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CAPITAL CITIES ABC INC 10-K

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CARD 1 DISCLOSURE INFORMATION GROUP BETHESDA MD 20816 FOR 12/28/86

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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
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Persons Retained Employed or to be Compensated			A	A	A	A
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5161 River Road □ Washington, D.C. 20016 □ 301/951-1300

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Capital Cities/ABC, Inc.

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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 operating units which are responsible for them. We expect a great deal from our 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.

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 28, 1986	**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 Pacific Stock Exchange
Warrants to acquire common stock	Pacific 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 $3,953,200,000 as of February 6, 1987.

The number of shares outstanding of the issuer's common stock as of February 6, 1987: 16,128,677 shares, excluding 2,264,819 treasury shares.

Portions of Part I are incorporated herein by reference to the 1986 Annual Report to Shareholders and the definitive Proxy Statement for the annual meeting of shareholders to be held on May 7, 1987.

Part II and Part IV, with the exception of certain schedules and exhibits, are incorporated herein by reference to the 1986 Annual Report to Shareholders.

Part III is incorporated herein by reference to the definitive Proxy Statement for the annual meeting of shareholders on May 7, 1987.

PART I

Item 1. ***Business.***

Capital Cities/ABC, Inc. and/or its subsidiaries (the "Company") operate the ABC Television Network, eight affiliated television stations, six radio networks and 19 radio stations, and provide programming for cable television. The Company publishes newspapers, shopping guides, various specialty and business periodicals and books; and also distributes information from electronic data bases. On January 3, 1986, the Company acquired American Broadcasting Companies, Inc. ("ABC"). See below under "Licenses—Federal Regulation of Broadcasting/Ownership Matters" for disclosure of possible required divestiture of certain radio properties acquired in connection with the acquisition of ABC.

Employees

At December 28, 1986, the Company had approximately 19,960 full-time employees: 10,400 in broadcasting operations, 9,280 in publishing operations and 280 in corporate activities.

Industry Segments

Information relating to the industry segments of the Company's operations is included on page 32 of the Company's Annual Report to Shareholders and is hereby incorporated by reference. In 1986 the Company derived virtually all broadcasting revenues and approximately 70% of its publishing revenues from the sale of advertising. Substantially all of the balance of publishing revenues was derived from subscription and other circulation receipts and the sale of books and records.

Broadcasting

Television and Radio Networks

The Company operates the ABC Television Network which as of December 28, 1986, had 215 primary affiliated stations reaching over 99% of all U.S. television households. A number of secondary affiliated stations add to the primary coverage. The ABC Television Network has a program schedule consisting of Week-Day Early Morning, Monday through Friday Daytime, Prime Time, News, Children's, Late Night and Sports programming. The Company also operates the ABC Radio Networks which served a total of approximately 2,150 affiliated stations as of December 28, 1986 through six different network program services, each with its own group of affiliated stations. The ABC Radio Networks also 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 pays varying degrees of compensation to 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 that the network can deliver to the advertiser.

Radio and Television Stations

The Company owns ten standard (AM) radio stations, nine 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. Markets, frequencies, transmitter power and other station details are set forth in the following table.

Radio stations

Station and market	Frequency AM-Kilohertz FM-Megahertz	Power AM-Watts FM-Kilowatts	Expiration date of FCC authorization	Radio market ranking (1)
WABC New York, New York	770 K	50,000	June 1, 1991	1
KABC Los Angeles, California	790 K	5,000	Dec. 1, 1990	2
WLS Chicago, Illinois	890 K	50,000	Dec. 1, 1989	3
KGO San Francisco, California	810 K	50,000	Dec. 1, 1990	4
WJR Detroit, Michigan	760 K	50,000	Oct. 1, 1989	6
WMAL Washington, D.C.	630 K	5,000	Oct. 1, 1988	9
WBAP Fort Worth-Dallas, Texas	820 K	50,000	Aug. 1, 1990	10
WKHX (2) Atlanta, Georgia	590 K	5,000	Apr. 1, 1989	13
KQRS Minneapolis-St. Paul, Minnesota	1440 K	5,000	Apr. 1, 1989	18
WPRO Providence, Rhode Island	630 K	5,000	Apr. 1, 1991	28
WPLJ (FM) New York, New York	95.5 M	6.7	June 1, 1991	1
KLOS (FM) Los Angeles, California	95.5 M	63.1	Dec. 1, 1990	2
WYTZ (FM) 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) Washington, D.C.	107.3 M	36	Oct. 1, 1988	9
KSCS (FM) (2) Fort Worth-Dallas, Texas	96.3 M	100	Aug. 1, 1990	10
WKHX-FM (2) Atlanta, Georgia	101.5 M	100	Apr. 1, 1989	13
KQRS-FM Minneapolis-St. Paul, Minnesota	92.5 M	50	Apr. 1 1989	18
WPRO-FM Providence, Rhode Island	92.3 M	39	Apr. 1, 1991	28

Television stations

Station and market	Channel	Expiration date of FCC authorization	Television market ranking (3)
WABC-TV .... New York, New York	7	June 1, 1989	1
KABC-TV .... Los Angeles, California	7	Dec. 1, 1988	2
WLS-TV .... Chicago, Illinois	7	Dec. 1, 1987	3
WPVI-TV .... Philadelphia, Pennsylvania	6	Aug. 1, 1989	4
KGO-TV .... San Francisco, California	7	Dec. 1, 1988	5
KTRK-TV .... Houston, Texas	13	Aug. 1, 1988	10
WTVD .... Durham-Raleigh, North Carolina	11	Dec. 1, 1991	35
KFSN-TV .... Fresno, California	30	Dec. 1, 1988	63

(1) Based on Arbitron Radio Market Metro Rankings as of January 1, 1987.
(2) No network affiliation.
(3) Based on Arbitron ADI Market Rankings, 1986-87 season.

Video Enterprises

The Company's video enterprise operations are involved in the production and supply of cable television programming, and in the licensing of programming to domestic and international home video markets and 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 and entertainment programming aimed at a specialized audience, which through joint ventures is 38% owned; 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 is 33⅓% owned.

Competition

The ABC Television Network competes for viewers with the other television networks, independent television stations and other video media such as cable television, satellite television program services and video cassettes; in the sale of advertising time, it competes with the other television networks, independent television stations, suppliers of cable television programming, and other advertising media such as newspapers, magazines and billboards. 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, independent radio stations, and other advertising media.

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. Such competition occurs primarily in individual market areas. Generally, a television broadcasting station in one market does not compete directly 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 Federal Communications Commission (the "FCC"), no additional VHF commercial television stations may be constructed in any of the cities where the Company's television stations are located. 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".)

The most common sources of television service other than conventional television stations 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 enterprise operations compete 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, and with conventional television broadcasters. 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 except for KQRS-FM. Action on the KQRS-FM renewal application has been delayed pending the outcome of a long-standing dispute involving the technical facilities of several of the market's FM stations.

Ownership Matters

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

The FCC's "multiple ownership" rules provide 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. Under present FCC rules, 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.

The Company now owns ten AM and nine FM radio stations, and eight television stations, of which seven are VHF, resulting in a total penetration of the nation's television households, for purposes of the multiple ownership rules, of approximately 24.4%. Although Stations WPVI-TV and WABC-TV provide overlapping service to an area of approximately 2,813 square miles, the FCC has granted a permanent waiver of the rules to permit the Company to own 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 brought 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). In February 1987, the FCC released a notice of proposed rule making which may lead to a change in these regulations. The Company has requested an extension of the limited waiver of the rules to permit the continued operation of these combinations—at least until the rule making is completed. The Company cannot predict when the proceedings will be completed, or their likely outcome.

Furthermore, under the FCC's rules, radio and/or television licensees may not acquire new ownership interests in daily newspapers published in the same markets served by their broadcast stations; television licensees may not own cable television systems in communities within the service contours of their television stations; and a television network owner may not own a cable system. 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. Although these holdings are "grandfathered," under the rules 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 are subject to a consent decree (*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 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.

All three of the major television networks are also subject to FCC rules which restrict their ability to acquire financial interests in television programs or engage in program syndication. In addition, FCC rules restrict 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. In the aftermath of the Court's decision, the FCC recently promulgated new "must-carry" rules. These are subject to a stay, pending reconsideration by the FCC. 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. In February 1987, the FCC announced a rule making proceeding to consider reinstituting the syndicated programming exclusivity rule and broadening the existing network non-duplication rules. The Company cannot predict the outcome of this proceeding.

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, to be awarded by lottery. The Company applied for authorizations to operate multi-channel MDS services in 100 markets; it won the lottery in 4, and 2 of its applications remain pending. 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. 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 Company is not able to predict the outcome or impact of these proceedings.

* * * * *

From time to time legislation may be introduced in Congress which, if enacted, might affect the Company's operations or its advertising revenues. 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

The Company publishes newspapers and shopping guides, various specialty and business periodicals and books; and also distributes information from electronic data bases. Following is a summary of the Company's historical operating performance, by type of publication for the last five fiscal years (000's omitted):

	1986	1985	1984	1983	1982	Pro Forma (b) 1986	Pro Forma (b) 1985
Inches of advertising							
Newspapers (a)	17,006	18,276	18,620	16,929	16,115	17,006	17,567
Specialized publications	3,914	2,691	2,837	2,731	2,317	2,453	2,677
Advertising revenue							
Newspapers—ROP	$255,844	$257,244	$249,771	$213,330	$189,833	$255,844	$252,962
Newspapers—inserts	32,849	28,093	25,825	21,609	16,971	32,849	27,590
Shopping guides	56,291	52,608	41,927	7,751	5,953	51,821	50,862
Specialized publications	311,593	179,071	165,832	135,102	105,227	178,658	178,145
Circulation revenue							
Newspapers	$ 56,260	$ 51,418	$ 49,468	$ 46,914	$ 43,438	$ 56,260	$ 50,385
Specialized publications	62,870	31,087	24,886	20,904	18,738	30,343	29,326
Other operating revenue							
Newspapers	$ 3,603	$ 3,778	$ 3,593	$ 3,038	$ 2,988	$ 3,603	$ 3,595
Shopping guides	7,508	11,902	9,560	224	—	751	693
Specialized publications:							
Books/Music	102,413	2,314	2,448	2,222	1,749	2,355	2,314
Data base and other	81,524	25,068	18,306	8,416	4,335	28,050	26,820
Total revenue							
Newspapers	$348,556	$340,533	$328,657	$284,891	$253,230	$348,556	$334,532
Shopping guides	63,799	64,510	51,487	7,975	5,953	52,572	51,555
Specialized publications	558,400	237,540	211,472	166,644	130,099	239,[illegible]06	236,605
Paid circulation at year-end							
Newspapers (Mon.-Fri.)	933	935	971	976	964	933	935
Newspapers (Sun.)	856	830	858	838	821	856	830
Specialized publications	4,437	785	769	678	642	786	772

(a) Does not include inserts.
(b) Excludes 1986 and 1985 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 28, 1986 are as follows:

		Daily	Sunday
The Kansas City Times	Morning	269,000	
The Kansas City Star	Evening	217,000	409,000
Fort Worth Star-Telegram	Morning	129,000	314,000
Fort Worth Star-Telegram	Evening	129,000	
The Oakland Press (Pontiac, Mich.)	Evening	71,000	79,000
Belleville News-Democrat (Belleville, Ill.)	Morning	45,000	54,000
The Times Leader (Wilkes-Barre, Pa.)	Morning	46,000	
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 28, 1986 is set forth below:

State	Number of Publications	Aggregate Circulation
Connecticut	17	178,000
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 28, 1986 is set forth below:

State	Number of Publications	Aggregate Circulation
California	5	1,418,000
Kansas	2	256,000
Missouri	1	125,000
Oregon	1	185,000
Washington	2	286,000

Specialized Publications

The Specialized Publications Group, through Fairchild Publications, Institutional Investor and ABC Publishing, is engaged in gathering and publishing business news and ideas for industries covered by its various publications; in the publishing of consumer, special interest, trade and agricultural publications; and in data base 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	63,000
Daily News Record	Daily	23,000
American Metal Market	Daily	11,000
HFD—Retailing Home Furnishings	Weekly	31,000
Energy User News	Weekly	15,000
Footwear News	Weekly	22,000
Supermarket News	Weekly	56,000
Electronic News	Weekly	77,000
Metalworking News	Weekly	38,000
MIS Week	Weekly	125,000*
Multichannel News	Weekly	12,000
W	Biweekly	226,000
SportStyle	Semimonthly	26,000*
Entrée	Monthly	13,000*
Children's Business	Monthly	20,000*
Magazines		
M	Monthly	134,000
Metal Center News	Monthly	13,000*
Home Fashions Textiles	Monthly	12,000*
Heat Treating	Monthly	20,000*
The Travel Agent	Twice Weekly	45,000
International Medical News Group		
Family Practice News	Semimonthly	72,000*
Internal Medicine News	Semimonthly	71,000*
Ob. Gyn. News	Semimonthly	29,000*
Pediatric News	Monthly	30,000*
Clinical Psychiatry News	Monthly	29,000*
Skin & Allergy News	Monthly	37,000*
Professional Press Group		
Optical Index	Monthly	30,000*
International Eyecare	Monthly	14,000*
Institutional Investor		
Domestic Edition	Monthly	103,000*
International Edition	Monthly	31,000*
Philatelic Publications		
Stamp Collector	Weekly	23,000
The Stamp Wholesaler	Biweekly	5,000

Title	Frequency	Circulation
ABC Publishing		
Consumer and Special Interest Publications		
McCall's Needlework & Crafts	Bimonthly	650,000
Modern Photography	Monthly	700,000
High Fidelity	Monthly	350,000
Schwann Record & Tape Guide	Quarterly	25,000
Country Style	Quarterly	95,000
Video & Sound	Quarterly	46,000
Schwann CD	Monthly	19,000
Musical America	Bimonthly	15,000
Los Angeles Magazine	Monthly	170,000
COMPUTE!	Monthly	350,000
COMPUTE!'s Gazette	Monthly	275,000
COMPUTE!'s Atari ST Disk & Magazine	Bimonthly	31,000
Trade Publications		
Assembly Engineering	Monthly	79,000*
Automotive Industries	Monthly	77,000*
Automotive Marketing	Monthly	25,000*
Commercial Carrier Journal	Monthly	79,000*
Distribution	Monthly	70,000*
Electronic Component News	Monthly	110,000*
Food Engineering North America	Monthly	60,000*
Food Engineering International	9 times per year	15,000*
Hardware Age	Monthly	71,000*
IMPO (Industrial Maintenance & Plant Operations)	Monthly	120,000*
Industrial Finishing	Monthly	36,000*
Industrial Safety & Hygiene News	Monthly	57,000*
Infosystems	Monthly	136,000*
Instrument & Apparatus News	Monthly	114,000*
Instrument & Control Systems	Monthly	86,000*
Iron Age/Manufacturing Management	Monthly	100,000*
Iron Age/Metal Producers	Monthly	22,000*
Jewelers Circular Keystone	Monthly	39,000
Machine and Tool Blue Book	Monthly	95,000*
Manufacturing Systems	Monthly	131,000*
Motor Age	Monthly	132,000
Office Products Dealer	Monthly	33,000*
Owner Operator	Bimonthly	91,000
Product Design & Development	Monthly	160,000*
Quality	Monthly	89,000*
Review of Optometry	Monthly	26,000

Title	Frequency	Circulation
Agricultural Publications		
Prairie Farmer (Illinois)	21 times per year	88,000
Indiana Prairie Farmer	21 times per year	65,000
Wallaces Farmer	21 times per year	94,000
Wisconsin Agriculturist	21 times per year	59,000
Dairy Herd Management	Monthly	110,000*
Farm Store Merchandising	Monthly	35,000*
Feedlot Management	Monthly	34,000*
Feedstuffs	Weekly	19,000
Garden Supply Retailer	Monthly	41,000*
Hog Farm Management	Monthly	75,000*
Tack 'n Togs	Monthly	20,000*

* All, or substantially all, controlled circulation.

