ABC Radio Networks produce and distribute a number of radio program series, servicing affiliated and non-affiliated stations throughout the country.

Generally, the Company pays the cost of producing or purchasing the broadcast rights for its network programming and compensates its affiliated stations for broadcasting the programs and commercial announcements included therein. Substantially all revenues from network operations are derived from the sale to advertisers of time in network programs for commercial announcements. The ability to sell time for commercial announcements and the rates received are substantially dependent on the quantitative and qualitative audience the network can deliver to the advertiser. Affiliated stations are not obligated to accept network programming.

Radio and Television Stations

The Company owns nine standard (AM) radio stations, eight frequency modulation (FM) radio stations, seven very high frequency (VHF) television stations and one ultra high frequency (UHF) television station. All radio stations, except as noted, are affiliated with the ABC Radio Networks, and all television stations are affiliated with the ABC Television Network. Market locations, frequencies, transmitter power and other station details are set forth below:

Radio stations

Station and location	Frequency AM-Kilohertz FM-Megahertz	Power AM-Watts FM-Kilowatts	Expiration date of FCC authorization	Radio market ranking (1)
WABC (2) New York, New York	770 K	50,000	June 1, 1991	1
KABC (2) Los Angeles, California	790 K	5,000	Dec. 1, 1990	2
WLS (2) Chicago, Illinois	890 K	50,000	Dec. 1, 1989	3
KGO (2) San Francisco, California	810 K	50,000	Dec. 1, 1990	4
WJR Detroit, Michigan	760 K	50,000	Oct. 1, 1989	6
WMAL (2) Washington, D.C.	630 K	5,000	Oct. 1, 1988	9
WBAP Fort Worth, Texas	820 K	50,000	Aug. 1, 1990	10
WPLO (3) Atlanta, Georgia	590 K	5,000	Apr. 1, 1989	15
WPRO Providence, Rhode Island	630 K	5,000	Apr. 1, 1991	26
WPLJ-FM (2) New York, New York	95.5 M	6.74	June 1, 1991	1
KLOS-FM (2) Los Angeles, California	95.5 M	63.1	Dec. 1, 1990	2
WYTZ-FM (2) Chicago, Illinois	94.7 M	4.4	Dec. 1, 1989	3
WHYT-FM Detroit, Michigan	96.3 M	50	Oct. 1, 1989	6
WRQX-FM (2) Washington, D.C.	107.3 M	36	Oct. 1, 1988	9
KSCS-FM (3) Fort Worth, Texas	96.3 M	100	Aug. 1, 1990	10
WKHX-FM (3) Marietta, Georgia (Metropolitan Atlanta)	101.5 M	100	Apr. 1, 1989	15
WPRO-FM Providence, Rhode Island	92.3 M	39	Apr. 1, 1991	26

Television stations

Station and location	Channel	Expiration date of FCC authorization	Television market ranking (4)
WABC-TV (2) New York, New York	7	June 1, 1989	1
KABC-TV (2) Los Angeles, California	7	Dec. 1, 1988	2
WLS-TV (2) Chicago, Illinois	7	Dec. 1, 1987	3
WPVI-TV Philadelphia, Pennsylvania	6	Aug. 1, 1989	4
KGO-TV (2) San Francisco, California	7	Dec. 1, 1988	5
KTRK-TV Houston, Texas	13	Aug. 1, 1988	10
WTVD Durham, North Carolina	11	Dec. 1, 1986	38
KFSN-TV Fresno, California	30	Dec. 1, 1988	64

(1) Based on Arbitron Radio Market Metro Rankings as of January 1, 1986.
(2) Acquired by the Company on January 3, 1986 as a result of the Merger.
(3) No network affiliation.
(4) Based on Arbitron ADI Market Rankings, 1985-86 season.

Video Enterprises

Video Enterprises (acquired as a result of the Merger) is involved in the production and supply of cable and subscription television programming, and licensing of programming to the domestic and international home video markets and to television stations abroad. Its primary services are:

ESPN, a cable sports programming service, which is 80%-owned;

The Arts & Entertainment Network, a cable programming service devoted to cultural programming and high quality entertainment, which through joint ventures the Company owns 38%; and

Lifetime, a cable programming service devoted to women's lifestyle and health programming with special material for health care professionals, which through joint ventures the Company owns 33⅓%.

Competition

The Company's television and radio stations are in competition with other television and radio stations and other advertising media such as newspapers, magazines and billboards. In the area of network television broadcasting, the ABC Television Network's principal competitors for viewers and for program sponsorship are the two other major television networks, CBS and NBC. Substantial competition also exists for exclusive broadcasting rights for television programming. The ABC Radio Networks likewise compete with other radio networks and radio programming services.

Competition in the television station 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 station 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 FCC, no additional VHF television commercial stations may be constructed or acquired in any of the cities where the Company's television stations are located, although existing stations may be sold from time to time. However, proceedings now pending before the FCC could result in (1) the assignment of additional VHF channels for commercial use, or (2) the acquisition by commercial enterprises of FCC authority to operate on VHF channels now reserved for noncommercial use by public television operations in a number of the cities in which the Company's television stations now operate. In either case, the result would be to increase the number of commercial VHF stations against which the Company's stations compete. The Company is unable to predict the outcome of any of these proceedings. (For a description of other ownership restrictions, see below under "Licenses—Federal Regulation of Broadcasting/Ownership Matters".)

There are sources of television service other than conventional television stations. The most common at present are cable television systems. Cable television can provide more competition for a station by making additional signals available to its audience. In addition, most cable television systems supply programming that is not available on conventional television stations. These include a wide range of advertiser-supported and subscription-supported video programming services. Subscription-supported video programming services are also provided by over-the-air television stations and multipoint distribution services which employ non-broadcast frequencies to transmit subscription television services to individual homes and businesses. Additional services are being provided or may be provided within the relatively near future by low power television stations and direct broadcast satellites.

The Company's Video Enterprises competes with a number of companies involved in developing and supplying program services for cable, distribution of video cassettes and videodiscs, television syndication and theatrical distribution. The development of these businesses could adversely affect the future of conventional television broadcasting.

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, determine the location of stations, regulate the equipment used by stations, adopt such regulations as may be necessary to carry out the provisions of the Communications Act and 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. During certain periods when a renewal application is pending, competing applicants may file for the frequency and may be entitled to compete with the renewal applicant in a comparative hearing, and others may file petitions to deny the application for renewal of license. All of the Company's owned and operated stations have been granted license renewals by the FCC for regular terms.

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 that a license for a radio or television station will not be granted if the applicant owns, or has a significant interest in, another station of the same type (TV, AM or FM) which provides service to areas already served by the station operated or controlled by the applicant or if granting the license would result in a concentration of control of broadcasting. Pursuant to recent FCC action, which has not yet become final, a single entity may now directly or indirectly own, operate or have a significant interest in up to twelve AM and twelve FM radio stations, and up to twelve television stations (VHF or UHF), provided that those television stations operate in markets containing cumulatively no more than 25% of the television households in the country. For this purpose, ownership of a UHF station will result in the attribution of only 50% of the television households in the relevant market. There are also relaxed limits for interests in entities controlled by members of recognized minority groups. Proceedings on judicial review of these rules are now pending, and are being held in abeyance pending reconsideration by the FCC. The Company cannot predict the outcome of these proceedings.