Data Base Services

Securities Data Company and Videolog Communications distribute information from electronic data bases. NILS Publishing Company and National Price Service, Inc. 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, 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.

Certain operations within the Specialized Publications Group also publish books, directories and newsletters, conduct meetings and seminars, provide marketing and research services and sell insurance products.

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, including broadcast media, and this competiton may become more intense as communications equipment is improved and new technologies 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

The primary raw materials used by the Company's Publishing Group are newsprint and other paper stock, which are purchased from paper merchants, paper mills and contract printers and are readily available from numerous suppliers.

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 Publications are located in New York City and are owned by the Company. All of Fairchild Publications' 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 1999. All of the premises occupied by the newspapers are owned by the Company.

The Company owns the ABC Television Center on West 66th and 67th Streets and the ABC Radio Network studios at 125 West End Avenue 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 the ABC Building at 1330 Avenue of the Americas in New York City, the ABC Television Network offices 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 2014. 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 2039.

The Company is planning to construct a new headquarters building adjacent to the ABC Television Center on West 66th Street in New York City, on property that the Company owns.

Item 3. *Legal Proceedings.*

In the Company's Form 10-Q for its 1986 third quarter, disclosure was made that the Company and its subsidiary, The Kansas City Star Company (the "Star"), settled all but four of the approximately 285 actions brought against them pending in the Circuit Court of Jackson County, Missouri, and in various other Missouri State Courts and in the United States District Court for the Western District of Missouri, Western Division, which concerned the Star's newspaper delivery routes and distribution system. These actions had been described in the Company's 1985 Form 10-K as pending legal proceedings. The settlement resulted in an extraordinary charge of $14,250,000 (net of income taxes of $14,252,000). Based on evaluation of facts which have been ascertained, and the opinion of counsel handling the defense of the four remaining actions, management believes that the outcome of these four remaining actions will not in the aggregate have a material adverse effect on the financial statements of the Company.

Other than routine litigation incidental to the business, the following is the only active pending legal proceeding to which the Company or any of its subsidiaries is a party or of which any of its property is the subject:

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 1979. Certain of the program producers became parties to that litigation in 1983. The Company cannot predict the outcome of the Claims Court action, and the 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 which may exceed $422 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	61	1957	1958	Chairman of the Board of Directors and Chief Executive Officer.
Daniel B. Burke	58	1967	1962	President, Chief Operating Officer and Director.
Joseph P. Dougherty...	62	1967	1959	Executive Vice President and Director. Prior to 1986 he was also President of Broadcast Group.
John B. Fairchild.........	60	1968	1968	Executive Vice President, Chairman and Chief Executive Officer of Fairchild Publications, and Director.
John B. Sias..............	60	1977	1975	Executive Vice President, President of ABC Television Network Group, and Director. Prior to 1986 he was Executive Vice President, President of Publishing Group and Director.
Ronald J. Doerfler	45		1977	Senior Vice President and Chief Financial Officer.
Michael P. Mallardi	53		1986	Senior Vice President and President of Broadcast Group. Prior to 1986 he was Executive Vice President and Chief Financial Officer of American Broadcasting Companies, Inc.
Phillip J. Meek...........	49		1975	Senior Vice President and President of Publishing Group. Prior to 1986 he was President and Publisher of the *Fort Worth Star-Telegram*.
Stephen A. Weiswasser	46		1986	Senior Vice President and General Counsel. Prior to 1986 he was engaged in the practice of law as a partner in the law firm of Wilmer, Cutler & Pickering.
Allan J. Edelson	44		1981	Vice President and Controller.
Gerald Dickler............	74	1954	1954	Secretary and Director.
David J. Vondrak	41		1986	Vice President and Treasurer. Prior to 1986 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 until 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 34 of the 1986 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 1986 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 1986 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 35 of the 1986 Annual Report to Shareholders and is incorporated herein by reference.

Item 9. *Changes in and Disagreements with Accountants 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 7, 1987. 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 7, 1987.

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 7, 1987.

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 7, 1987.

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 1986.

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 28, 1986, are hereby incorporated by reference. With the exception of the Items referred to in Items 1, 5, 6, 7, and 8, the 1986 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 28, 1986 of our report dated February 27, 1987 included in the 1986 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 27, 1987 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 of the Company's common stock, Form S-8 No. 2-59014 for the registration of 287,195 shares, Form S-8 No. 2-86863 for the registration of 300,000 shares, Form S-8 No. 33-2196 relating to the issuance of an indeterminate number of shares and Form S-8 No. 33-11806 for the registration of 200,000 shares; Registration Statements 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 common stock, Form S-3 No. 33-3236 for the registration of Guaranteed Debt Securities and Warrants to purchase Guaranteed Debt Securities and Form S-3 No. 33-5315 for the registration of guaranteed Senior Notes, and in the related Prospectuses, of our above report.

Arthur Young & Company

ARTHUR YOUNG & COMPANY

New York, New York
March 17, 1987

CAPITAL CITIES/ABC, INC.

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

(3)(a) Restated Certificate of Incorporation of the Company. Incorporated by reference to the Company's Annual Report on Form 10-K for 1985.

(3)(b) Current By-Laws of the Company.

(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 The 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) Form of Senior Note and Guarantee issued in exchange for notes of equal principal amount and interest rate issued in connection with the Note Purchase Agreements referred to in Exhibits (4)(j) through (4)(m) above. Incorporated by reference to Exhibit (4)(c) to Registration Statement No. 33-5315.

(4)(o) 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. Incorporated by reference to the Company's Annual Report on Form 10-K for 1985.

(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. Incorporated by reference to the Company's Annual Report on Form 10-K for 1985.

(10)(f) Indemnification Agreement between the Company and Frederick S. Pierce dated January 8, 1986. Incorporated by reference to the Company's Annual Report on Form 10-K for 1985.

(13) The Company's 1986 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)(a) Form 11-K for the ABC Savings & Investment Plan for the year ended December 31, 1986.
(28)(b) Undertakings

CAPITAL CITIES/ABC, INC.

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

	Balance at beginning of period	Operating companies acquired	Additions at cost	Retire-ments or sales	Balance at close of period
Year ended December 28, 1986:					
Land and improvements	$ 22,726	$ 264,498	$ 74,238	$ (37,424)	$ 324,038
Buildings and improvements	77,419	448,602	95,617	(140,607)	481,031
Broadcasting equipment	71,873	186,830	51,633	(37,458)	272,878
Printing machinery and equipment	93,959	13,948	68,376	(7,748)	168,535
Cable television distribution systems and equipment	165,912			(165,912)	
Other, including construction-in-progress	86,603	164,732	(136,782)	(17,656)	96,897
	$518,492	$1,078,610	$153,082	$(406,805)	$1,343,379
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	1,228	16,746		144,143
Other, including construction-in-progress	32,136	2,400	16,494	(1,131)	49,899
	$381,625	$ 11,187	$ 53,866	$ (6,271)	$ 440,407

Depreciation is computed on the straight-line method over the following estimated useful lives: buildings and improvements—10 to 40 years; broadcasting equipment—4 to 8 years; printing machinery and equipment—5 to 20 years; cable television distribution systems—10 to 12 years.

VALUATION AND QUALIFYING ACCOUNTS—SCHEDULE VIII
(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 28, 1986	$6,745	$30,326	$47,734	$(669)	$(51,372)	$32,764
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

CAPITAL CITIES/ABC, INC.

ACCUMULATED DEPRECIATION AND AMORTIZATION OF PROPERTY, PLANT AND EQUIPMENT—SCHEDULE VI
(Thousands of Dollars)

	Balance at beginning of period	Charged to income	Retirements or sales	Balance at close of period
Year ended December 28, 1986:				
Land improvements	$ 772	$ 224	$ (69)	$ 927
Buildings and improvements	30,763	22,501	(7,003)	46,261
Broadcasting equipment	42,461	53,202	(23,902)	71,761
Printing machinery and equipment	60,460	11,928	(3,116)	69,272
Cable television distribution systems and equipment	49,456		(49,456)	
Other	16,684	7,346	(5,444)	18,586
	$200,596	$95,201	$(88,990)	$206,807
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

SUPPLEMENTARY INCOME STATEMENT INFORMATION—SCHEDULE X
(Thousands of Dollars)

	Royalties	Advertising costs
Year ended December 28, 1986	$49,707	$108,655
Year ended December 31, 1985	5,367	11,878
Year ended December 31, 1984	4,611	9,893

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 17, 1987

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 17, 1987

Principal Financial Officer:

/s/ RONALD J. DOERFLER (Ronald J. Doerfler) — March 17, 1987

Controller:

/s/ ALLAN J. EDELSON (Allan J. Edelson) — March 17, 1987

Directors:

* (Robert P. Bauman)	March 17, 1987
* (Warren E. Buffett)	March 17, 1987
* (Daniel B. Burke)	March 17, 1987
* (Frank T. Cary)	March 17, 1987
* (Gerald Dickler)	March 17, 1987
* (Joseph P. Dougherty)	March 17, 1987
* (John B. Fairchild)	March 17, 1987
* (Leonard H. Goldenson)	March 17, 1987
* (Alan Greenspan)	March 17, 1987
* (Leon Hess)	March 17, 1987
* (George P. Jenkins)	March 17, 1987
* (Thomas M. Macioce)	March 17, 1987
* (John H. Muller, Jr.)	March 17, 1987
/s/ THOMAS S. MURPHY (Thomas S. Murphy)	March 17, 1987
* (Frederick S. Pierce)	March 17, 1987
* (John B. Poole)	March 17, 1987
* (John B. Sias)	March 17, 1987
* (William I. Spencer)	March 17, 1987
* (M. Cabell Woodward, Jr.)	March 17, 1987

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

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)
Thomas S. Murphy
Thomas S. Murphy
Chairman of the Board

March 17, 1987

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

Principal Executive Officer: Thomas S. Murphy (Thomas S. Murphy)	March 17, 1987
Principal Financial Officer: Ronald J. Doerfler (Ronald J. Doerfler)	March 17, 1987
Controller: Allan J. Edelson (Allan J. Edelson)	March 17, 1987
Directors:	
* (Robert P. Bauman)	March 17, 1987
* (Warren E. Buffett)	March 17, 1987
* (Daniel B. Burke)	March 17, 1987
* (Frank T. Cary)	March 17, 1987
* (Gerald Dickler)	March 17, 1987
* (Joseph P. Dougherty)	March 17, 1987
* (John B. Fairchild)	March 17, 1987
* (Leonard H. Goldenson)	March 17, 1987
* (Alan Greenspan)	March 17, 1987
* (Leon Hess)	March 17, 1987
* (George P. Jenkins)	March 17, 1987
* (Thomas M. Macioce)	March 17, 1987
* (John H. Muller, Jr.)	March 17, 1987
Thomas S. Murphy (Thomas S. Murphy)	March 17, 1987
* (Frederick S. Pierce)	March 17, 1987
* (John B. Poole)	March 17, 1987
* (John B. Sias)	March 17, 1987
* (William I. Spencer)	March 17, 1987
* (M. Cabell Woodward, Jr.)	March 17, 1987

*By Thomas S. Murphy
(Attorney-in-Fact)

Restated as of April 19, 1985
and thereafter as amended
through March 17, 1987

CAPITAL CITIES/ABC, INC.

BY-LAWS

ARTICLE I

Offices

Section 1. The principal office of the Corporation shall be located in the City of New York, State of New York.

Section 2. Other offices for the transaction of business shall be located at such place as the Board of Directors may from time to time determine.

ARTICLE II

Capital Stock

Section 1. All certificates of stock shall be signed by the Chairman of the Board or the President and the Secretary, and shall be sealed with the Corporate Seal.

Section 2. Treasury stock shall be held by the Corporation subject to reissuance at the direction of the Board of Directors, and shall neither vote nor participate in dividends.

Section 3. The Corporation shall have a first lien on all shares of its capital stock, and upon all dividends declared upon the same, for any indebtedness of the respective shareholders thereof to the Corporation.

Section 4. Transfers of any stock may be made and old certificates, properly endorsed, shall be surrendered and cancelled before a new certificate is issued. The stock transfer books shall not be closed before the date on which a dividend is declared, the Board of Directors in its discretion fixing a record date upon which the transfer agent shall, without actually closing the books for the transfer of stock, take a record of all shareholders entitled to the dividend.

Section 5. In case of loss or destruction of a certificate of stock, no new certificate shall be issued in lieu thereof except upon satisfactory proof to the Board of Directors of such loss or destruction, and upon such conditions as it may impose; except that upon the giving of satisfactory security by bond or otherwise against loss to the Corporation, a new certificate may be issued upon written authorization of the Chairman of the Board, the President, Secretary or Treasurer of the Corporation.

ARTICLE III

Meetings of Shareholders

Section 1. The Annual Meeting of Shareholders shall be held on any business day during the month of May in each year at the principal office of the Corporation, or at such other place in the United States as the Board of Directors shall designate. Any such meeting may be adjourned or postponed by the Board of Directors, by the Executive Committee of the Board or by such officer or officers as the Board or the Executive Committee shall designate, to any date or dates after May 31 in such year as the Board, the Executive Committee or their designee or designees shall select. At such meeting, the shareholders shall elect directors to serve until their successors be elected and qualified and shall conduct such other business as may come before the meeting.

Section 2. A Special Meeting of the Shareholders to be held at such place as if called as an Annual Meeting, may be called at any time by the Chairman of the Board, or in his absence by the President or by the Board of Directors.

Section 3. For the purpose of determining the shareholders entitled to notice of or to vote at any Annual or Special Meeting of Shareholders or any adjournment thereof, or for the purpose of any other action, the Executive Committee shall fix, in advance, a date as the record date for any such determination of shareholders. Notice of the time and place of Annual or Special Meetings shall be mailed at least 10 days before the date of such Annual or Special Meeting by the Secretary of the Corporation to each shareholder of record on the date as determined by the Executive Committee.

Section 4. The Chairman of the Board (or in his absence, the President or an Executive Vice President) shall preside at all such meetings.

Section 5. At every such Annual or Special Meeting each shareholder shall be entitled to cast one vote for each share of voting capital stock held in his name; which vote may be cast by him either in person or by proxy. All proxies may be in writing and shall be filed with the Secretary and entered of record by the Secretary in the minutes of the meeting.

Section 6. A quorum for the transaction of business at any such meeting shall consist of a number of persons representing a majority of the shares of voting capital stock issued and outstanding; but the shareholders present at any meeting though less than a quorum may adjourn the meeting to a future date.

ARTICLE IV

Directors

Section 1. The business, property and affairs of the Corporation shall be managed by a Board of Directors. The number of members of the Board of Directors of the Corporation shall be established from time to time by the Board of Directors; provided the number thereof shall be consistent with the number required by the Certificate of Incorporation. Directors need not be shareholders.

Section 2. The Directors shall be elected by shareholders at the Annual Meeting and shall hold office for one year or until their successors shall have been duly elected and qualified. Notwithstanding the aforesaid, the Board of Directors, by a vote of a majority of its members at a duly constituted meeting, shall have the right to increase the membership of the Board, subject to the limitation in number provided in Section 1 of ARTICLE IV. Unless a majority of the members of the Board waives the applicable limitation in a given case: (1) any person who was not a Director on March 17, 1987 and who shall have attained the age of 72 as of the date of an Annual Meeting shall be ineligible for election or re-election as a Director; and (2) any person who was a Director on March 17, 1987 and who shall have attained the age of 75 as of the date of an Annual Meeting shall be ineligible for re-election as a Director.

Section 3. Regular meetings of the Board of Directors shall be held at such date and time, and in such place within or outside of the State of New York, as the Chairman of the Board may designate in the notice of meeting. Such meetings should be held quarterly.

Section 4. Special meetings of the Board of Directors shall be held at such date and time, and in such place within or outside of the State of New York, as may be designated in the notice of such meeting by the person or persons calling the meeting, who may be the Chairman of the Board or the President or, in the absence of the foregoing, not less than one-third of the members of the Board. By unanimous consent of the Directors, special meetings of the Board may be held without notice, at any time and place.

Section 5. Notice of all regular and special meetings of the Board of Directors, except those specified in the second sentence of Section 4 of ARTICLE IV, shall be mailed to each Director by the Secretary, at least three days previous to the time fixed for the meeting. All notices of special meetings shall state the purpose thereof.

Section 6. A quorum for the transaction of business at any regular or special meeting of the Board of Directors shall consist of a majority of the members of the Board of Directors except that the Directors present at any such meeting shall have the power to adjourn the meeting to a future date; and no business of the Corporation shall be transacted except by a majority vote of the full Board of Directors at any such regular or special meeting of the Directors, or any adjournment thereof.

Section 7. The Directors shall elect the officers of the Corporation and fix their salaries; such election to be held at the meeting of the Board of Directors following each Annual Meeting of Shareholders.

Section 8. Any vacancy in the Board of Directors occurring by reason of an increase in the number of Directors pursuant to Section 2 of ARTICLE IV, or by reason of death, resignation, disqualification or for any other reason, shall be filled for the unexpired portion of the term by a majority vote of the remaining Directors at any regular or special meeting of the Board of Directors.

Section 9. Between the meetings of the Board, the powers of the Board shall be exercised by an Executive Committee of not less than three members appointed by a majority of the Board at any meeting at which a quorum is present. The Executive Committee shall meet at such intervals as the Board by resolution may determine, and the Executive Committee shall be permitted to take any action required or permitted to be taken by the Executive Committee if all members of the Executive Committee consent in writing to the adoption of a resolution authorizing the action.

Section 10. Any one or more members of the Board or any Committee thereof may participate in a meeting of such Board or Committee by means of a conference telephone or similar communications equipment allowing all persons participating in the meeting to hear and communicate with one another at the same time. Participation by such means shall constitute presence in person at any such meeting.

Section 11. The Board, by resolutions adopted by a majority of the entire Board, may designate from among its members one or more Committees (in addition to the Executive Committee as provided in Section 9 of ARTICLE IV) each of which shall consist of three or more Directors, and to the extent provided in such resolution, shall have all authority of the Board with respect to the matters set forth therein.

Section 12. At each Annual Meeting of Shareholders the Directors shall submit a statement of the business transacted during the preceding year, together with a report of the general financial condition of the Corporation and of the condition of its tangible property.

ARTICLE V

Officers

Section 1. The officers of this Corporation shall be a Chairman of the Board, a President, one or more Executive Vice Presidents, one or more Senior Vice Presidents, one or more Vice Presidents, a Controller, a Secretary, one or more Assistant Secretaries, a Treasurer and one or more Assistant Treasurers, who shall each be elected for a term of one year, or for such shorter period as the Board of Directors may determine, and shall hold office until their respective successors shall have been duly elected and qualified.

Section 2. The Chairman of the Board shall preside at all meetings of the Board of Directors at which he is present and shall be the Chief Executive Officer of the Corporation. In said capacity the Chairman of the Board shall have authority to sign all stock certificates and shall have the power to make, sign and/or direct the making and signing of all contracts, checks, drafts, warrants and orders for the payment of money, and shall perform all such other duties as are incident to his office. In the case of absence or disability of the Chairman, his duties shall be performed by the President.

Section 3. The President shall have general supervision and management of the business of the Corporation and its officers and agents and shall be its Chief Operating Officer. In said capacity the President shall have authority to sign all stock certificates and shall have the power to make, sign and/or direct the making and signing of all contracts, checks, drafts, warrants and orders for the payment of money, and shall perform all such other duties as are incident to his office. In case of the absence or disability of the President, his duties shall be performed by one or more of the Executive Vice Presidents.

Section 4. The Secretary shall issue notices of all meetings of the Board of Directors and of the Shareholders, and shall attend and keep the minutes of the same, shall have charge of the corporate books, records and papers, shall be custodian of the Corporate Seal, shall attest with his signature, and impress with the Corporate Seal, all stock certificates and written contracts of the Corporation, and shall perform all other duties as are incident to his office. Any and all duties of the Secretary may be delegated to an Assistant Secretary in whole or in part, as the Chairman of the Board, the President or Board of Directors may direct.

Section 5. The Treasurer shall have the care of and custody of and be responsible for all the funds and securities of the Corporation and shall deposit all such funds in the name of the Corporation in such bank or banks, trust company or trust companies, or safe deposit vaults as the Board of Directors may designate. Under the direction of the Chairman of the Board, the

President or the Board of Directors, he shall make, sign and endorse in the name of the Corporation all checks, drafts, warrants and orders for the payment of money and pay out and dispose of same and shall obtain receipt therefor. He shall keep at the office of the Corporation correct books of account of all its business and transactions and such other books of account as the Board of Directors may require. Any and all administrative duties of the Treasurer may be delegated to the Assistant Treasurer, Controller, or other employee of the Corporation in whole or in part, as the Chairman of the Board, the President or Board of Directors may direct.

ARTICLE VI

Dividends and Finances

Section 1. Dividends, to be paid out of the surplus earnings of the Corporation, may be declared from time to time by resolution of the Board of Directors; but no dividends shall be paid that will impair the capital of the Corporation.

Section 2. The funds of the Corporation shall be deposited in such bank or banks, or trust company or trust companies as the directors may designate and shall be drawn only upon the signature of persons authorized to do so under these By-laws or by resolution of the Board of Directors.

ARTICLE VII

Amendments

Section 1. Amendments to these By-laws may be made by a vote of the shareholders representing a majority of all of the voting capital stock issued and outstanding at any Annual Meeting of the Shareholders or at any Special Meeting of the Shareholders when the proposed amendment has been set out in the notice of such meeting; or by a majority vote of the full Board of Directors at a regular meeting or at any special meeting of the Board of Directors called for such purpose.

ARTICLE VIII

Indemnification of Directors, Officers and Others

Section 1. The Corporation shall, to the fullest extent permitted by Section 721 of the New York Business Corporation Law, indemnify any director or elected officer who is or was made, or threatened to be made, a party to an action or proceeding, whether civil or criminal, whether involving any actual or alleged breach of duty, neglect or error, any accountability, or any actual or alleged misstatement, misleading statement or other act or omission and whether brought or threatened in any court or administrative or legislative body or agency, including an action by or in the right of the Corporation to procure a judgment in its favor and an action by or in the right of any other corporation of any type or kind, domestic or foreign, or any partnership, joint venture, trust, employee benefit plan or other enterprise, which any director or elected officer of the Corporation is serving or served in any capacity at the request of the Corporation, by reason of the fact that he, his testator or intestate, is or was a director or elected officer of the Corporation, or is serving or served such other corporation, partnership, joint venture, trust, employee benefit plan or other enterprise in any capacity, against judgments, fines, amounts paid in settlement, and costs, charges and expenses, including attorneys' fees, or any appeal therein; provided, however, that no indemnification shall be provided to any such director or elected officer if a judgment or other final adjudication adverse to the director or elected officer establishes that (i) his acts were committed in bad faith or were the result of active and deliberate dishonesty and, in either case, were material to the cause of action so adjudicated, or (ii) he personally gained in fact a financial profit or other advantage to which he was not legally entitled.

Section 2. Employees of the Corporation who are not directors or elected officers shall be indemnified to the fullest extent as now or hereafter provided by Section 722 of the New York Business Corporation Law in connection with any actual or threatened action or proceeding (including civil, criminal, administrative or investigative proceedings) arising out of their service to the Corporation or to another organization at the Corporation's request. Such indemnification shall be authorized by the President or his designee. The indemnification authorized by this Section 2 shall not be deemed to exclude any other rights of indemnification to which any employee may be entitled.

Section 3. The Corporation may indemnify any other person to whom the Corporation is permitted to provide indemnification or the advancement of expenses by applicable law, whether pursuant to rights granted pursuant to, or provided by, the New York Business Corporation Law or other rights created by (i) a resolution of shareholders, (ii) a resolution of directors, or (iii) an agreement providing for such indemnification, it being expressly intended that these by-laws authorize the creation of other rights in any such manner.

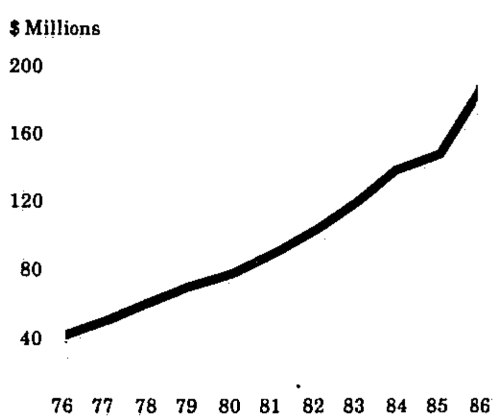
Section 4. For the purposes of this Article VIII, the term "elected officer" shall include only a person who shall have been elected, designated or appointed to act as an officer of the Corporation by the Board of Directors but shall not include any person designated or appointed an officer of the Corporation, or any of its divisions or operating units, by an individual whether acting under authority delegated by the Board of Directors or in any other manner.

Operating Highlights

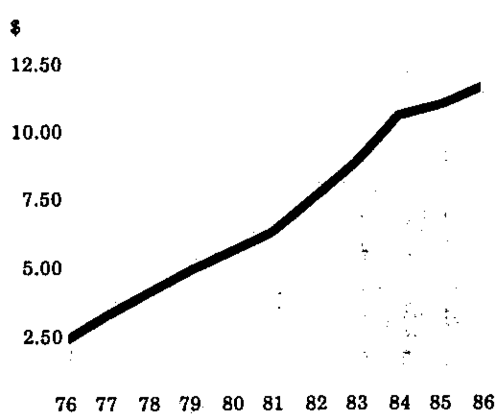
Exhibit 13

	1986	1985
Net revenues	**$4,124,374,000**	$1,020,880,000
Operating income	**$ 602,678,000**	$ 277,501,000
Income before extraordinary items	**$ 181,943,000**	$ 142,222,000
Income per share before extraordinary items	**$11.20**	$10.87
Average shares outstanding	**16,250,000**	13,080,000

Income Before
Extraordinary Items



Income Per Share
Before Extraordinary Items



To Our Shareholders

The acquisition of American Broadcasting Companies, Inc., on January 3 made the year 1986 the most challenging since the very early days of your Company. Although much remains to be done, we are pleased with the progress that has been made toward the goal of merging two outstanding media companies into a unified and effective entity. We continue to be convinced that the thinking which led both companies to complete this business combination remains valid. We are optimistic about the future of the Company, which was renamed Capital Cities/ABC, Inc., coincident with the acquisition.

Quite early in the year it seemed certain that revenues for the three television networks were not going to grow materially over 1985 and that, in this environment, revenues for the ABC Television Network were likely to decline due to its third-place audience position in prime time. Accordingly, the studies, discussions and planning sessions required to integrate two large and diverse media companies were undertaken with a special sense of urgency.

The "clash of cultures" that had been forecast by many observers never took place. While Capital Cities and ABC naturally had developed many different business practices and procedures, the similar heritage of both companies' early years and their common fundamental business principles made the consolidation less difficult. The cooperation of everyone involved kept the inevitable confusion and temporary setbacks in proper perspective throughout a very busy year.

Our early concerns about the short-range revenue prospects for the ABC Television Network were unfortunately borne out as the year went along. Total revenues for the three television networks increased only 3.5 percent in 1986, and ABC experienced a decline of 4 percent. In most dayparts, 1986 audience levels for the ABC Television Network fell somewhat from 1985, and perhaps most discouraging was the fact that the majority of new ABC 1986-87 prime-time programs failed to generate increased audience acceptance. The combination of these factors resulted in the first operating loss for the ABC Television Network since 1971.

Fortunately, revenue gains and cost reduction efforts at the broadcasting operations, and expense control programs at the television network, combined to produce better overall results for 1986 than had been anticipated earlier in the year. The former ABC television stations, radio networks and ESPN all exceeded expectations. Publishing operations were mixed in 1986, with revenue softness at many of our specialized publications and at the *Fort Worth Star-Telegram* offsetting gains elsewhere, which, on a comparable basis, resulted in a modest earnings decline for the group.

In 1986, Capital Cities/ABC achieved net revenues of $4,124,374,000 and income before extraordinary items of $181,943,000, compared with $1,020,880,000 and $142,222,000 of net revenues and earnings, respectively, reported in 1985. Earnings per share before extraordinary items in 1986 were $11.20, a 3 percent increase over $10.87 in 1985. Average shares outstanding in 1986 were 16,250,000 compared with 13,080,000 in 1985.