The Company now owns nine AM radio stations, eight FM radio stations and eight television stations, of which seven are VHF. When the Company sought FCC approval for its acquisition of control over the ABC television stations in New York, Los Angeles, Chicago and San Francisco, it estimated its resulting total penetration of the nation's television households, for purposes of the multiple ownership rules, as 24.40%. Although Stations WPVI-TV and WABC-TV provide overlapping service to an area of approximately 2,813 square miles, the FCC has granted a waiver of the rules to permit the Company to operate both stations.

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. The acquisition by the Company of ABC's radio-television combinations in New York, Los Angeles, Chicago and San Francisco brings the Company out of compliance with these regulations. The FCC has, however, granted to the Company a limited waiver of the rules to permit the operation of these combinations for up to 18 months (i.e., until July 1987).

Furthermore, under the FCC's rules, radio and/or television licensees may not acquire new ownership interests in daily newpapers published in the same markets served by their broadcast stations; television licensees may not own cable television systems in communities within the service contours of their television stations. 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 and WHYT-FM, licensed to Detroit, are treated as in the same market, as are the *Fort Worth Star-Telegram* and WBAP and KSCS-FM, licensed to Fort Worth. Under the rules, therefore, these commonly owned broadcast/newspaper combinations could not be transferred together.

For purposes of applying the multiple ownership rules, the FCC rules provide that an entity will have the licensee's broadcast stations or newspapers attributed to it only if it holds the power to vote or control the vote of 5% or more of the stock of a publicly held licensee (i.e., one with 50 or more stockholders). Qualifying mutual funds, insurance companies, or bank trust departments may vote or control the vote of up to 10% of the stock of a publicly held broadcast licensee before the licensee's stations would be attributed to that entity.

Network Regulations

Certain of ABC's network operations also are regulated by a consent decree in *United States v. American Broadcasting Companies, Inc.*, 74-3600-RJK, in the United States District Court for the Central District of California, entered into on November 14, 1980, and effective as of that date. The consent decree contains provisions which prohibit the acquisition of subsidiary rights and interests in television programs produced by independent suppliers and forbid ABC from engaging in the business of domestic syndication. These injunctive provisions of the consent judgment continue in perpetuity. In addition, the consent judgment contains provisions regulating for periods of 10 and 15 years (expiring in 1990 and 1995) certain aspects of ABC's contractual relationships with suppliers of entertainment programming and with talent performers and other creative contributors to entertainment programming, and limiting the number of hours of entertainment programming produced by ABC which may be offered for broadcast by ABC's television network. Similar judgments have been entered against CBS Inc. and the National Broadcasting Company, Inc.

Various FCC rules restrict the Company's operation of the ABC radio and television networks and restrict its conduct in other fields because of its control over those networks. Some of the rules are comparable in effect to the in-perpetuity provisions of the consent decree described above. Another rule has the effect of generally limiting the prime time programming schedules of each of the three major television networks to three hours per night during the period 7:00 P.M. to 11:00 P.M., Monday through Saturday.

Cable Television and Other Television Services

As previously noted, cable television can provide more competition to a television station by making additional signals available to its audience. In 1985, the United States Court of Appeals for the District of Columbia Circuit ruled unconstitutional FCC rules which previously had required cable television systems generally to carry the signals of the television stations in whose service areas they operated. A petition for certiorari is pending in the United States Supreme Court seeking review of this decision. In addition, the FCC recently issued a *Notice of Inquiry* seeking comments on whether to reformulate the "must-carry" rules in light of the Court's decision. The Company cannot predict the outcome of these proceedings.

The FCC has eliminated other rules restricting cable television 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 permit cable television 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. On the other hand, the Copyright Royalty Tribunal, in response to the decision to eliminate these rules, imposed a materially increased royalty on the carriage of certain additional distant signals. These fees apply to services provided on or after March 15, 1983. The United States Court of Appeals for the District of Columbia Circuit upheld the increased royalty fees. The Company is not able to predict the prospects for further litigation on this subject.

Most cable television systems supply additional programming to subscribers that is not originated on, or transmitted from, conventional television broadcasting stations. The FCC also authorizes broadcast subscription television services (STV) and multipoint distribution services (MDS), and has expanded the number of frequencies available for MDS by allocating two groups of four channels each for the so-called multi-channel MDS. The Company currently has applications pending for authorization to operate multi-channel MDS services in 71 markets. The Commission also authorized licensees in the Instructional Television Fixed Service (ITFS) to lease their excess capacity for commercial use, including subscription television service and has adopted rules facilitating direct broadcast satellite operations, granting a number of authorizations for such services. It has also created a new service of low power television facilities to supplement existing conventional television broadcast service. The Company cannot predict the competitive effect of these services.

Radio Proceedings

In an action designed to increase the number of aural outlets, the FCC has initiated studies of the possible expansion of the AM band to include new frequencies. This action would require, among other matters, some modifications of international treaties governing use of the radio spectrum. The FCC also recently increased the number of FM allocations available for assignment by authorizing 689 new FM stations. The Company is not able to predict the outcome and/or impact of these various proceedings.

* * * * *

There are a number of proposals now pending before Congress for legislation that may affect the Company's operations or its stations' advertising revenues. For example, Congress recently enacted legislation placing restrictions on the form of advertisements for smokeless tobacco. Current proposals are also pending for legislation banning the advertising of wine, beer and other alcoholic beverages on radio and television. Other 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 generally predict whether new legislation or regulations may result from any such studies or hearings or the adverse impact, if any, upon the Company's operations which might result therefrom.

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

Publishing

At December 31, 1985, the Company published 34 business and specialized publications, nine daily newspapers in seven markets, 40 weekly community newspapers and shopping guides and distributed information from electronic databases. Following is a summary of the Company's historical operating performance (excluding ABC), by type of publication for the five years ended December 31, 1985 (000's omitted):

	1985	1984	1983	1982	1981	Pro Forma (b) 1985	Pro Forma (b) 1984
Inches of advertising							
Newspapers (a)	18,276	18,620	16,929	16,115	16,413	17,567	17,518
Specialized publications	2,691	2,837	2,731	2,317	2,252	2,577	2,773
Advertising revenue							
Newspapers—ROP	$257,244	$249,771	$213,330	$189,833	$177,878	$252,962	$242,860
Newspapers—inserts	28,093	25,825	21,609	16,971	15,135	27,590	25,012
Shopping guides	52,608	41,927	7,751	5,953	8,152	12,540	11,361
Specialized publications	179,071	165,832	135,102	105,227	93,915	156,010	156,530
Circulation revenue							
Newspapers	$ 51,418	$ 49,468	$ 46,914	$ 43,438	$ 39,205	$ 50,385	$ 47,969
Specialized publications	31,087	24,886	20,904	18,738	15,966	25,554	23,208
Other operating revenue							
Newspapers	$ 3,778	$ 3,593	$ 3,038	$ 2,988	$ 3,028	$ 3,595	$ 3,226
Shopping guides	11,902	9,560	224	—	—	931	639
Specialized publications	27,382	20,754	10,638	6,134	6,007	15,591	16,256
Total revenue							
Newspapers	$340,533	$328,657	$284,891	$253,230	$235,246	$334,532	$319,067
Shopping guides	64,510	51,487	7,975	5,953	8,152	13,471	12,000
Specialized publications	237,540	211,472	166,644	130,099	115,888	197,155	195,994
Paid circulation at December 31							
Newspapers (Mon.-Fri.)	941	971	976	964	941	941	942
Newspapers (Sun.)	840	858	838	821	766	840	827
Specialized publications	799	769	678	642	626	780	750

(a) Does not include inserts.
(b) Excludes 1985 and 1984 acquisitions, start-ups and disposals.