The Company's 1986 operating results, compared with pro forma 1985 (as if the ABC acquisition had taken place on January 1, 1985) are summarized below:

(Dollars in millions)	1986	Pro forma 1985	1985
Net revenues	$4,124.4	$4,088.9	$1,020.9
Operating costs	3,363.1	3,371.0	685.7
Depreciation and amortization	158.6	147.5	57.7
Total costs	3,521.7	3,518.5	743.4
Operating income	602.7	570.4	277.5
Interest and other, net	(180.0)	(186.4)	(0.7)
Income before taxes	422.7	384.0	276.8
Income taxes	(240.8)	(209.0)	(134.6)
Net income*	$ 181.9	$ 175.0	$ 142.2
Income per share*	$11.20	$10.88	$10.87
Average shares	16,250	16,080	13,080

*Before 1986 extraordinary items.

In connection with the acquisition of ABC, the Company was required to sell certain broadcasting properties and its cable television operations, which resulted in a 1986 extraordinary gain of $279,996,000 (net of income taxes). Additionally, an extraordinary charge of $14,250,000 (net of income taxes) was recorded in 1986, resulting from the settlement of *The Kansas City Star* contract carrier litigation.

Earnings for 1986 were not as satisfactory as they may appear to be. Generally accepted accounting principles require that the assets of an acquired business be appraised and brought to the balance sheet of the acquiring company at their current fair market values. Any excess of the purchase price over fair market value of an acquired company's tangible assets is recorded as an intangible asset (goodwill), which is required to be amortized over a period not to exceed 40 years. With respect to the acquisition of ABC, it was determined that the historic values of the entertainment programming and sports rights commitments at the date of acquisition, in the aggregate, exceeded fair market value by approximately $290,000,000, net of related income tax benefits. The resultant reduction in 1986 programming rights costs was $91,000,000 (net of income taxes), or $5.60 per share. Additional depreciation from the write-up of fixed assets to fair market value, together with the amortization of intangible assets arising from the ABC acquisition amounted to $55,000,000 in 1986, or $3.38 per share. Excluding these two noncash acquisition-related factors, 1986 earnings would have been $146,000,000, or $8.98 per share. The pro forma 1985 earnings would have been $189,000,000, or $11.75 per share, after excluding the ABC acquisition-related noncash items; programming rights adjustments ($41,000,000, net of income taxes) and the additional depreciation and amortization of intangible assets ($55,000,000). It is important to note that the pro forma 1985 results are based upon historical data for the combined companies, and do not necessarily reflect what the results would have been if the ABC acquisition had taken place on January 1, 1985.

The adjustments to fair market value of ABC's entertainment programming and sports rights, based upon currently anticipated programming schedules, will benefit future net income by approximately $43,000,000 in 1987, $95,000,000 in 1988, $54,000,000 in 1989, and $7,000,000 in 1990 through 1995.

Broadcasting and publishing activities of your Company will be discussed in detail in other sections of this report. In general, the condition and prospects of these various businesses are good. Continuing moderation in the rate of inflation has restrained revenue growth for the last two years but also reduced the rate of increase of some of our costs in 1986. For example, we paid little more for newsprint and paper (the principal raw materials for our publishing operations) during 1986 than we paid during late 1984. Television is a somewhat different story. The emergence of competition from over-the-air and satellite-to-cable programming services has put downward pressure on prices to advertisers and has tended to lift costs for attractive programming. These trends will continue and will necessitate constant evaluation of our current practices and future plans.

One important operating highlight deserves special mention in this section of our report. For the fourth quarter of 1986, *The Times Leader* (Wilkes-Barre, Pennsylvania) operated at a profit. It has been a long, difficult and expensive climb back to profitability since October 1978, when *The Times Leader* was forced to suspend its operations and then restart, with virtually no paid circulation, in competition with a newspaper that had been organized by former union employees in anticipation of a strike. We are very proud of the determination of our employees, many of whom have worked tirelessly for eight years to restore *The Times Leader* to editorial and financial viability, and we look forward to continued growth in 1987 and thereafter.

In summary we feel good about 1987 and the prospects for the future. Capital Cities/ABC is well-positioned in a number of excellent markets and media categories, and its financial structure is sound.

We sense a growing confidence among the thousands of able men and women who manage and staff Capital Cities/ABC that, with the new organization structure for the combined Company and the transformation from "them and us" to "we," the increased competition which surely lies ahead can be dealt with successfully and profitably. We are grateful to our employees for their loyalty and patience during an eventful year, and we also take pleasure again in extending thanks to our stockholders for their continuing interest and support.

Thomas S. Murphy

THOMAS S. MURPHY
Chairman

Daniel B Burke

DANIEL B. BURKE
President

Capital Cities/ABC's broadcasting operations, which consist of the ABC Television Network Group and the Capital Cities/ABC Broadcast Group, had 1986 net revenues of $3,153,619,000 and operating earnings of $474,535,000, compared with net revenues of $293,717,000 and operating earnings of $145,764,000 reported in 1985 prior to the ABC acquisition. Broadcasting operations' 1986 results, compared with pro forma 1985 (as if the ABC acquisition had taken place on January 1, 1985), are summarized as follows:

(Dollars in millions)	1986	Pro forma 1985	1985
Net revenues	$3,153.6	$3,129.8	$293.7
Operating costs	2,554.9	2,584.7	138.5
Depreciation and amortization	124.2	114.4	9.4
Total costs	2,679.1	2,699.1	147.9
Operating income	$ 474.5	$ 430.7	$145.8

The 1986 and pro forma 1985 results are after giving effect to the adjustment to fair market value of the ABC Television Network entertainment programming and sports rights, which benefited 1986 and pro forma 1985 earnings by $180,000,000 and $82,000,000, respectively. Additionally, both 1986 and pro forma 1985 results include depreciation and amortization of intangibles arising from the ABC acquisition of $47,600,000. Excluding these two noncash acquisition-related items, broadcasting earnings for 1986 would have decreased 14 percent to $342,100,000, from pro forma 1985 earnings of $396,300,000.

ABC Television Network Group

The ABC Television Network Group experienced an extremely difficult year in 1986. Soft demand for television network advertising during the year, together with continued disappointing ratings levels, resulted in a 4 percent decline in net revenues from 1985, to $2,100,000,000. While cost containment programs reduced operating expenses significantly below those originally planned, 1986 costs (excluding purchase price adjustments for entertainment programming and sports rights), increased 4 percent over 1985 levels. Approximately one-half of this expense increase was due to revised accounting methods which accelerated the write-off of costs in 1986. The result of these revenue shortfalls and modest cost increases (before purchase price adjustments and amortization of intangible assets) was a $70,000,000 loss in 1986, compared with a pro forma 1985 profit of $105,000,000.

The ABC Television Network's goal in 1986 was to restructure its operations so that it might operate effectively in the most difficult economic and competitive environment it had ever faced. Every area of the network's business was evaluated, resulting in significant changes at many levels. It is believed that these changes will help restore the network to profitability.

A priority was placed on communicating the reasons for these changes to the four major constituencies to the television network's overall performance—employees, affiliates, advertisers and program suppliers. We continue to feel it is vitally important for constituencies which are integral to our business to understand the problems we are facing and what we must do to recover our momentum.

The Company began the year by redefining the organization of the network. The costs of most of the former ABC corporate departments, whose functions were primarily network-related, were assigned to the television network. This allowed the Company to more accurately assess the television network's overall cost of doing business. The network's operating divisions and each of their departments undertook to reexamine their own budgets and staffing levels. The cost reductions attained resulted in a more efficient organization, which will be better able to respond to the increased competition and many changes which are reshaping the industry.

In addition to organizational changes and cost containment efforts, the network revised a number of its accounting policies.

To better match programming expense with revenue flows, methods were changed for the amortization of long-form programming and development costs, which, overall, will recognize expense on an accelerated basis. Partially offsetting these changes was a revised accounting policy to amortize prime-time series programming on a flow of income basis, which is less rapid than the historical method used by ABC.

The television network industry's 3.5 percent revenue gain in 1986 was one of the lowest recorded in more than a decade. The major reasons for this low industry growth were attributed to declines in the rates of inflation and national economic growth. In recent years, there has been a noticeable shift from national advertising media spending (including television network) to promotional spending by the package goods companies. Added national commercial inventory of independent television stations, cable television networks and barter syndication has also served to constrain national media price increases.

While the underlying level of demand for network advertising improved modestly as the year progressed, industry revenue growth for the foreseeable future is expected to approximate the inflation rate. For 1986, the inflation rate was slightly below 2 percent.

In addition to the soft demand for network advertising, the ABC Television Network also experienced disappointing audience levels. Through the first half of the 1986-87 prime-time season, the network continued in third place. ABC showed pronounced weaknesses on Thursday and Saturday nights, and although it retained leadership on Wednesday, there were signs of decline. The Monday night schedule lost audience but remained competitive. The Tuesday, Friday and Sunday audience levels improved.

There were improvements in specific programs. *Moonlighting,* produced in-house by ABC Circle Films, was the highest rated hour among adults 18-49; *Who's the Boss?* and *Growing Pains* remained among the highest ranking series on television; and *The Disney Sunday Movie* made significant gains in younger demographics. Series such as *Head of the Class* and *Perfect Strangers* were solid performers and provide a foundation for improvement in the rest of the schedule.

ABC's aim in reestablishing a more competitive position in prime time is two-fold: to increase overall audience levels and to develop programming for the younger demographic groups that advertisers find most appealing. Building a successful lineup of shows throughout the week is a long-term process, which begins with program development. The network has attracted some of the best talent in the creative community to develop series.

Among those who have been given series commitments for the 1987-88 season are: Steven Bochco *(Hill Street Blues, L.A. Law)* and Terry Louise Fisher *(Cagney & Lacey, L.A. Law)* for a series starring John Ritter; Michael Leeson *(The Cosby Show, Taxi)*; Jay Tarses *(The Bob Newhart Show)* for a series starring Dabney Coleman; Mike Nichols *(The Graduate, Silkwood, Heartburn, Family)*; and Jay Presson Allen *(Cabaret, Funny Lady, Prince of the City, Family)*.

Good Morning America remains competitive in attracting key demographics. The program experienced a period of transition as David Hartman ended eleven distinguished years as the host of *GMA*. Changes in format and personalities were announced, and *GMA* began 1987 with new co-host Charles Gibson, an experienced ABC News correspondent, joining Joan Lunden.

Monday to Friday daytime, a most important profit center for the network, experienced audience losses during 1986. Despite a 3 percent falloff from 1985 in both ratings and delivery of 18-49-year-old women, the network remained first in delivering younger demographics. New storylines have been incorporated to strengthen the daytime serial dramas, and steps are being taken to develop innovative programming to bolster the late-morning schedule.

Throughout 1986, *World News Tonight with Peter Jennings* maintained its leadership position in the top 50 markets, although it finished third in the ratings nationally. *World News* also led the other networks in the overall delivery of younger adult viewers.

ABC News' *Nightline* with Ted Koppel, *20/20* with Hugh Downs and Barbara Walters, and *This Week with David Brinkley* continued to provide timely, in-depth news analysis and features while maintaining their audience levels. A highlight for ABC News was its extensive four-day coverage of Liberty Weekend.

Two new programs were introduced in 1986—*Our World,* hosted by Linda Ellerbee and Ray Gandolf; a weekly prime-time look back at history; and *Business World,* anchored by Sander Vanocur, the first regularly-scheduled business program on network television. As 1987 began, the network also launched a weekly information program, *The Health Show,* with Kathleen Sullivan as anchor.

ABC Sports went through a major reorganization in 1986. Significant budget and staff cuts were made during the year. These helped the division moderate substantial losses resulting from excessive costs associated with previously acquired long-term sports rights agreements.

These contracts, especially one with Major League Baseball, will continue to have a negative impact on the division's performance for the next several years. Some agreements were renegotiated in 1986 in response to a weaker sports advertising marketplace. ABC Sports' 1987 program plans include expanded coverage in auto racing, a new college football package, a college basketball schedule and a series of PGA Tour events. Early in 1987 discussions began concerning a new contract for ABC's NFL *Monday Night Football.*

During 1986, ABC programming won more than 200 awards. They included 39 Emmys: six for prime time, 14 for sports, nine for news, five for daytime and five for children's programs.

In the public service area, the network joined the Public Broadcasting Service in launching a campaign to help fight adult illiteracy. That effort, Project Literacy U.S. (PLUS), began its on-air phase in September with an award-winning documentary and continues its awareness campaign through a broad range of programming and public service announcements in 1987. Public service time was also devoted to anti-drug abuse messages featuring ABC personalities.

Another important development for the network involved its affiliated stations and the introduction of NewsOne, a cooperative satellite news service which tripled the amount of news and sports information available to stations. Affiliates also began participating in ABSAT, a satellite uplink transmission system utilizing specially equipped trucks to gather and transmit news coverage.

Remaining unresolved are a number of issues affecting the network's ability to produce its own programs and to acquire financial interests in programs produced by others. Current regulatory restraints sharply limit the Company in both respects. The Company has been in discussions with representatives of the production community in an attempt to obtain agreement about needed changes on those matters. The discussions did not lead to resolution of our differences, but we are hopeful that over the next few years these limitations, which directly affect our costs and those of the production community, can be addressed and modified.

While the ABC Television Network has made progress in addressing its financial difficulties, there will be continuing evaluation of all operations to ensure flexibility and maximum efficiency. The major challenge continues to be development of successful prime-time series. ABC Entertainment will continue to receive the support necessary to work with the Hollywood production community to develop and acquire prime-time programming with broad popular appeal.

Broadcast Group

The new Capital Cities/ABC Broadcast Group had an outstanding year. Net revenues reached $1,100,000,000 in 1986, a 13 percent gain over pro forma 1985. Operating earnings (before amortization of intangible assets) increased 42 percent from pro forma 1985 of $290,000,000, to $412,000,000 in 1986.

Several significant factors contributed to the success of the Broadcast Group in 1986. Strong local advertising growth in our larger markets helped overcome an otherwise sluggish year for national advertising. Also, cost efficiencies achieved throughout the group's operations, especially at the former ABC television stations, substantially increased operating income and margins. The radio networks were able to capitalize on their unique services and to post sizable gains in both revenues and profits. Radio station earnings increased modestly from a year ago, reflecting weak national advertising demand and ratings declines in several markets. Finally, video enterprises attained a major milestone and became profitable for the first time.

Net revenue increased 11 percent over pro forma 1985 for the Company's eight television stations. Strong local advertising revenue growth in our largest markets more than offset the continued economic difficulties plaguing Houston. As a result of significant cost savings achieved during the year, increases in operating income substantially outpaced revenue growth. Expenses were reduced by a major restructuring effort, which eliminated redundant positions and generally streamlined administrative functions. In addition to producing a favorable short-term economic impact, management believes these structural changes will foster better local decision-making and generate long-term operational benefits.