Daily Newspapers

The Company publishes nine daily newspapers in seven communities (four of which have Sunday editions). The daily newspapers and their paid circulation at December 31, 1985 are as follows:

		Daily	Sunday
The Kansas City Times	Morning	274,000	
The Kansas City Star	Evening	227,000	401,000
Fort Worth Star-Telegram	Morning	123,000	302,000
Fort Worth Star-Telegram	Evening	130,000	
The Oakland Press (Pontiac, Mich.)	Evening	72,000	80,000
Belleville News-Democrat (Belleville, Ill.)	Morning	42,000	52,000
The Times Leader (Wilkes-Barre, Pa.)	All-day	45,000	
Albany Democrat-Herald (Albany, Oregon)	Evening	21,000	
The Daily Tidings (Ashland, Oregon)	Evening	6,000	

Weekly Newspapers

The Company publishes weekly community newspapers in four states. The location by state, number of publications and aggregate circulation at December 31, 1985 is set forth below:

State	Number of Publications	Aggregate Circulation
Connecticut	16	168,000
Illinois	3	41,000
Oregon	6	44,000
Rhode Island	3	23,000

Shopping Guides

The Company distributes shopping guides in five states. The location by state, number of publications and aggregate circulation at December 31, 1985 is set forth below:

State	Number of Publications	Aggregate Circulation
California	6	1,350,000
Kansas	2	253,000
Missouri	1	122,000
Oregon	1	185,000
Washington	2	291,000

Specialized Publications

The Specialized Publications Group, through Fairchild Publications and Institutional Investor, is engaged in gathering and publishing business news and ideas for industries covered by its various publications. In addition, through Chilton Company, Hitchcock Publishing Company and other entities, the Specialized Publications Group also is engaged in the publishing of consumer, special interest, trade and agricultural publications, and in database services and inspirational communications. All of the publications are printed by outside printing contractors. Following are the significant publications and services:

Title	Frequency	Circulation
Fairchild Publications		
Newspapers		
Women's Wear Daily	Daily	79,000
Daily News Record	Daily	25,000
American Metal Market	Daily	13,000
HFD—Retailing Home Furnishings	Weekly	31,000
Energy User News	Weekly	16,000
Footwear News	Weekly	23,000
Supermarket News	Weekly	56,000
Electronic News	Weekly	69,000
Metalworking News	Weekly	28,000
MIS Week	Weekly	126,000(1)
Multichannel News	Weekly	12,000
W	Biweekly	221,000
SportStyle	Semimonthly	26,000(1)
Entrée	Monthly	12,000(1)
Children's Business	Monthly	20,000(1)
Magazines		
M	Monthly	135,000
Metal Center News	Monthly	13,000(1)
Home Fashions Textiles	Monthly	12,000(1)
Heat Treating	Monthly	20,000(1)
International Medical News Group		
Family Practice News	Semimonthly	73,000(1)
Internal Medicine News	Semimonthly	67,000(1)
Ob. Gyn. News	Semimonthly	30,000(1)
Pediatric News	Monthly	31,000(1)
Clinical Psychiatry News	Monthly	29,000(1)
Skin & Allergy News	Monthly	38,000(1)
Professional Press Group		
Journal of Learning Disabilities	Monthly	13,000
Optical Index	Monthly	34,000(1)
International Eyecare	Monthly	15,000(1)
American Traveler Group		
The Travel Agent	Twice Weekly	45,000
El Travel Agent Internacional	Monthly	7,000(1)
Institutional Investor		
Domestic Edition	Monthly	63,000(1)
International Edition	Monthly	32,000(1)

Institutional Investor also conducts meetings and seminars for specific audiences and publishes newsletters for the investment community.

Philatelic Publications		
Stamp Collector	Weekly	22,000
The Stamp Wholesaler	Biweekly	6,000

Title	Frequency	Circulation
Consumer and Special Interest Publications (2)		
McCall's Needlework & Crafts	Bimonthly	700,000
Modern Photography	Monthly	725,000
High Fidelity	Monthly	400,000
Schwann Record & Tape Guide	Monthly	30,000
Los Angeles Magazine	Monthly	168,000
COMPUTE!	Monthly	350,000
COMPUTE!'s Gazette	Monthly	275,000

COMPUTE! also publishes and sells computer diskettes and books in the field of home, recreational and educational computing.

Title	Frequency	Circulation
Trade Publications (2)		
Assembly Engineering	Monthly	79,000(1)
Automotive Industries	Monthly	75,000(1)
Automotive Marketing	Monthly	24,000(1)
Commercial Carrier Journal	Monthly	78,000(1)
Distribution	Monthly	63,000(1)
Electronic Component News	Monthly	103,000(1)
Food Engineering North America	Monthly	56,000(1)
Food Engineering International	10 times per year	13,000(1)
Hardware Age	Monthly	71,000(1)
IMPO (Industrial Maintenance & Plant Operations)	Monthly	112,000(1)
IMPO Distributor News	Bimonthly	32,000(1)
Industrial Finishing	Monthly	36,000(1)
Industrial Safety & Hygiene News	Monthly	56,000(1)
Infosystems	Monthly	136,000(1)
Instrument & Apparatus News	Monthly	112,000(1)
Instrument & Control Systems	Monthly	84,000(1)
Iron Age/Manufacturing Management	Semimonthly	100,000(1)
Iron Age/Metal Producers	Monthly	22,000(1)
Jewelers Circular Keystone	Monthly	39,000
Machine and Tool Blue Book	Monthly	95,000(1)
Manufacturing Systems	Monthly	131,000(1)
Motor Age	Monthly	132,000(3)
Office Products Dealer	Monthly	33,000(1)
Owner Operator	Bimonthly	90,000(3)
Product Design & Development	Monthly	160,000(1)
Quality	Monthly	87,000(1)
Review of Optometry	Monthly	26,000(3)

Certain of the above also publish books and directories dealing with industrial and automotive topics, provide marketing and research services and manage trade shows.