The Company's television stations are currently the largest group in the country in terms of television household coverage. The group reaches 24.43 percent of the total ADI (Area of Dominant Influence) television homes (see table which follows). This is just under the 25 percent maximum restriction imposed by the Federal Communications Commission (FCC).

Station and market	Market rank	No. of ADI TV homes	% of ADI TV homes
WABC-TV (New York)	1	6,814,200	7.78%
KABC-TV (Los Angeles)	2	4,532,700	5.17%
WLS-TV (Chicago)	3	3,066,700	3.50%
WPVI-TV (Philadelphia)	4	2,641,400	3.01%
KGO-TV (San Francisco)	5	2,077,000	2.37%
KTRK-TV (Houston)	10	1,457,400	1.66%
WTVD (Durham-Raleigh)	35	620,400	.71%
KFSN-TV (Fresno)	63	405,100	.23%*
Total		21,614,900	24.43%

Source: *Arbitron ADI Market Rankings 1986-1987.*
*For FCC purposes, only one-half of homes reached by a UHF station are counted.

The Capital Cities/ABC television stations take pride in being not only the largest group, but also the most successful in terms of audience ratings. Seven of our eight stations were ranked first in their markets in the overall sign-on to sign-off ratings, according to November 1986 ratings data. The stations have assumed market leadership roles through long-standing commitments to excellent local news and entertainment programming. For example, we are proud to note that *The Oprah Winfrey Show,* which is currently a huge success through national syndication, is produced as a local program by our Chicago station, WLS-TV.

Local programming is a primary focus of our television stations because it enhances our relationships with the communities we serve. Local programming also allows a station to differentiate itself and attract larger audiences. 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	2	1(T)
KABC-TV (Los Angeles)	8	1	1
WLS-TV (Chicago)	7	1	1
WPVI-TV (Philadelphia)	6	1	1
KGO-TV (San Francisco)	7	1	2
KTRK-TV (Houston)	6	1	1
WTVD (Durham-Raleigh)	5	2	2
KFSN-TV (Fresno)	6	1	1

Source: *Nielsen, November 1986, except KFSN-TV which is Arbitron, November 1986.*
(T) Tied

Competition for both viewers and revenues continues to intensify in television. Network affiliates face the challenge of maintaining or building an audience despite the growing number of viewing alternatives offered by independent stations, cable television programs and video cassettes. These competitors will continue to take larger shares of overall television viewing and advertising spending, as will syndicators that compete by selling commercial time bartered from stations in return for programming. In an uncertain future, our station management must continue to be both flexible and observant in order to successfully adapt to the changing environment.

A significant change was made during 1986 in the national advertising sales representation of the Company's television stations. The Capital Cities stations had been represented by an independent firm, Blair Television. The former ABC television stations had used in-house representation through ABC Television Spot Sales. After considerable deliberation, it was decided to consolidate national representation in an expanded in-house entity, renamed Capital Cities/ABC National Television Sales. This decision entailed opening several new sales offices and hiring additional personnel. We believe these added costs are justified by enhanced revenue opportunities.

We wish to thank Blair Television for their excellent performance in representing Capital Cities' television stations nationally for over 28 years.

The radio division enjoyed a good year in 1986. Although net revenue growth over 1985 on a pro forma basis was a modest 4 percent, expense reductions generated a substantial increase in operating income. The division's two components, the radio stations and the radio networks, combine to form the largest and most successful radio group in the industry.

Our radio stations were confronted with a very soft national advertising marketplace in 1986. Local advertising growth and market share improvements in several markets helped offset this national shortfall. The strong audience position established by such perennial market leaders as KGO-AM (San Francisco) and WJR-AM (Detroit) enabled the group to overcome a disappointing revenue year.

A highlight of 1986 was the acquisition of KQRS-AM/FM in June for $10,000,000. These stations serve the Minneapolis-St. Paul market and feature an album-oriented rock format. The popularity of these stations is evidenced by the latest fall 1986 ratings, where KQRS-AM/FM ranks second in its market with an impressive 11 percent share of the overall audience.

Currently, seven of our radio stations are subject to a temporary FCC cross-ownership waiver as a result of the ABC merger. These seven stations (AM and FM stations in New York, Los Angeles, and Chicago; and an AM station in San Francisco) must be sold when the waivers expire in June 1987. In February 1987, however, the FCC released notice of a proposed rule making which may lead to change in the multiple-ownership regulations, and the Company has requested an extension of the waivers pending the outcome of the rule making. We believe strongly in the future of radio (as evidenced by our acquisition of KQRS-AM/FM) and intend to remain an important participant in radio indefinitely.

The Company's 19 radio stations reach 24.23 percent of the metro population age 12 or older in the United States, as shown below:

Station and market	Market rank	1986 Metro population (age 12 or older) #	% of U.S.
WABC-AM/WPLJ-FM (New York)	1	13,958,100	6.94%
KABC-AM/KLOS-FM (Los Angeles)	2	8,604,700	4.28%
WLS-AM/WYTZ-FM (Chicago)	3	6,673,400	3.32%
KGO-AM (San Francisco)	4	4,792,600	2.38%
WJR-AM/WHYT-FM (Detroit)	6	3,573,100	1.78%
WMAL-AM/WRQX-FM (Washington, D.C.)	9	2,965,900	1.48%
WBAP-AM/KSCS-FM (Ft. Worth-Dallas)	10	2,959,100	1.47%
WKHX-AM/FM (Atlanta)	13	2,073,200	1.03%
KQRS-AM/FM (Minneapolis-St. Paul)	18	1,876,700	.93%
WPRO-AM/FM (Providence)	28	1,239,900	.62%
Total		48,716,700	24.23%

Source: *Arbitron, 1986-1987 Populations in U.S. Radio Markets.*

The radio networks consist of six basic networks with approximately 2,150 affiliates nationwide. Paul Harvey, the most popular national radio personality by a large margin, is a prominent feature of the radio networks, and his contract has been extended until 1993. The dominant position of our radio networks is illustrated by the most recent ratings information presented below:

Network	Audience share	National rank
Information	9.6%	1
Entertainment	9.0%	2
Contemporary	8.1%	3
Rock	6.3%	8
FM	6.0%	10
Direction	4.9%	14

Source: *RADAR 33, Spring 1986, Mon-Sun 6 AM-midnight, total persons 12 +, average quarterly hour.*

The radio networks were able to combine healthy revenue growth with effective cost control to produce dramatic improvement in operating income. Unlike the national radio spot advertising market, the network radio marketplace grew significantly in 1986, fueled by the emergence of several new major advertisers. The future seems bright as more advertisers recognize the efficiency of this nationwide medium.

Video enterprises had a breakthrough year in 1986. Several years of start-up and developmental investments came to fruition as net revenues increased by 42 percent over 1985. The revenue increase helped video enterprises to become profitable for the first time. There are three basic components of video enterprises: cable program services; program distribution; and development and operations.

Cable program services consist of the Company's ownership share in three basic cable channels: ESPN; Arts & Entertainment (A & E); and Lifetime. Growth trends in subscriber levels are shown in the following table:

(Millions)	Average subscribers 1986	1985	1984	1983	1982
ESPN (Launched Sept. 1979)	37.3	36.0	32.6	26.9	19.3
A & E (Launched Feb. 1984)	20.5	18.7	10.5	—	—
Lifetime (Launched Feb. 1984)	25.9	23.0	18.5	—	—
Cable TV Households	39.5	36.1	33.0	30.3	28.2
Total TV Households	86.1	84.9	83.8	83.3	81.5

Sources: *Nielsen; Cable Profile Database.*

ESPN, the largest of the three services, is 80-percent-owned by the Company. ESPN provides 24-hours-a-day sports programming that effectively combines innovative events and standard coverage. Its recent exclusive live coverage of the America's Cup sailing races from Australia speaks to the organization's creativity and scope. Sizable revenue gains were posted in 1986 in both advertising sales and affiliate fees charged to cable systems. The growth potential for ESPN continues to be promising, due to the value it provides to advertisers seeking a sports-oriented target audience and to cable systems as a marketing tool to increase subscribers.

A & E is a quality dramatic and cultural programming outlet that is 38-percent-owned by Capital Cities/ABC. The service has been constantly building since its inception in early 1984, and recent program offerings have received much critical acclaim. Similarly, Lifetime, 33-percent-owned by the Company, is in its growth phase. Less than three years old, Lifetime is targeted towards women viewers and also includes specialized medical programming for doctors on Sunday mornings. A & E and Lifetime will continue to grow within their specialized niches.

Program distribution is the segment of video enterprises that is responsible for international sales and licensing of entertainment, sports and news programs owned by the ABC Television Network.

Program distribution is also involved in the sale of ABC-owned programs on video cassettes.

Development and operations functions as the Company's research and development group in seeking new opportunities in emerging technologies in the electronic media. Electronic and video publishing, and foreign programming ventures are just a few of the ideas that are being actively pursued.

Public Affairs

The Company has long understood and accepted the broadcaster's responsibility for serving its local communities through public affairs programming. The degree of excellence of our properties in this regard is reflected in the numerous awards they have received each year. Award highlights in 1986 include:

- KGO-TV received a George Foster Peabody Award for *Steinbeck Country,* a dramatic portrayal of author John Steinbeck.
- ABC Radio News won an Ohio State Award for *Vietnam Update: 10 Years Later,* which covered over 250 reports and programs on the six radio networks.
- WPVI-TV received the Best Single Public Affairs Program Award from the Pennsylvania Association of Broadcasters for its segment *The MOVE Report & Beyond.*
- A & E was the recipient of the 1986 Listeners' Guild Outstanding Programming Award for achievement in cable programming services.
- WMAL-AM garnered five local Sigma Delta Chi, the Society of Professional Journalists Awards in various categories, including spot news, features and general reporting.

We salute all of the people behind these and countless other local news and public affairs programs. The Capital Cities/ABC Broadcast Group takes considerable pride in the talented efforts of its employees, and will continue to strive for excellence as it fulfills its public responsibilities.

Capital Cities/ABC's Publishing Group, consisting of newspapers, specialized publications and shopping guides, had a difficult year in 1986. Net revenues were $970,755,000 and operating income was $158,999,000 for 1986, compared with net revenues of $642,583,000 and operating income of $138,512,000 reported in 1985. Publishing's 1986 performance, however, was disappointing compared with pro forma 1985 results (as if the ABC acquisition had taken place on January 1, 1985) as summarized below:

(Dollars in millions)	1986	Pro forma 1985	1985
Net revenues	$970.7	$959.1	$642.6
Operating costs	778.1	761.2	482.4
Depreciation and amortization	33.6	31.2	21.7
Total costs	811.7	792.4	504.1
Operating income	$159.0	$166.7	$138.5

On a pro forma basis, net revenues were up slightly more than 1 percent and expenses (excluding amortization of intangible assets) were up 2 percent. The result was a decline in operating income of more than 4 percent, which represented a significant shortfall from our original 1986 plan. Declines at Fairchild Publications, several units of ABC Publishing, the *Fort Worth Star-Telegram* and the southern California shopping guide operations more than offset excellent performances by the Group's other operating units.

With revenue softness continuing, the turnaround planned for 1987 will require creative sales management and careful attention to expenses.

Specialized Publications

Specialized publications as a group had a slight revenue decline in 1986. Although cost control measures kept the operating expense increase to less than 1 percent, operating earnings decreased 5 percent from pro forma 1985.

Fairchild Publications experienced a second consecutive year of lower earnings because of weak advertising markets and increased competition. Revenues were down slightly and operating income declined significantly. Costs increased nearly 5 percent as a result of efforts to maintain market share and a continued shift to coated stock from newsprint. Those increased costs reduced margins, which are still at favorable levels for business publications.

Most of the decline in profits was attributed to the performances of *Women's Wear Daily*, *Daily News Record* and *Electronic News*, which encountered weak marketplaces and increased competition.

Larger publications posting higher profits included *HFD/Retailing Home Furnishings*, the International Medical News Group and *The Travel Agent* magazine. Both *MIS Week* and *Multichannel News* had outstanding years.

A redesigned *W* virtually alone among major fashion publications showed an increase in advertising pages, although profits were down slightly. Its counterpart for men, *M*, reduced its losses on increased advertising pages. New start-ups included *Children's Business*, *WWD/Scene* and *DNR International* which are progressing as planned.

ABC Publishing experienced a modest increase in operating income over 1985. Revenues in 1986 were down slightly from 1985, but the decline was more than offset by cost control efforts that reduced expenses below the prior year.

The Chilton Company, which accounts for about 40 percent of ABC Publishing revenues, had record revenues and operating income in 1986. Neal Awards, the highest honor for editorial quality in business press publishing, were awarded to *Food Engineering* and *Automotive Marketing*.

Hitchcock Publishing also experienced a record year in 1986. Its newest publication, *Manufacturing Systems*, continues to make progress in its second year of monthly publication.

PEMCO (Professional Exposition Management Company), which produces eleven industrial trade shows, was acquired in March 1986. The PEMCO operation offers opportunity for growth in the burgeoning trade-show business.

Overall, ABC Consumer Magazines had a substantial gain in operating income, due mainly to the continuing success of the computer magazine group. A new product, *COMPUTE!'s Atari ST Disk & Magazine*, was launched in September and was profitable immediately. Revenue softness caused lower profits at *Modern Photography, High Fidelity* and *Los Angeles Magazine*.

NILS (National Insurance Law Service), which produces a very complete national data base service on insurance laws and regulations, had impressive growth in both revenue and operating income. A new service was launched during 1986 dedicated to the consumer credit law market, which also offers both print and electronic delivery alternatives to its subscribers. NILS also oversees the National Price Service which serves the electrical and plumbing trades.

The ABC Publishing Agricultural Group experienced another difficult year in 1986. Revenues and profits were down substantially at most of the midwestern state farm magazines and the national agricultural and merchandising publications.

Word, Inc.'s operating income was off substantially in 1986, largely because of market conditions. Nevertheless, it was one of the nation's few major religious communications companies to post a profit last year.

The Institutional Investor group of financial publications and services achieved record sales and profits in 1986. The controlled circulation of *Institutional Investor* magazines was increased in January 1987, bringing their worldwide circulation to 134,000, 41 percent higher than the previous year. In addition, the magazine added three more awards for journalistic excellence, bringing its total awards to 34.

Securities Data Company, which provides on-line information from electronic data bases primarily to investment banks, had a profitable year, although down from 1985.

Newspapers

Overall, newspaper revenues increased 4 percent, and operating income and margins declined slightly. Excluding the *Fort Worth Star-Telegram*, where economic conditions in Texas and increased costs associated with the new printing and distribution center depressed earnings, the Company's other newspapers combined had nearly a 7 percent revenue gain and a 12 percent increase in operating income. Preprinted inserts, classified advertising and circulation accounted for all of the increased revenues.

The Kansas City Star and *Times* achieved record revenues and operating profit in 1986. Growth in classified and preprint insert advertising revenues more than offset declines in local retail and national business. Advertising linage was down 1 percent and revenues increased nearly 7 percent.

Following months of negotiations, The Kansas City Star Company reached a comprehensive settlement accord on September 3, 1986, which ended the majority of the lawsuits brought by past and present independent contract carriers. An extraordinary charge of $14,250,000 (net of income taxes) was reflected in the third quarter. In exchange, the settling carriers dismissed all claims both in their state court lawsuits for alleged damages and injunctive relief for alleged violations of their interests in distributorship routes and in their Federal court cases which challenged the Star Company's policies in marketing and pricing of single copies of its newspapers.

The settlement agreement provided for the termination of the resale/distribution contracts with the settling independent contract carriers. The transition to the agency system has been completed, and the Star Company is distributing newspapers directly to virtually all of its subscribers. Under the delivery agent contracts now in effect, the newspaper is able to establish the retail price and standards for delivery of its newspapers to the subscribers to whom it sells directly. Long term, this should result in more effective circulation patterns for advertisers.

At year-end, paid circulation of the afternoon *Star* was down nearly 4 percent; the morning *Times* was off slightly; and the Sunday *Star* was up nearly 3 percent.

The Inland Daily Press Association honored the *Star* with its community service award for local projects that aid the poor, the hungry and the illiterate. It awarded the *Times* first place for local coverage.

The *Fort Worth Star-Telegram* suffered its first year-to-year decline in profits since 1975. Total revenues were down slightly, and expenses were up 7 percent, partly due to the launching of the new facility. Operating income was off 15 percent. The year-to-year effect of the new plant will continue in 1987, largely because of substantially increased depreciation. Despite a price increase, circulation continued to grow and was up an average of 4 percent.

Printing of advance sections at the new printing and distribution center began in late 1986 on the first of four Goss Headliner offset presses. All printing had been transferred to the new facility by January 1987. The 244,000-square-foot facility, located seven miles south of downtown Fort Worth, cost $73,000,000. Editorial, advertising, business and composition functions remain at the downtown site.

The Oakland Press (Pontiac, Michigan) again had record profits, including the doubling of revenues from its companion real estate magazine business. Overall revenues, however, did not rise as fast as in recent years due to gradual softening of the local automotive economy. Total-market products for non-subscribers and the number of preprinted inserts grew at above-normal rates.

The *Belleville News-Democrat* (Belleville, Illinois) had the best relative performance in 1986 of all the Company's newspapers. Revenues were up 9 percent, and operating income increased 13 percent. Daily and Sunday circulation growth continued at healthy levels, and a new locally produced Sunday magazine was introduced.

The Times Leader (Wilkes-Barre, Pennsylvania) cut its operating losses 65 percent from 1985 levels and was profitable for the fourth quarter of 1986. The newspaper's momentum is expected to continue, generating modest profits in 1987.

Shore Line Newspapers added a twentieth masthead to its chain of newsweeklies covering 175,000 homes along the New England coast between New Haven, Connecticut, and Newport, Rhode Island. Earnings improved modestly from 1985 levels.

The Oregon group of small dailies and weeklies continued to experience slow growth in revenue and operating income.

Shopping Guides

Results at Sutton Industries were down substantially as outside commercial work was curtailed and production operations were reorganized to improve efficiency. Sutton distributes over 1,400,000 *Pennysavers* weekly in southern and northern California.

Pennypower, headquartered in Wichita, Kansas, experienced reduced profits because of an ill-fated start-up in Joplin, Missouri, which was discontinued in December after substantial losses. The "Nickel" publications in Seattle-Tacoma and Spokane, Washington, and in Portland, Oregon, had an outstanding year.

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

Results of Operations— 1986 Compared to 1985

The results of operations for 1986 include those of ABC, which was acquired on January 3, 1986, and exclude those of the previously owned cable television division and certain other broadcasting properties which were divested (see Notes 3 and 5 to the Consolidated Financial Statements). The pro forma 1985 financial information which follows is based on historical data and is not necessarily indicative of the results which would have been achieved had the ABC acquisition taken place as of January 1, 1985.

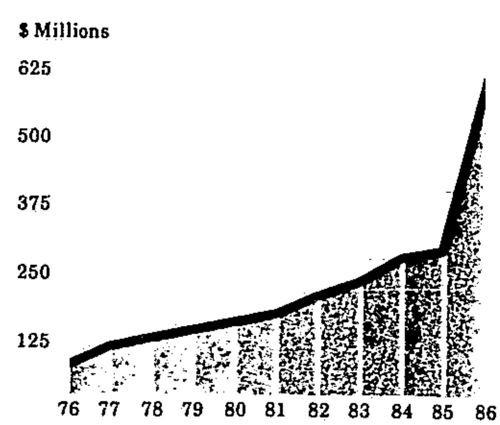
Net revenues for 1986 were $4,124,374,000, compared with $1,020,880,000 in 1985. On a pro forma basis, assuming the acquisition of ABC had taken place on January 1, 1985, net revenues for 1985 would have been approximately $4,088,900,000. Net revenues for 1986 for the Company's broadcasting operations were $3,153,619,000, compared with $3,129,800,000 on a pro forma basis for 1985. The ABC Television Network was affected by the relatively weak demand for network advertising as well as disappointing ratings levels. As a result, net revenues for the network declined 4% from 1985. The Company's other broadcasting operations—television and radio stations, radio networks and video operations—reported 1986 net revenues 13% higher than pro forma 1985. Strong local advertising growth in the larger television markets, as well as increased advertising revenues and affiliate fees charged to cable systems by ESPN, primarily accounted for the increase in net revenues. The Publishing Group reported 1986 revenues of $970,755,000, which was 1% greater than 1985 on a pro forma basis. Revenues at most publications were adversely affected by weakness in advertising demand.

Total costs and expenses for 1986 were $3,521,696,000, compared with $743,379,000 in 1985. On a pro forma basis, total costs and expenses for 1985 would have been $3,518,500,000. Costs and expenses for the Company's broadcasting operations in 1986 were $2,679,084,000, compared with $2,699,100,000 on a pro forma basis for 1985. While cost containment programs at the ABC Television Network reduced operating expenses below those originally planned, 1986 network costs (excluding purchase price adjustments), increased 4% over 1985 levels. Cost efficiencies were achieved at the Company's other broadcasting operations, especially at the former ABC television stations. Total costs and expenses for 1986 for the Company's publishing operations were $811,756,000, compared with $792,400,000 on a pro forma basis for 1985, a 2% increase.

Operating income for 1986 was $602,678,000, compared with $277,501,000 reported in 1985. On a pro forma basis for 1985, the Company's operating income would have been $570,400,000, with broadcasting showing an increase of 10% and publishing a decrease of 5%.

Results for 1986 reflect the fair market values assigned to ABC's assets. Adjustments related to the determination of the fair market value of entertainment programming and sports rights at the ABC Television Network benefited earnings in 1986 by approximately $91,000,000 (net of income taxes), or $5.60 per

Operating Income



share. Results for 1986 also include a charge of $3.19 per share for amortization of intangible assets arising from the acquisition of ABC.

Net financial expense (interest expense less interest income) for 1986 increased $172,867,000 compared with 1985, as a result of the increased debt incurred in connection with the acquisition of ABC. Interest of $11,414,000 and $4,554,000 was capitalized in 1986 and 1985, respectively.

The Company's effective income tax rates (on income before extraordinary items) for 1986 and 1985 were 57.0% and 48.6%, respectively, with the majority of the increase attributable to substantially higher amortization of intangible assets resulting from the acquisition of ABC. Excluding total amortization, substantially all of which is not deductible for tax purposes, the effective tax rate for 1986 would have been 49.5%. The Tax Reform Act of 1986 reduces corporate income tax rates, extends depreciable lives of property, plant and equipment and repeals the investment tax credit, among other things. The new legislation is expected to reduce the Company's 1987 effective tax rate by approximately 4 percentage points.

Consolidated income before extraordinary items for 1986 was $181,943,000, compared with $142,222,000 a year earlier. Earnings per share before extraordinary items were $11.20, compared with $10.87 in the prior year. In transactions related to the acquisition of ABC, the Company sold certain operating properties which resulted in an extraordinary gain in the first quarter of 1986 of $279,996,000 (net of income taxes of $156,800,000). The settlement of *The Kansas City Star* independent contract carrier litigation in the third quarter of 1986 resulted in an extraordinary charge of $14,250,000 (net of income taxes of $14,252,000). Average shares of common stock outstanding for 1986 were 16,250,000, compared to 13,080,000 shares in 1985.

The effect of the amortization of all intangible assets of the Company was to reduce earnings per share by $3.90 and $1.51 in 1986 and 1985, respectively.

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 revenues (excluding cable television operations) were up 8%, or $21,869,000, with radio operations showing the larger percentage gain. Excluding a 1984 television station acquisition, broadcasting revenues were up 5%. Cable television revenues increased 11%, due primarily to the growth in the number of basic subscribers and higher average monthly rates. Publishing 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 revenues increased 3%, with newspaper linage remaining flat and specialized publication linage decreasing 7%.

Total costs and expenses for 1985 were up $71,169,000, or 11% over 1984. Broadcasting expenses (excluding cable television operations) were up $17,743,000, or 14%, partially due to a 1984 television station acquisition. Excluding this acquisition, broadcasting 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 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 costs increased only 3%.

Operating income for 1985 increased 4% to $277,501,000 from the $267,512,000 reported in 1984, with broadcasting (excluding cable television operations) and publishing reporting gains of 3% and 4%, respectively. Operating income for cable television 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 ABC. 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 income 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, compared with $1.07 in 1984.

Available Cash Flow

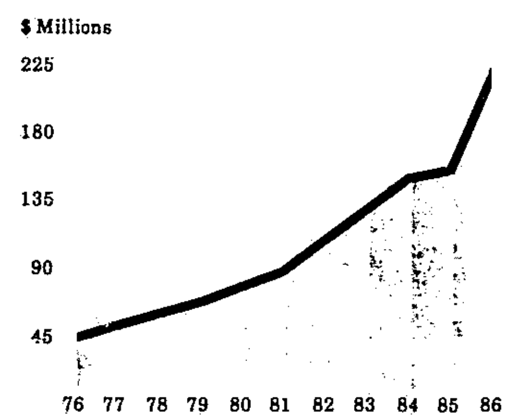
Available cash flow is defined as cash from operations, less amounts reinvested in such operations for capital expenditures and program licenses and rights. In 1986, the Company's available cash flow amounted to $213,659,000, representing an increase of $67,480,000, or 46%, over the $146,179,000 reported in 1985.

Unlike most industrial companies, the Company historically has not been required to reinvest large amounts of capital each year in physical assets, inventories and programming licenses and rights to maintain the same level of production or operations. In 1984 however, the Company began a major capital project of approximately $73,000,000, which moved all *Fort Worth Star-Telegram* printing and distribution functions to a new production facility. As a result of the acquisition of ABC, the Company will require significant capital spending to complete several major facilities started prior to the acquisition, as well as for construction of a planned new headquarters building. Additionally, the ABC Television Network has historically required a substantial investment in entertainment programming and sports rights.

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 1986 of $213,659,000, increased by $1,474,184,000

Available Cash Flow



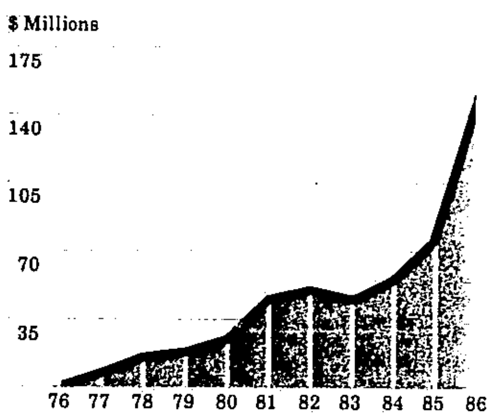
from the issuance and assumption of long-term debt, $517,500,000 from the sale of 3,000,000 shares of common stock to Berkshire Hathaway Inc., $625,678,000 (net of current taxes) from the disposition of certain of the Company's operating properties, and $288,853,000 from other sources, resulted in total cash provided of $3,119,874,000. The acquisition of ABC required $3,370,972,000, the repayment of long-term debt required $367,528,000 and other cash applications in 1986 were $134,424,000, resulting in total cash applied in 1986 of $3,872,924,000. The excess of cash applied over cash provided resulted in a decrease of $753,050,000 in cash and cash investments from December 31, 1985.

Capital Expenditures and Programming Commitments

In 1986, capital expenditures amounted to $153,082,000 compared with $75,384,000 in 1985. The largest portion of 1986 capital spending was in the Company's broadcasting operations where $104,278,000 was spent. Of this amount, $41,610,000 was for facility improvements at the television network and $14,374,000 was spent for the planned upgrade of the WLS-TV station in Chicago.

The Publishing Group spent $48,589,000 in 1986, approximately 80% of which was for the completion of the new production facility for the *Fort Worth Star-Telegram*.

Capital Expenditures



The Company anticipates that 1987 capital expenditures will be approximately $160,000,000. Major projects in the 1987 capital plan include $20,000,000 for the beginning of a new corporate headquarters building, $17,000,000 for the continued construction of the WLS-TV facility, $51,000,000 for other broadcast building improvements and $72,000,000 for broadcasting and publishing equipment to support ongoing operations.

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 were approximately $1,200,000,000 at the end of 1986. 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 $1,948,627,000 at December 28, 1986, an increase of $1,059,367,000 from the 1985 year-end total of $889,260,000. The major increase in stockholders' equity was largely a result of the sale of 3,000,000 shares of common stock to Berkshire Hathaway Inc. and the after-tax extraordinary gain on the required divestitures in connection with the acquisition of ABC, as well as the issuance of warrants.

At December 28, 1986, total interest-bearing debt was $1,821,805,000, an increase of $1,107,507,000 from 1985. As more fully described in Note 4 to the Consolidated Financial Statements, total interest-bearing debt at December 28, 1986, includes $224,830,000 of commerical paper, supported by a $1,000,000,000 bank revolving credit agreement, $1,575,000,000 of public and privately placed notes and debentures and $21,975,000 of other long-term debt. At December 28, 1986, the weighted average interest rate of the commercial paper, and of all other long-term instruments, was 6.2% and 10.3%, respectively.

At December 28, 1986, deferred income taxes amounted to $152,458,000 and minority interest in the Company's consolidated subsidiaries was $41,791,000.

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

(Dollars in millions)	Debt	Total capital	Debt to total capital ratio
1986	$1,821.8	$3,964.7	46%
1985	$ 714.3	$1,644.7	43%
1984	$ 223.0	$ 997.4	22%
1983	$ 221.0	$ 883.8	25%
1982	$ 48.4	$ 619.1	8%

Return on Equity

Return on equity is an important measurement of the effectiveness with which the stockholders' equity is being employed. It is expressed as the percentage relationship that net income (before extraordinary items) bears to average stockholders' equity. The Company's return on average stockholders' equity was 9.7% and 17.5% in 1986 and 1985, respectively. In years prior to 1986, the Company's return on equity has benefited both from its 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 1986, net income (before extraordinary items) increased only $39,721,000 from the prior year, while stockholders' equity increased $1,059,367,000 from the level reported at December 31, 1985 mainly as a result of transactions related to the acquisition of ABC. As a result, the return on equity decreased substantially from the prior year.