Title	Frequency	Circulation
Agricultural Publications (2)		
Prairie Farmer (Illinois)	23 times per year	96,000
Indiana Prairie Farmer	23 times per year	72,000
Wallaces Farmer	23 times per year	87,000
Wisconsin Agriculturist	22 times per year	58,000
Dairy Herd Management	Monthly	110,000(1)
Farm Store Merchandising	Monthly	35,000(1)
Feedlot Management	Monthly	34,000(1)
Feedstuffs	Weekly	16,000
Garden Supply Retailer	Monthly	41,000(1)
Hog Farm Management	Monthly	78,000(1)
Tack 'n Togs	Monthly	20,000(1)

Certain publishing subsidiaries also publish books, sell insurance products, sponsor the Farm Progress Show for farmers in the midwest, and provide marketing and research services.

Database Services

Securities Data Company and Videolog Communications distribute information from electronic databases. NILS Publishing Company and National Price Service, Inc. (acquired as a result of the Merger) publish information on insurance laws and regulations and publish price and product information for items available to the electrical and plumbing trades.

Inspirational Communications

Word, Incorporated (acquired as a result of the Merger), a diversified religious and inspirational communications company, publishes religious and inspirational books and materials and produces and distributes records, tapes, sheet music, song books, films and instructional materials.

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(1) Controlled circulation.
(2) Acquired by the Company on January 3, 1986 as a result of the Merger.
(3) Controlled circulation, with approximately 40–45% paid.

Competition

The Company's specialized publications operate in a highly competitive environment. In the Company's various news publishing activities it competes with almost all other information media, and this competiton 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 the Company's specialized publications, competing general interest and consumer magazines and general news magazines publish substantial amounts of similar business material and deal with the same or related special interests or industries as those covered by the Company's publications. 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 shopping guides compete with other advertising media such as broadcasting stations, suburban and metropolitan newspapers, magazines and billboards. The Company's book publishing operations compete with other companies whose books deal with the same or related fields as those covered by the Company's titles. In most cases, there is also competition for acquisition of new book titles. In the religious and inspirational recording field, there is competition with others, not only to obtain the creative talent and music essential to the business, but also in the sale and distribution of the product.

Raw Materials

Newsprint is the primary raw material used by the Company's publishing division. Newsprint and other paper stock for the Company's specialized and business publications is mostly furnished by contract printers. Newsprint is readily available from numerous suppliers.

Cable Television

Immediately prior to the Merger the Company had interests in 55 cable television systems which served 379,605 basic subscribers with 250,470 premium units. All systems were 100% owned by the Company or its subsidiaries except for one which was 80% owned and one which was 50% owned. The Company divested all of its cable television systems on January 2, and January 3, 1986. (For a description of the FCC regulations which necessitated these divestitures, see above under "Licenses—Federal Regulation of Broadcasting/Ownership Matters".)

Item 2. *Properties.*

The Company currently occupies executive offices at 24 East 51st Street in New York City under a lease expiring in 2012. 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, as well as all of the premises occupied by Institutional Investor in New York City and Sutton Industries at various locations in California, are leased. The Company owns and leases additional publishing subsidiaries' executive, editorial and other offices and facilities in various cities, for which leased properties the leases expire on various dates through 1994. All of the premises occupied by the newspapers are owned by the Company.

The Company owns the ABC Building at 1330 Avenue of the Americas, the ABC Television Center on West 66th and 67th Streets and the ABC Radio Network studios at 125 West End Avenue, all in New York City. In Los Angeles the Company owns the ABC Television Center, and studios and offices at Sunset Gower Studios are partially owned and the balance is leased with an option to purchase in 1988. The Company also leases its West Coast corporate headquarters in Los Angeles, the ABC News Bureau facility in Washington, D.C. and the computer facility in Hackensack, New Jersey, under leases expiring on various dates through 2002. The Company's broadcast operations and engineering facility and local television studios and offices in New York City are leased, but the Company has the right to acquire such properties for a nominal sum in 1997. The Company owns the majority of its other broadcast studios and offices and broadcast transmitter sites elsewhere, and those which it does not own are occupied under leases expiring on various dates through 1996.

Item 3. *Legal Proceedings.*

The following constitutes 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 facts which have been ascertained, and the opinions of counsel handling the defense of these matters, management believes the outcome of such legal proceedings will, in the aggregate, not have a material adverse effect on the financial statements of the Company.

On or about September 20, 1978, an action was commenced against the Kansas City Star Company (the "Star") and the Company in the Circuit Court of Jackson County, Missouri by Robert S. Miskimen on behalf of himself and approximately 267 other parties plaintiff. Plaintiffs, as carrier distributors of the Star's newspapers, sought an injunction restraining the Company and the Star from refusing to sell newspapers to the plaintiffs for 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 and punitive damages of $100,000,000 for each plaintiff. On June 23, 1982 the Circuit Court rejected plaintiffs' claims. On November 7, 1984 the Missouri Court of Appeals, Western District reversed the decision of the Circuit Court rendered in favor of the Star, resulting in a judgment in favor of plaintiffs and determining that the Star could not terminate its contracts with plaintiffs at will and without cause. The action has been remanded to the Circuit Court for further proceedings. Both plaintiffs and the Star and the Company have moved the Court for summary judgment in their favor. The plaintiffs seek an award of $17,000,000, plus pre-judgment interest thereon since September 24, 1977, and for punitive damages of $100,000,000.

There are 14 other actions pending in various Missouri State Courts seeking damages against the Star arising from claimed interference with plaintiffs' property rights and contractual relationships with newspaper carriers. These cases are substantially identical to the Miskimen action. The opinion of counsel for the Star is that the outcome of these litigations will depend on the outcome of the Miskimen action.

On or about June 14, 1983, actions were commenced against the Star in the United States District Court for the Western District of Missouri, Western Division, by the Aaron plaintiffs (consisting of 147 named carrier plaintiffs or their representatives), the Baldwin plaintiffs (consisting of 25 named carrier plaintiffs or their representatives) and the Fowler plaintiffs (consisting of 3 named carrier plaintiffs or their representatives). The three actions seek permanent injunctive relief prohibiting the Star from selling its newspapers to each of the plaintiffs based upon the type of customers to whom plaintiffs sell at retail and an order requiring the Star to sell its newspapers to plaintiffs on a balanced draw or individual copy basis. The actions are founded upon alleged violations of the Sherman and Clayton Antitrust Acts. The plaintiffs seek treble damages in an unspecified amount, in addition to counsel fees, costs and expenses. The three actions have been consolidated for joint discovery and pre-trial proceedings. There are other miscellaneous actions instituted against the Star arising out of its dispute with its carriers.

The Company's subsidiary, ABC, and CBS Inc. are defendants in an action entitled *Columbia Pictures Industries, Inc. et al. v. American Broadcasting Companies, Inc., et al.*, commenced by certain motion picture producers and distributors on September 28, 1970 in the United States District Court for the Southern District of New York for alleged violations of the Sherman Antitrust Act arising out of the respective entries by ABC and CBS Inc. into the production of feature films for theatrical and television exhibition. The suit asks for unspecified monetary damages and a permanent injunction prohibiting ABC from having any interest in television entertainment programming or feature films other than the right to show them on the network and on its owned-and-operated television stations. Identical relief is sought against CBS Inc. The plaintiffs in the suit are Columbia Pictures Industries, Inc., Metro-Goldwyn-Mayer, Inc., Paramount Pictures Corporation, United Artists Corporation, Universal City Studios, Inc., MCA Inc., Warner Bros. Inc., and certain of their subsidiaries or affiliates. It is the opinion of ABC's antitrust counsel that ABC's entry into production of feature films was lawful and that ABC will prevail in the defense of this litigation. ABC has filed an answer denying the plaintiffs' charges and has filed counterclaims against the plaintiffs, the parent corporations of several of the plaintiffs and the Motion Picture Association of America alleging violations of the Sherman Antitrust Act and seeking damages for injuries to its business resulting from acts and practices of the motion picture producers and seeking an injunction against continuation of the acts complained of in the counterclaims. With the consent of all parties, this suit has been placed in suspense subject to the right of any party to apply to the court for an order reinstating the case to the active docket.

Since 1982, ABC has had pending in the U.S. Claims Court an action against the government seeking a determination that ABC is entitled to all or a portion of the investment tax credit with respect to various programs broadcast by ABC during the years 1962 to 1977. Certain of the program producers became parties to that litigation in 1983. The Company cannot predict the outcome of the Claims Court action, and ABC's financial statements have not reflected the potential recovery. On February 28, 1986, a number of program producers instituted a separate action against the Company in the Superior Court for the State of California, County of Los Angeles, alleging, among other things, that ABC's efforts to recover investment tax credit are inconsistent with ABC's agreements with these producers and seeking relief in various forms, including compensatory damages in excess of $500 million (which amount assumes, *inter alia*, recovery by ABC of the investment tax credit sought by it in the Claims Court) and punitive damages in excess of $1 billion. Management of the Company believes that this action is without merit.

Item 4. ***Submission of Matters to a Vote of Security Holders.***

The information called for by this item is not applicable.

Executive Officers of the Company

Name	Age	Director since	Officer since	Title
Thomas S. Murphy	60	1957	1958	Chairman of the Board of Directors and Chief Executive Officer.
Daniel B. Burke	57	1967	1962	President, Chief Operating Officer and Director.
Joseph P. Dougherty ...	61	1967	1959	Executive Vice President and Director. Prior to January 1986 he was also President of Broadcasting Division.
John B. Fairchild	59	1968	1968	Executive Vice President, Chairman and Chief Executive Officer of Fairchild Publications, and Director.
John B. Sias	59	1977	1975	Executive Vice President, President of ABC Network Division, and Director. Prior to January 1986 he was Executive Vice President, President of Publishing Division and Director.
Ronald J. Doerfler	44		1977	Senior Vice President and Chief Financial Officer.
Michael P. Mallardi	52		1986	Senior Vice President and President of Broadcasting Division since January 1986. Prior to such time he was Executive Vice President and Chief Financial Officer of American Broadcasting Companies, Inc.
Phillip J. Meek	48		1986	Senior Vice President, President of Publishing Division since January 1986, and President and Publisher of the *Fort Worth Star-Telegram*.
Stephen A. Weiswasser	45		1986	Senior Vice President and General Counsel since January 1986. Prior to such time he was engaged in the practice of law as a partner in the law firm of Wilmer, Cutler & Pickering.
Allan J. Edelson	43		1981	Vice President and Controller.
Gerald Dickler	73	1954	1954	Secretary and Director.
David J. Vondrak	40		1986	Treasurer since February 1986. Prior to such time he was Vice President and Treasurer of American Broadcasting Companies, Inc.

Mr. Dickler's association with the Company is not his principal occupation. Mr. Dickler has concurrently been actively engaged to 1983 in the practice of law as a partner in the law firm of Hall, Dickler, Lawler, Kent & Friedman, counsel to the Company. Since 1983, Mr. Dickler has been Senior Counsel to the same law firm. There is no relationship by blood, marriage, or adoption, not more remote than first cousin, among the officers. 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 33 of the 1985 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 pages 20 and 21 of the 1985 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 pages 15 through 19 of the 1985 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 22 through 36 of the 1985 Annual Report to Shareholders and is incorporated herein by reference.

Item 9. *Disagreements on Accounting and Financial Disclosure.*

The information called for by this item is not applicable.

PART III

Item 10. *Directors and Executive Officers of the Registrant.*

Incorporated herein by reference to the Company's definitive proxy statement for the annual meeting of shareholders to be held on May 15, 1986. Information concerning the executive officers is included in Part I, on page K-15.

Item 11. *Executive Compensation.*

Incorporated herein by reference to the Company's definitive proxy statement for the annual meeting of shareholders to be held on May 15, 1986.

Item 12. *Security Ownership of Certain Beneficial Owners and Management.*

Incorporated herein by reference to the Company's definitive proxy statement for the annual meeting of shareholders to be held on May 15, 1986.

Item 13. *Certain Relationships and Related Transactions.*

Incorporated herein by reference to the Company's definitive proxy statement for the annual meeting of shareholders to be held on May 15, 1986.

PART IV

Item 14. *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 the consolidated 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 1985.

CAPITAL CITIES/ABC, INC.

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

(Item 14 (a) 1.)

All other schedules have been omitted since the required information is not applicable 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.

* * * * * * * *

The consolidated financial statements of Capital Cities/ABC, Inc., listed in the above index which are included in the Annual Report to Shareholders for the year ended December 31, 1985, are hereby incorporated by reference. With the exception of the Items referred to in Items 1, 5, 6, 7, and 8, the 1985 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/ABC, Inc. for the year ended December 31, 1985 of our report dated February 28, 1986 included in the 1985 Annual Report to Shareholders of Capital Cities/ABC, 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 28, 1986 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, Form S-8 No. 2-50014 for the registration of 287,195 shares, Form S-8 No. 2-86863 for the registration of 300,000 shares of its common stock and Form S-8 No. 33-2196 relating to the issuance of an indeterminate number of shares of the Company's common stock, Registration Statement Form S-3 amending Registration Statement Form S-14 No. 2-97628 for the registration of 2,906,703 Warrants and 2,906,703 shares of the Company's common stock, and Registration Statement Form S-3 No. 33-3236 for the registration of Guaranteed Debt Securities and Warrants to purchase Guaranteed Debt Securities, and in the related Prospectuses, of our above report.

ARTHUR YOUNG & COMPANY

New York, New York
March 18, 1986

CAPITAL CITIES/ABC, INC.

INDEX TO EXHIBITS (Item 14(a)2.)

(3)(a) Restated Certificate of Incorporation of the Company.

(3)(b) Current By-Laws of the Company. Incorporated by reference to Exhibit (4)(e) to Registration Statement No. 2-97628.

(4)(a) Capital Cities Communications, Inc. Standard Multiple-Series Indenture Provisions dated July 25, 1985. Incorporated by reference to Exhibit (4)(a) to Registration Statement No. 2-99204.

(4)(b) Form of Indenture dated as of July 25, 1985 between the Company and Manufacturers Hanover Trust Company, as Trustee, with respect to the Senior Debt Securities. Incorporated by reference to Exhibit (4)(b) to Registration Statement No. 2-99204.

(4)(c) Form of Indenture dated as of July 25, 1985, between the Company and Bankers Trust Company, as Trustee, with respect to the Subordinated Debt Securities. Incorporated by reference to Exhibit (4)(c) to Registration Statement No. 2-99204.