Intangible Assets

At December 28, 1986, the Company's intangible assets, before accumulated amortization, totaled $2,452,365,000, of which $2,072,911,000 arose from the acquisition of ABC. These intangible assets accounted for more than 46% of the Company's total assets.

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

All of the Company's intangible assets have resulted from the acquisition of broadcasting and publishing properties. Historically, such intangible assets have increased in value and have long and productive lives. We believe that the Company's intangible assets have or will appreciate in value, and that the requirements of *Opinion No. 17,* when applied to such publishing and broadcasting assets, significantly understate net income and stockholders' equity.

Of total intangible assets, at December 28, 1986, $2,370,453,000 was subject to amortization. The amortization of such intangibles had the effect of reducing 1986 net income by $63,402,000, or $3.90 a share. The amortization of substantially all intangible assets is not a deductible item in computing income taxes.

Financial Summary 1976-1986

(Dollars in thousands except per share data)

	1986	1985	1984
RESULTS FOR THE YEAR			
Net revenues			
Broadcasting	**$3,153,619**	$ 378,297	$ 348,106
Publishing	**970,755**	642,583	591,616
Total	**4,124,374**	1,020,880	939,722
Operating income			
Broadcasting	**$ 519,735**	$ 159,337	$ 151,982
Publishing	**177,201**	149,855	143,012
Income from operations	**696,936**	309,192	294,994
Amortization of intangible assets	**(63,402)**	(19,710)	(17,633)
General corporate expense	**(30,856)**	(11,981)	(9,849)
Total	**602,678**	277,501	267,512
Income before extraordinary items (a)	**$ 181,943**	$ 142,222	$ 135,193
Income per share before extraordinary items (a) (b)	**$11.20**	$10.87	$10.40
Cash dividends declared per common share (b)	**$ 0.20**	$ 0.20	$ 0.20
Average shares (000's omitted) (b)	**16,250**	13,080	13,000
Return on average stockholders' equity (c)	**9.7%**	17.5%	19.9%
SELECTED CHANGES IN FINANCIAL POSITION			
Cash provided			
Operations	**$ 369,478**	$ 223,296	$ 196,600
Increase in long-term debt	**1,474,184**	493,329	18,065
Disposition of interest in operating properties	**625,678**	7,222	5,000
Cash applied			
Acquisitions of operating properties	**$3,383,531**	$ 51,109	$ 146,843
Purchase of common stock for treasury	**1,075**	484	46,135
Capital expenditures	**153,082**	75,384	53,866
Reduction of long-term debt	**367,528**	7,872	16,030
Dividends on common stock	**3,219**	2,595	2,570
AT YEAR-END			
Working capital	**$ 416,230**	$ 830,986	$ 240,985
Total assets	**5,191,416**	1,884,931	1,208,172
Long-term debt	**1,821,805**	714,298	222,995
Stockholders' equity	**1,948,627**	889,260	734,455
Number of shares outstanding (000's omitted) (b)	**16,126**	12,998	12,867
Closing market price of common stock (b)	**$267½**	$224½	$164⅝
Price range of common stock (b)	**$208¼-279¾**	$152¼-229	$123½-174½

(a) Extraordinary items amounted to $265,746,000 ($16.35 per share) in 1986, $7,585,000 ($.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.

1983	1982	1981	1980	1979	1978	1977	1976
$ 302,785	$274,298	$214,498	$167,010	$151,327	$133,360	$112,522	$104,307
459,510	389,282	359,286	305,098	263,563	234,116	193,624	107,860
762,295	663,580	573,784	472,108	414,890	367,476	306,146	212,167
$ 132,293	$124,666	$102,394	$ 85,626	$ 80,551	$ 70,312	$ 56,989	$ 50,509
108,611	82,918	71,252	61,418	53,513	51,542	46,088	26,180
240,904	207,584	173,646	147,044	134,064	121,854	103,077	76,689
(12,174)	(10,668)	(6,992)	(3,464)	(3,077)	(2,993)	(2,639)	(820)
(8,366)	(7,128)	(7,468)	(6,205)	(5,334)	(4,563)	(3,673)	(2,826)
220,364	189,788	159,186	137,375	125,653	114,298	96,765	73,043
$ 114,704	$ 96,317	$ 80,518	$ 70,783	$ 63,758	$ 54,033	$ 43,234	$ 35,620
$8.53	$7.25	$6.12	$5.38	$4.68	$3.80	$2.91	$2.30
$0.20	$0.20	$0.20	$0.20	$0.20	$0.175	$0.10	$0.10
13,455	13,280	13,150	13,165	13,615	14,220	14,852	15,478
19.6%	19.5%	20.1%	21.5%	22.9%	21.8%	19.4%	17.9%
$ 169,363	$137,529	$108,208	$ 86,589	$ 77,888	$ 66,811	$ 53,763	$ 43,309
202,527	1,944	111,640	3,834	1,900	2,696	90,628	
3,200		13,808			15,526	14,389	
$ 22,016	$ 21,588	$157,128	$ 32,308		$ 10,017	$132,159	$ 6,500
43,619	676	125	14,753	$ 24,736	31,097	17,111	14,858
47,595	51,651	48,634	23,611	18,178	16,314	8,209	4,049
32,766	55,867	67,935	23,122	26,928	25,970	23,775	16,275
2,656	2,627	2,603	2,573	2,669	2,438	1,467	1,524
$ 265,847	$ 16,353	$ 4,288	$ 35,408	$ 34,428	$ 18,980	$ 8,998	$ 38,058
1,052,912	776,013	697,620	519,958	473,134	444,797	435,096	328,522
220,960	48,449	102,372	58,667	77,955	102,983	126,257	59,404
625,255	544,267	443,822	359,081	298,497	259,691	236,834	208,501
13,103	13,180	13,025	12,902	13,058	13,514	14,212	14,832
$144	$119⅝	$73¾	$58¾	$48⅝	$39⅝	$30	$28¼
$114¾-157½	$64⅜-136¾	$56½-80½	$40-72	$36¾-49⅞	$27⅛-47¾	$22⅛-30½	$21⅛-28¼

Consolidated Statement of Income

Years ended December 28, 1986 and December 31, 1985 and 1984
(Dollars in thousands except per share amounts)

	1986	1985	1984
Net revenues	**$4,124,374**	$1,020,880	$939,722
Costs and expenses			
Direct operating expenses	**2,534,503**	428,992	388,110
Selling, general and administrative	**828,590**	256,687	232,383
Depreciation	**95,201**	37,990	34,084
Amortization of intangible assets	**63,402**	19,710	17,633
	3,521,696	743,379	672,210
Operating income	**602,678**	277,501	267,512
Other income (expense)			
Interest expense	**(185,511)**	(22,738)	(27,161)
Interest income	**8,939**	19,033	27,352
Miscellaneous, net	**(3,363)**	3,026	1,090
	(179,935)	(679)	1,281
Income before income taxes	**422,743**	276,822	268,793
Income taxes			
Federal	**206,400**	117,700	116,000
State and local	**34,400**	16,900	17,600
	240,800	134,600	133,600
Income before extraordinary items	**181,943**	142,222	135,193
Extraordinary items, net of taxes	**265,746**	—	7,585
Net income	**$ 447,689**	$ 142,222	$142,778
Income per share:			
Before extraordinary items	**$11.20**	$10.87	$10.40
Extraordinary items	**16.35**	—	.58
Net income	**$27.55**	$10.87	$10.98
Average shares outstanding (000's omitted)	**16,250**	13,080	13,000

See accompanying notes

Consolidated Statement of Changes in Financial Position

Years ended December 28, 1986 and December 31, 1985 and 1984
(Dollars in thousands)

	1986	1985	1984
Cash provided			
Operations			
Income before extraordinary items	**$ 181,943**	$142,222	$135,193
Depreciation	**95,201**	37,990	34,084
Amortization of intangible assets	**63,402**	19,710	17,633
Other noncash items, net	**28,932**	23,374	9,690
Total cash from operations	**369,478**	223,296	196,600
Capital expenditures for operations	**(153,082)**	(75,384)	(53,866)
Program licenses and rights, net	**(2,737)**	(1,733)	(3,026)
Available cash flow from operations	**213,659**	146,179	139,708
Common stock sold to Berkshire Hathaway Inc	**517,500**	—	—
Issuance of common stock warrants	**97,193**	—	—
Issuance of long-term debt	**1,350,507**	493,329	4,500
Long-term debt assumed on acquisitions	**123,677**	—	13,565
Disposition of operating properties, net of current taxes	**625,678**	7,222	5,000
Disposition of real estate	**162,165**	—	—
Other, net	**29,495**	3,114	(1,578)
Proceeds from sale of investment in stock, net of taxes	—	—	17,769
	3,119,874	649,844	178,964
Cash applied			
Acquisition of ABC	**3,370,972**	53,000	—
Litigation settlement, net of taxes	**14,250**	—	—
Common stock warrants purchased and redeemed	**16,681**	—	—
Acquisition of other operating properties	**12,559**	51,109	146,843
Reduction of long-term debt	**367,528**	7,872	16,030
Changes in other working capital items	**86,640**	2,324	2,867
Purchase of common stock for treasury	**1,075**	484	46,135
Dividends	**3,219**	2,595	2,570
	3,872,924	117,384	214,445
(Decrease) increase in cash and cash investments	**(753,050)**	532,460	(35,481)
Cash and cash investments			
Beginning of period	**768,859**	236,399	271,880
End of period	**$ 15,809**	$768,859	$236,399

See accompanying notes

Consolidated Balance Sheet

December 28, 1986 and December 31, 1985
(Dollars in thousands)

Assets	**1986**	**1985**
Current assets		
Cash	$ **8,843**	$ 8,031
Short-term cash investments	**6,966**	760,828
Accounts and notes receivable (net of allowance for doubtful accounts of $32,764 in 1986 and $6,745 in 1985)	**782,300**	145,382
Program licenses and rights	**349,499**	14,637
Other current assets	**114,510**	24,517
Stock purchase option	—	53,000
Total current assets	**1,262,118**	1,006,395
Property, plant and equipment, at cost		
Land	**324,038**	22,726
Buildings	**481,031**	77,419
Broadcasting, publishing and other equipment	**538,310**	418,347
	1,343,379	518,492
Less accumulated depreciation	**206,807**	200,596
Property, plant and equipment, net	**1,136,572**	317,896
Intangible assets (net of accumulated amortization of $112,472 in 1986 and $81,003 in 1985)	**2,339,893**	481,512
Program licenses and rights, noncurrent	**323,619**	16,550
Other assets	**129,214**	62,578
	$5,191,416	$1,884,931

See accompanying notes

Liabilities and Stockholders' Equity	1986	1985
Current liabilities		
Accounts payable	$ 94,837	$ 31,663
Accrued compensation	115,256	30,041
Accrued interest	54,324	21,601
Accrued expenses and other current liabilities	242,878	46,232
Program licenses and rights	262,352	15,342
Taxes on income	74,266	24,446
Long-term debt due within one year	1,975	6,084
Total current liabilities	845,888	175,409
Deferred compensation	56,672	29,897
Deferred income taxes	152,458	41,144
Unearned subscription revenue	39,483	22,258
Program licenses and rights, noncurrent	201,418	11,004
Other liabilities	85,249	7,542
Long-term debt due after one year	1,819,830	708,214
Total liabilities	3,200,998	995,468
Minority interest	41,791	203
Stockholders' equity		
Preferred stock, no par value (4,000,000 shares authorized)	—	—
Common stock, $1 par value (80,000,000 shares authorized)	18,394	15,394
Additional paid-in capital	647,021	37,844
Retained earnings	1,441,697	997,227
	2,107,112	1,050,465
Less common stock in treasury, at cost (2,267,243 shares in 1986 and 2,395,831 shares in 1985)	158,485	161,205
Total stockholders' equity	1,948,627	889,260
	$5,191,416	$1,884,931

Consolidated Statement of Stockholders' Equity

Years ended December 28, 1986 and December 31, 1985 and 1984
(Dollars in thousands)

	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Total
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
Net income for 1986	—	—	447,689	—	447,689
3,000,000 shares sold to Berkshire Hathaway Inc.	3,000	514,500	—	—	517,500
4,201 shares purchased for treasury	—	—	—	(1,075)	(1,075)
44,674 shares issued under Employee Stock Purchase Plan	—	7,092	—	1,279	8,371
87,666 shares issued on exercise of employee stock options	—	6,974	—	2,503	9,477
Warrant activity:					
2,906,703 warrants issued	—	97,193	—	—	97,193
116,013 warrants redeemed	—	(3,879)	—	—	(3,879)
246,100 warrants purchased	—	(12,802)	—	—	(12,802)
449 warrants exercised	—	99	—	13	112
Cash dividends	—	—	(3,219)	—	(3,219)
Balance December 28, 1986	$18,394	$647,021	$1,441,697	$(158,485)	$1,948,627

See accompanying notes

1. Accounting Policies

Principles of Consolidation—The consolidated financial statements include the accounts of all significant subsidiaries. Investments in other companies which are at least 20% owned are reported on the equity method. All significant intercompany accounts and transactions have been eliminated.

Property, Plant and Equipment-Depreciation—Depreciation is computed on the straight-line method for financial accounting purposes and on accelerated methods for tax purposes. Estimated useful lives for major asset categories are 10-40 years for buildings and improvements, 4-8 years for broadcasting equipment, and 5-20 years for printing machinery and equipment. Leasehold improvements are amortized over the terms of the leases. Prior to 1986, cable television plant was depreciated over 10-12 years.

Intangible Assets—Intangible assets consist of amounts by which the cost of acquisitions exceeded the values assigned to net tangible 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,* substantially all of these intangible assets 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 underlying assets. Prior to 1986, intangible assets related to cable television franchises were amortized over the remaining terms of the franchises.

Program Licenses and Rights—Program licenses and rights and the related liabilities are recorded when the license period begins and the program is available for use. Television network and station rights for theatrical movies and other long-form programming are charged to expense primarily on accelerated bases related to the usage of the program. Television network series costs are charged to expense based on the flow of anticipated revenue. Sports rights are generally charged to expense when the event is telecast.

Unearned Subscription Revenue—Subscription revenue is recorded as earned over the life of the subscriptions. Costs in connection with the procurement of subscriptions are generally charged to expense as incurred.

Investment Tax Credit—The investment tax credit is taken into income as a reduction of the Federal income tax provision for eligible assets.