(4)(d) Revolving Credit Agreement, dated January 3, 1986, among the Company, Chemical Bank and certain other banks. Incorporated by reference to Exhibit G to the Company's Schedule 13D dated January 13, 1986.

(4)(e) Capital Cities/ABC Finance Company, Inc. (Issuer) and Capital Cities/ABC, Inc. (Guarantor) Standard Multiple-Series Indenture Provisions dated February 11, 1986. Incorporated by reference to Exhibit (4)(a) to Registration Statement No. 33-3236.

(4)(f) Indenture dated as of February 11, 1986 between the Company, Guarantor, and Manufacturers Hanover Trust Company, as Trustee, with respect to the Senior Debt Securities. Incorporated by reference to Exhibit (4)(b) to Registration Statement No. 33-3236.

(4)(g) Indenture dated as of February 11, 1986 between the Company, Guarantor, and Bankers Trust Company, as Trustee, with respect to the Subordinated Debt Securities. Incorporated by reference to Exhibit (4)(c) to Registration Statement No. 33-3236.

(4)(h) Warrant Agreement dated October 24, 1985, as amended and restated as of December 26, 1985, between Capital Cities Communications, Inc. and Morgan Guaranty Trust Company. Incorporated by reference to Exhibit (4)(h) to Registration Statement No. 2-97628.

(4)(i) Form of Warrant Certificate of the Company dated as of January 3, 1986. Incorporated by reference to Exhibit (4)(i) to Registration Statement No. 2-97628.

(4)(j) Note Purchase Agreement, dated November 15, 1985, between the Company and Metropolitan Life Insurance Company. Incorporated by reference to Exhibit C to the Company's Schedule 13D dated January 13, 1986.

(4)(k) Note Purchase Agreement, dated November 15, 1985, between the Company and Teachers Insurance and Annuity Association of America. Incorporated by reference to Exhibit D to the Company's Schedule 13D dated January 13, 1986.

(4)(l) Note Purchase Agreement, dated November 15, 1985, between the Company and Equitable Variable Life Insurance Company. Incorporated by reference to Exhibit E to the Company's Schedule 13D dated January 13, 1986.

(4)(m) Note Purchase Agreement, dated November 15, 1985, between the Company and Equitable Life Assurance Society of the United States. Incorporated by reference to Exhibit F to the Company's Schedule 13D dated January 13, 1986.

(4)(n) Other instruments defining the rights of holders of long-term debt of the Company and its consolidated subsidiaries are not being filed since the total amount of securities authorized under any of such instruments does not exceed 10 percent of the total assets of the Company and its subsidiaries on a consolidated basis. The Company agrees to furnish a copy of any such instrument to the Securities and Exchange Commission upon request.

(10)(a) Agreement and Plan of Merger, dated March 18, 1985, as amended and restated as of May 8, 1985, among the Company, CCC Acquisition Corp. and American Broadcasting Companies, Inc. Incorporated by reference to Appendix A to the Company's and ABC's Joint Proxy Statement-Prospectus dated May 10, 1985.

(10)(b) Stock Purchase Agreement between the Company and Berkshire Hathaway Inc., dated March 18, 1985. Incorporated by reference to Appendix B to the Company's and ABC's Joint Proxy Statement-Prospectus dated May 10, 1985.

(10)(c) Stock Purchase Agreement among the Company, Berkshire Hathaway Inc., National Indemnity Company, National Fire and Marine Insurance Company, Columbia Insurance Company, Nebraska Furniture Mart, Inc. and Cornhusker Casualty Company, dated January 2, 1986. Incorporated by reference to Exhibit A to the Schedule 13D dated January 8, 1986 filed by Berkshire Hathaway Inc. and others in regard to the Company's common stock.

(10)(d) Consultancy Agreement between the Company and Frederick S. Pierce dated January 8, 1986.

(10)(e) Agreement between the Company and Frederick S. Pierce dated January 8, 1986, terminating the Employment Agreement between American Broadcasting Companies, Inc. and Mr. Pierce dated as of September 1, 1981, as subsequently amended.

(10)(f) Indemnification Agreement between the Company and Frederick S. Pierce dated January 8, 1986.

(13) The Company's 1985 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.

(25) Powers of Attorney.

(28) Undertakings.

CAPITAL CITIES/ABC, INC.

SCHEDULE V—PROPERTY, PLANT AND EQUIPMENT
(Thousands of Dollars)

	Balance at beginning of period	Additions at cost: Operating companies acquired	Additions at cost: Other	Retirements or sales	Other changes—reclassifications (a)	Balance at close of period
Year ended December 31, 1985:						
Land and improvements	$ 21,941	$ 1,080	$ 893	$ (1,188)		$ 22,726
Buildings and improvements	74,716	1,180	2,590	(1,067)		77,419
Broadcasting equipment	65,346	110	6,685	(268)		71,873
Printing machinery and equipment	84,362	1,311	11,041	(2,755)		93,959
Cable television distribution systems and equipment	144,143	5,543	16,254	(28)		165,912
Other, including construction-in-progress	49,899	178	37,921	(1,395)		86,603
	$440,407	$ 9,402	$75,384	$ (6,701)		$518,492
Year ended December 31, 1984:						
Land and improvements	$ 21,189	$ 1,010	$ 90	$ (348)		$ 21,941
Buildings and improvements	69,214	1,985	3,795	(278)		74,716
Broadcasting equipment	60,183	2,248	6,277	(3,362)		65,346
Printing machinery and equipment	72,734	2,316	10,464	(1,152)		84,362
Cable television distribution systems and equipment	126,169	981	16,746		$ 247	144,143
Other, including construction-in-progress	32,136	2,400	16,494	(1,131)		49,899
	$381,625	$ 10,940	$53,866	$ (6,271)	$ 247	$440,407
Year ended December 31, 1983:						
Land and improvements	$ 20,609	$ 291	$ 570	$ (162)	$ (119)	$ 21,189
Buildings and improvements	63,848	552	5,625	(549)	(262)	69,214
Broadcasting equipment	53,370		8,907	(2,094)		60,183
Printing machinery and equipment	68,287	1,840	6,606	(1,419)	(2,580)	72,734
Cable television distribution systems and equipment	90,568	1,945	33,745	(89)		126,169
Other, including construction-in-progress	40,993	122	(7,858)	(1,030)	(91)	32,136
	$337,675	$ 4,750	$47,595	$ (5,343)	$ (3,052)	$381,625

(a) Represents in 1984 and 1983 final adjustments to the purchase price allocation of the 1983 acquisition of four cable television systems and the 1982 acquisition of the Red Bank Register.

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 to 12 years.

CAPITAL CITIES/ABC, 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	Balance at close of period
Year ended December 31, 1985:				
Land improvements	$ 817	$ 76	$ (121)	$ 772
Buildings and improvements	27,449	3,414	(100)	30,763
Broadcasting equipment	36,354	6,340	(233)	42,461
Printing machinery and equipment	54,817	7,419	(1,776)	60,460
Cable television distribution systems and equipment	32,828	16,628		49,456
Other	13,749	4,113	(1,178)	16,684
	$166,014	$37,990	$(3,408)	$200,596
Year ended December 31, 1984:				
Land improvements	$ 719	$ 108	$ (10)	$ 817
Buildings and improvements	24,589	2,996	(136)	27,449
Broadcasting equipment	32,993	5,785	(2,424)	36,354
Printing machinery and equipment	48,019	7,796	(998)	54,817
Cable television distribution systems and equipment	18,768	14,060		32,828
Other	11,271	3,339	(861)	13,749
	$136,359	$34,084	$(4,429)	$166,014
Year ended December 31, 1983:				
Land improvements	$ 612	$ 109	$ (2)	$ 719
Buildings and improvements	22,428	2,654	(493)	24,589
Broadcasting equipment	29,680	5,041	(1,728)	32,993
Printing machinery and equipment	42,363	6,708	(1,052)	48,019
Cable television distribution systems and equipment	7,585	10,824	359	18,768
Other	9,061	2,763	(553)	11,271
	$111,729	$28,099	$(3,469)	$136,359

SCHEDULE VIII—VALUATION AND QUALIFYING ACCOUNTS
(Thousands of Dollars)

		Additions		Deductions		
	Balance at beginning of period	Operating companies acquired	Charged to income	Operating companies disposed	Accounts written off, net	Balance at close of period
Deducted from accounts and notes receivable:						
Year ended December 31, 1985	$7,369	$ 60	$7,141	$(305)	$(7,520)	$6,745
Year ended December 31, 1984	5,923	717	6,298		(5,569)	7,369
Year ended December 31, 1983	4,919	189	5,738		(4,923)	5,923

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/ABC, INC.
(Registrant)

/s/ THOMAS S. MURPHY
Thomas S. Murphy
Chairman of the Board

March 18, 1986

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 18, 1986
Principal Financial Officer: /s/ RONALD J. DOERFLER (Ronald J. Doerfler)	March 18, 1986
Controller: /s/ ALLAN J. EDELSON (Allan J. Edelson)	March 18, 1986
Directors: * (Robert P. Bauman)	March 18, 1986
* (Warren E. Buffett)	March 18, 1986
* (Daniel B. Burke)	March 18, 1986
* (Frank T. Cary)	March 18, 1986
* (Gerald Dickler)	March 18, 1986
* (Joseph P. Dougherty)	March 18, 1986
* (John B. Fairchild)	March 18, 1986
* (Leonard H. Goldenson)	March 18, 1986
* (Alan Greenspan)	March 18, 1986
* (Leon Hess)	March 18, 1986
* (George P. Jenkins)	March 18, 1986
* (Thomas M. Macioce)	March 18, 1986
* (John H. Muller, Jr.)	March 18, 1986
/s/ THOMAS S. MURPHY (Thomas S. Murphy)	March 18, 1986
* (Frederick S. Pierce)	March 18, 1986
* (John B. Poole)	March 18, 1986
* (John B. Sias)	March 18, 1986
* (William I. Spencer)	March 18, 1986
* (M. Cabell Woodward, Jr.)	March 18, 1986

*By /s/ THOMAS S. MURPHY
(Attorney-in-Fact)

Capital Cities/ABC

Corporate

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; Chairman and Chief Executive Officer, Fairchild Publications*
John B. Sias, *Executive Vice President; President, ABC Network Division*
Ronald J. Doerfler, *Senior Vice President and Chief Financial Officer*
Michael P. Mallardi, *Senior Vice President; President, Broadcasting Division*
Phillip J. Meek, *Senior Vice President; President, Publishing Division*
Stephen A. Weiswasser, *Senior Vice President and General Counsel*
Allan J. Edelson, *Vice President and Controller*
Andrew E. Jackson, *Vice President*
Gerald Dickler, *Secretary*
David J. Vondrak, *Treasurer*
David S. Loewith, *Assistant Controller and Assistant Secretary*
Philip R. Farnsworth, *Assistant Secretary*
James M. Goldberg, *Assistant Treasurer*

Administration

Arnold H. Agree, *Vice President*
Philip R. Beuth, *Vice President*
Aaron M. Daniels, *Vice President*
John T. Dealy, *Vice President*
Joseph M. Fitzgerald, *Vice President*
Richard L. Freund, *Vice President*
John E. Frisoli, *Vice President*
Robert T. Goldman, *Vice President*
Ann Maynard Gray, *Vice President*
Charles Keller, *Vice President*
Patricia J. Matson, *Vice President*
William E. Pierson, *Vice President*
Alfred R. Schneider, *Vice President*
Edward D. Williams, *Vice President*

ABC Network Division

John B. Sias, *President*
Mark H. Cohen, *Executive Vice President*
Warren D. Schaub, *Senior Vice President*

ABC Entertainment (Los Angeles, CA)
Brandon Stoddard, *President*

ABC News and Sports (New York, NY)
Roone Arledge, *Group President*

ABC News
Roone Arledge, *President*
Richard C. Wald, *Senior Vice President*
David W. Burke, *Vice President*

ABC Sports
Dennis Swanson, *President*
Dennis Lewin, *Senior Vice President*
Stephen J. Solomon, *Senior Vice President*

ABC Television Network (New York, NY)
Mark Mandala, *President*
George H. Newi, *Senior Vice President*

ABC Communications (New York, NY)
James E. Duffy, *President*

Broadcasting Division
Michael P. Mallardi, *President*

Television Stations—East
Lawrence J. Pollock, *President*
Robert C. Niles, *Vice President*

WABC-TV (New York, NY)
William Fyffe, *President, General Manager*

WLS-TV (Chicago, IL)
Joseph J. Ahern, *President, General Manager*

WPVI-TV (Philadelphia, PA)
Richard Spinner, *President, General Manager*

WTVD (Durham-Raleigh, NC)
G. Alan Nesbitt, *President, General Manager*

Television Stations—West
Kenneth M. Johnson, *President*
James E. Masucci, *Vice President*

KABC-TV (Los Angeles, CA)
John C. Severino, *President, General Manager*

KGO-TV (San Francisco, CA)
Len J. Spagnoletti, *President, General Manager*

KTRK-TV (Houston, TX)
Paul L. Bures, Jr., *President, General Manager*

KFSN-TV (Fresno, CA)
Marc Edwards, *President, General Manager*

ABC Spot Sales
John B. Watkins, *President*

Video Enterprises
Herbert A. Granath, *President*

ESPN (Bristol, CT)
J. William Grimes, *President*

ARTS & ENTERTAINMENT (New York, NY)

LIFETIME (New York, NY)

Radio
James P. Arcara, *President*

Radio Stations
Don P. Bouloukos, *President*

WABC-AM (New York, NY)
James E. Haviland, *President, General Manager*

WPLJ-FM (New York, NY)
Joseph E. Parish, *President, General Manager*

KABC-AM (Los Angeles, CA)
George Green, *President, General Manager*

KLOS-FM (Los Angeles, CA)
Bill Sommers, *President, General Manager*

W[illegible]-AM/WYTZ-FM (Chicago, IL)
Jeffrey E. Trumper, *President, General Manager*

KGO-AM (San Francisco, CA)
Michael Luckoff, *President, General Manager*

WJR-AM/WHYT-FM (Detroit, MI)
Ronald R. Pancratz, *President, General Manager*

WMAL-AM (Washington, DC)
Frederick D. Weinhaus, *President, General Manager*

WRQX-FM (Washington, DC)
Ernest D. Fears Jr., *President, General Manager*

WBAP-AM/KSCS-FM (Fort Worth-Dallas, TX)
Warren Potash, *President, General Manager*

WPLO-AM/WKHX-FM (Atlanta-Marietta, GA)
Norman S. Schrutt, *President, General Manager*

WPRO-AM/FM (Providence, RI)
James Long, *President, General Manager*

ABC Radio Networks (New York, NY)
Edward F. McLaughlin, *President*

Broadcast Operations & Engineering
Julius Barnathan, *President*

Publishing Division

Phillip J. Meek, *President*

Specialized Publications

FAIRCHILD PUBLICATIONS (New York, NY)
John B. Fairchild, *Chairman and Chief Executive Officer*
Daniel Newman, *President and Chief Operating Officer*
David S. Branch, *Senior Vice President*
Michael F. Coady, *Senior Vice President*
Richard J. Lynch, *Senior Vice President*
Philip L. McGovern, *Senior Vice President*
Martin P. Rosenblum, *Senior Vice President*
Kenneth S. Share, *Senior Vice President*
Stephen G. Stoneburn, *Senior Vice President*

INSTITUTIONAL INVESTOR (New York, NY)
Gilbert E. Kaplan, *Chairman and Chief Executive Officer*
Louis B. Dotti, *Executive Vice President*
Fred V. Rubenstein, *Executive Vice President*

SECURITIES DATA (New York, NY)
William D. French, *President*

VIDEOLOG COMMUNICATIONS (Norwalk, CT)
Alan P. Brigish, *President*

ABC Publishing

Robert G. Burton, *President*

CHILTON COMPANY (Radnor, PA)
Lawrence A. Fornasieri, *President*

WORD, INC. (Waco, TX)
Jarrell F. McCracken, *President*

ABC CONSUMER MAGAZINES (New York, NY and Greensboro, NC)
James A. Casella, *President*

HITCHCOCK PUBLISHING COMPANY (Wheaton, IL)

ABC PUBLISHING AGRICULTURAL GROUP (Lombard, IL)
Gary R. Ingersoll, *President*

NILS PUBLISHING COMPANY (Chatsworth, CA)

LOS ANGELES MAGAZINE (Los Angeles, CA)
William H. Bang, *President*

Daily Newspapers

THE KANSAS CITY STAR/TIMES (Kansas City, MO)
James H. Hale, *Chairman of the Board, Publisher*

FORT WORTH STAR-TELEGRAM (Fort Worth, TX)
Phillip J. Meek, *President, Publisher*

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

BELLEVILLE NEWS-DEMOCRAT (Belleville, IL)
Darwin C. Wile, *President, Publisher*

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

ALBANY DEMOCRAT-HERALD (Albany, OR)
Glenn C. Cushman, *Publisher*

THE DAILY TIDINGS (Ashland, OR)
Michael O'Brien, *Publisher*

Weekly Newspapers

SHORE LINE NEWSPAPERS (Guilford, CT)
John E. Coots, *Publisher*

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

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)

HIGHLAND NEWS-LEADER (Highland, IL)

Shopping Guides

SUTTON INDUSTRIES (Orange, Riverside and San Diego Counties, Sacramento and Stockton, CA)
Verners J. Ore, *President*

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

LITTLE NICKEL WANT ADS (Seattle-Tacoma, WA)
Melvin Hirning, *General Manager*

NICKEL ADS (Portland, OR)
Richard F. Anderson, *General Manager*

NICKEL NIK (Spokane, WA)
George L. Griffin, *General Manager*

Executive Officers

Thomas S. Murphy
Chairman of the Board and Chief Executive Officer

Daniel B. Burke
President and Chief Operating Officer

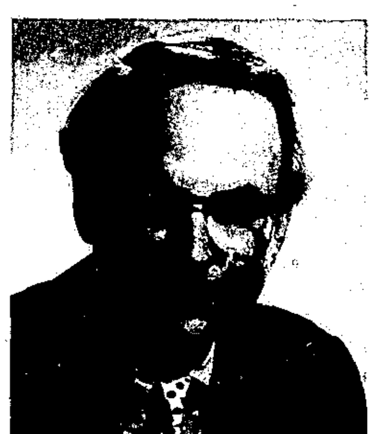
Joseph P. Dougherty
Executive Vice President

John B. Fairchild
Executive Vice President; Chairman of the Board, Fairchild Publications

John B. Sias
Executive Vice President; President, ABC Network Division

Ronald J. Doerfler
Senior Vice President and Chief Financial Officer

Michael P. Mallardi
Senior Vice President; President, Broadcasting Division



Phillip J. Meek
Senior Vice President; President, Publishing Division

Stephen A. Weiswasser
Senior Vice President and General Counsel

Board of Directors

Thomas S. Murphy
Chairman of the Board and Chief Executive Officer

Daniel B. Burke
President and Chief Operating Officer

Robert P. Bauman
Vice Chairman,
Textron Inc.

Warren E. Buffett
Chairman of the Board and Chief Executive Officer,
Berkshire Hathaway Inc.

Frank T. Cary
Former Chairman of the Board,
International Business Machines Corporation

Gerald Dickler
Secretary; Senior Counsel,
Hall, Dickler, Lawler, Kent & Friedman,
Attorneys at Law

Joseph P. Dougherty
Executive Vice President

John B. Fairchild
Executive Vice President;
Chairman and Chief Executive Officer,
Fairchild Publications

Leonard H. Goldenson
Chairman of the Executive Committee;
Retired Chairman of the Board,
American Broadcasting Companies, Inc.

Alan Greenspan
President and Chairman of the Board,
Townsend-Greenspan & Company, Inc.

Leon Hess
Chairman of the Board,
Amerada Hess Corporation

George P. Jenkins
Consultant to W. R. Grace & Co.; Retired Chairman,
Metropolitan Life Insurance Company

Thomas M. Macioce
Chairman of the Board and Chief Executive Officer,
Allied Stores Corporation

John H. Muller, Jr.
Chairman, President and Chief Executive Officer,
General Housewares Corp.

Frederick S. Pierce
Consultant, Capital Cities/ABC, Inc.;
Former President and Chief Operating Officer,
American Broadcasting Companies, Inc.

John B. Poole
Retired Chairman,
Poole Broadcasting Company

John B. Sias
Executive Vice President;
President, ABC Network Division

William I. Spencer
Retired President and Chief Administrative Officer,
Citicorp and Citibank

M. Cabell Woodward, Jr.
Vice Chairman and Chief Financial Officer,
ITT Corporation

Outside Counsel
Hall, Dickler, Lawler, Kent & Friedman
460 Park Avenue
New York, New York 10022

Transfer Agent and Registrar
Harris Trust Company of New York
110 William Street
New York, New York 10038

The Company's Common Stock is listed for trading on the New York Stock Exchange (Symbol: CCB)

END.