Capitalized Interest—Interest is capitalized in accordance with *Financial Accounting Standards Board Statement No. 34.* As a result, $11,414,000, $4,554,000 and $1,248,000 was capitalized in 1986, 1985 and 1984, respectively.

Reporting Year—Beginning in 1986, the Company changed its reporting year from a calendar year to a fiscal year ending the Sunday closest to December 31.

2. Income Per Share

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

	1986	1985	1984
Common shares	16,090	12,955	12,875
Stock options	95	125	125
Warrants	65	–	–
Total	16,250	13,080	13,000

3. Acquisitions

1986—Acquisition of American Broadcasting Companies, Inc. (ABC)—On January 3, 1986, the Company acquired ABC for an aggregate consideration of $3,370,972,000. Each share of ABC common stock was converted into $118.108 plus 0.1024 of a warrant. Each warrant entitles the holder to purchase one share of the Company's common stock at $250.00 per share until July 29, 1988. Until April 3, 1986 warrant holders could have redeemed all or a portion of the warrants at $30.00 per warrant. The value of the 2,906,703 warrants of $97,193,000, has been included in additional paid-in capital.

The ABC operations include the ABC Television Network, four television stations, nine radio stations, six radio networks, various consumer and trade magazines and periodicals, and the production and supply of cable 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 February 1987, however, the FCC released a notice of proposed rule making which may lead to a change in the multiple-ownership regulations, and the Company has requested an extension of the waivers pending the outcome of the rule making.

The aggregate cash purchase price was financed by proceeds from the disposal of certain of the Company's and ABC's operating properties (see Note 5), the issuance of $1,375,000,000 of fixed rate long-term debt, the sale of 3,000,000 shares of the Company's common stock to Berkshire Hathaway Inc. for $517,500,000, the issuance of commercial paper and from 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 income statement data 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.

The pro forma information is based on the fair market values assigned to acquired assets and liabilities 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.

(000's, except per share)	Year ended Dec. 31, 1985
Net revenues	$4,088,900
Operating income	$570,400
Income before extraordinary items	$175,000
Income per share before extraordinary items	$10.88

The following summarizes the fair market values of assets acquired and liabilities assumed by the Company (000's omitted):

Current assets		
Cash and cash investments	$223,753	
Accounts receivable	495,521	
Program licenses and rights	377,423	
Other current assets	64,552	$1,161,249
Property, plant and equipment		1,077,399
Intangible assets		2,075,828
Program licenses and rights		389,771
Other assets		82,173
		4,786,420
Current liabilities		
Program licenses and rights	$(275,371)	
Accounts payable and accruals	(406,214)	
Long-term debt	(1,503)	(683,088)
Program licenses and rights		(284,477)
Other liabilities		(184,571)
Long-term debt		(122,174)
Minority interest		(41,062)
		3,471,048
Elimination of cash and long-term debt included above		(100,076)
Net consideration		$3,370,972

1986—Other Acquisitions—In 1986, the Company also acquired radio stations KQRS-AM/FM, Golden Valley, Minnesota, and PEMCO, a trade show exhibition company for a combined cash purchase price of $12,559,000.

1985—In 1985, the Company purchased a cable television system, the assets of WPLO-AM (name changed to WKHX-AM in 1986), Atlanta, Georgia, two shopping guides and the remaining 10% interest in Capital Cities Cable, Inc., for an aggregate cash purchase price of $51,109,000.

4. Long-Term Debt

Long-term debt at December 28, 1986 and December 31, 1985 is as follows (000's omitted):

	1986	1985
Commercial paper supported by bank revolving credit agreement	$ 224,830	$ —
10.8% Senior Notes due 1994, with annual sinking fund payments of $93,750 beginning in 1991	375,000	—
8¼% notes due 1996	200,000	—
10½% notes due 1997	200,000	200,000
11¾% subordinated debentures due 2013, with annual sinking fund payments beginning in 1994	200,000	200,000
11⅝% debentures due 2015, with annual sinking fund payments beginning in 1996	300,000	300,000
8¾% debentures due 2016, with annual sinking fund payments beginning in 1997	300,000	—
Other long-term debt	21,975	14,298
	$1,821,805	$714,298

The aggregate payments of long-term debt outstanding at December 28, 1986, for the next five years, excluding commercial paper, are summarized as follows: 1987—$1,975,000; 1988—$1,541,000; 1989—$1,941,000; 1990—$2,429,000; 1991—$95,306,000.

Primarily to finance the acquisition of ABC, a subsidiary of the Company issued commercial paper, $224,830,000 of which was outstanding at December 28, 1986, at a weighted average interest rate of 6.2%. 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 3/16%. Under terms of the bank revolving credit agreement, the Company and its consolidated subsidiaries are required to maintain a consolidated net worth of $1,400,000,000 at December 28, 1986, increasing annually by one-third of the consolidated net income of the previous year.

The amount of commercial paper outstanding at December 28, 1986 is classified as long-term, since the Company intends to renew or replace with long-term borrowings all, or substantially all, of the commercial paper. However, the amount of commercial paper outstanding in 1987 is expected to fluctuate and may be reduced from time to time.

The 8¾% debentures, 11⅝% debentures and 11¾% debentures are redeemable at the option of the Company, in whole or in part, at a declining premium to par until 2006, 2005 and 2003, respectively, and at par thereafter, provided however, that these debentures not be redeemed from, or in anticipation of, funds borrowed at certain specified lower interest rates. The 10½% notes and 8¼% notes are redeemable at par starting in 1992 and 1993, respectively. The 10.8% Senior Notes are not redeemable prior to 1992, at which time they may be redeemed at a price of 104% of par until maturity.

The Company has unconditionally guaranteed the 10.8% Senior Notes, the 8¼% notes, the 8¾% debentures which have been issued by a wholly-owned subsidiary, and the commercial paper, and any borrowings which may be made by a subsidiary under the bank revolving credit agreement.

Other interest-bearing debt at December 28, 1986 includes $21,975,000 substantially issued in prior years by ABC. During 1986 the Company called for redemption $81,969,000 principal amount of 9.35% sinking fund debentures due July 15, 2000 and $17,660,000 principal amount of 7% subordinated notes due through 1992, both issued in prior years by ABC. The funds needed to effect these redemptions were obtained through the issuance of commercial paper.

The proceeds from the issuance of virtually all of the outstanding debt were used to finance the acquisition of ABC.

5. Extraordinary Items

1986

In transactions related to the acquisition of ABC, 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, Los Angeles and Buffalo, and all of its cable television systems. The proceeds of these sales (net of taxes currently payable) were $625,678,000 and resulted in an extraordinary gain of $279,996,000 (net of income taxes of $156,800,000).

During the third quarter of 1986, the Company and its subsidiary, The Kansas City Star Company (the Star), settled all but four of the approximately 285 actions brought against them by the Star's independent contract carriers concerning its newspaper delivery routes and distribution system. The settlement will allow the Star to convert virtually all of its newspaper delivery routes from those operated by independent contract carriers to routes operated by independent delivery agents. The settlement resulted in an extraordinary charge of $14,250,000 (net of income taxes of $14,252,000).

1984

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

6. Commitments

At December 28, 1986, the Company is committed for the purchase of broadcast rights for various feature films, sports events and other programming aggregating approximately $1,200,000,000.

The aggregate payments related to these commitments during the next five years are summarized as follows: 1987—$488,299,000; 1988—$332,384,000; 1989—$229,649,000; 1990—$98,140,000; 1991—$23,018,000.

Rental expense under operating leases amounted to $70,019,000, $8,701,000 and $6,181,000 for 1986, 1985 and 1984, respectively.

Future minimum annual rental payments under noncancellable leases are as follows (000's omitted):

	Capital Leases	Operating Leases
1987	$ 4,302	$ 65,247
1988	3,599	59,772
1989	2,700	47,570
1990	2,642	29,290
1991	2,767	25,340
1992 and thereafter	140,556	148,692
Minimum lease payments	156,566	$375,911
Imputed interest	(131,409)	
Present value of minimum lease payments	$ 25,157	

Total minimum payments for operating leases have not been reduced for future minimum sublease rentals aggregating $66,336,000.

7. Employees' Profit Sharing and Pension Plans

The Company has qualified profit sharing or defined benefit pension plans covering substantially all of its employees not covered by union plans. The profit sharing plans provide for contributions by the Company in such amounts as the Board of Directors may annually determine. Contributions to the profit sharing plans of $5,173,000, $5,774,000 and $5,229,000 were charged to expense in 1986, 1985 and 1984, respectively.

With respect to the defined benefit pension plans, the Company's policy is to fund amounts as are necessary on an actuarial basis to provide for benefits in accordance with the requirements of ERISA. Benefits are generally based on years of service and compensation.

Effective January 1, 1986, the Company adopted *Financial Accounting Standards Board Statement No. 87.* The effect of the change in method of accounting as a result of the adoption of FASB No. 87 was a reduction in pension cost in 1986 of approximately $14,800,000 from what otherwise would have been charged to expense under the method used in prior years. Net pension cost for 1986 was $6,198,000, compared with $831,000 and $1,628,000 for 1985 and 1984, respectively.

The components of net pension cost for 1986 were as follows (000's omitted):

Service cost of current period	$ 13,142
Interest cost on projected benefit obligation	22,177
Actual return on plan assets	(51,112)
Net amortization and deferral	21,991
Net pension cost	$ 6,198

The weighted average discount rate and the rate of increase in future compensation levels used in determining the actuarial present value of the projected benefit obligation were 8% and 5%, respectively. The expected long-term rate of return on assets was 8%.

The actuarial present value of accumulated plan benefits at December 31, 1985 was $47,151,000 including vested benefits of $45,171,000.

The following table sets forth the pension plans' funded status and amounts recognized in the balance sheet at December 28, 1986 (000's omitted):

Actuarial present value of accumulated plan benefits including vested benefits of $207,266	$223,836
Plan assets at fair value, primarily publicly traded stocks and bonds	$ 378,230
Projected benefit obligation for service rendered to date	(292,350)
Plan assets in excess of projected benefit obligation	85,880
Prior service cost not yet recognized in net periodic pension cost	0
Unrecognized net gain from past experience different from that assumed	(24,614)
Unrecognized net asset (transition amount) being recognized principally over 15 years	(31,928)
Prepaid pension cost included in balance sheet	$ 29,338

8. Segment Data

The Company operates the ABC Television Network and eight affiliated television stations, six radio networks and 19 radio stations, and provides programming for cable television. The Company publishes newspapers, shopping guides, various specialty and business periodicals and books; and also distributes information from electronic data bases. Operations are classified into two business segments: Broadcasting and Publishing. There are no product transfers between segments of the Company, and virtually all of the Company's business is conducted within the United States. Prior to 1986, the Company owned and operated cable television systems. They were classified as a separate business segment and are included below in the Broadcasting segment. Cable television net revenues and income from operations for 1985, were $84,580,000 and $5,206,000, respectively. The segment data follows (000's omitted):

	1986	1985	1984	1983	1982
Broadcasting					
Net revenues	$3,153,619	$ 378,297	$ 348,106	$ 302,785	$274,298
Direct operating costs	2,554,932	192,249	172,867	151,603	134,910
Depreciation	78,952	26,711	23,257	18,889	14,722
Total operating costs	2,633,884	218,960	196,124	170,492	149,632
Income before amortization of intangible assets	519,735	159,337	151,982	132,293	124,666
Amortization of intangible assets	45,200	8,367	7,800	7,597	6,760
Income from operations	$ 474,535	$ 150,970	$ 144,182	$ 124,696	$117,906
Assets at year-end	$4,186,650	$ 537,797	$ 507,433	$ 455,341	$435,223
Capital expenditures	104,278	26,327	26,370	36,782	45,908
Publishing					
Net revenues	$ 970,755	$ 642,583	$ 591,616	$ 459,510	$389,282
Direct operating costs	778,201	482,333	438,414	342,253	298,444
Depreciation	15,353	10,395	10,190	8,646	7,920
Total operating costs	793,554	492,728	448,604	350,899	306,364
Income before amortization of intangible assets	177,201	149,855	143,012	108,611	82,918
Amortization of intangible assets	18,202	11,343	9,833	4,577	3,908
Income from operations	$ 158,999	$ 138,512	$ 133,179	$ 104,034	$ 79,010
Assets at year-end	$ 920,896	$ 455,274	$ 430,997	$ 287,523	$260,890
Capital expenditures	48,589	45,869	26,700	10,666	5,535
Consolidated					
Net revenues	$4,124,374	$1,020,880	$ 939,722	$ 762,295	$663,580
Income from operations	$ 633,534	$ 289,482	$ 277,361	$ 228,730	$196,916
General corporate expense	(30,856)	(11,981)	(9,849)	(8,366)	(7,128)
Operating income	602,678	277,501	267,512	220,364	189,788
Interest expense	(185,511)	(22,738)	(27,161)	(14,633)	(7,982)
Interest and other income	5,576	22,059	28,442	18,773	3,511
Income before income taxes	$ 422,743	$ 276,822	$ 268,793	$ 224,504	$185,317
Assets employed by segments	$5,107,546	$ 993,071	$ 938,430	$ 742,864	$696,113
Investments and corporate assets	83,870	891,860	269,742	310,048	79,900
Total assets at year-end	$5,191,416	$1,884,931	$1,208,172	$1,052,912	$776,013

9. Income Taxes

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

	1986		1985		1984	
	Amount	%	Amount	%	Amount	%
Income tax expense at statutory rate	$194,462	46.0	$127,338	46.0	$123,645	46.0
State and local income taxes, net of Federal benefit	18,576	4.4	9,126	3.3	9,504	3.5
Investment tax credits	(4,800)	(1.1)	(5,653)	(2.0)	(4,600)	(1.7)
Amortization of intangibles	28,705	6.8	5,601	2.0	4,791	1.8
Other, net	3,857	0.9	(1,812)	(0.7)	260	0.1
Total	$240,800	57.0	$134,600	48.6	$133,600	49.7

Income tax expense before extraordinary items is comprised of the following (000's omitted):

	1986	1985	1984
Federal			
Current	$205,800	$104,100	$114,100
Deferred	600	13,600	1,900
	206,400	117,700	116,000
State and Local			
Current	34,300	14,900	17,300
Deferred	100	2,000	300
	34,400	16,900	17,600
Total	$240,800	$134,600	$133,600

The provision for deferred income taxes represents the tax effect of transactions reported in different periods for financial and income tax reporting purposes, and results from the following timing differences (000's omitted):

	1986	1985	1984
Accelerated depreciation	$22,500	$11,200	$7,500
Program costs	(15,600)		
Other	(6,200)	4,400	(5,300)
Total	$ 700	$15,600	$2,200

The extraordinary gain on the disposition of certain of the Company's broadcasting and cable properties is net of income taxes of $156,800,000 (see Note 5). Of this amount, approximately $67,000,000 has been deferred pursuant to Section 1071 of the Internal Revenue Code, under which the Company received tax certificates from the Federal Communications Commission deferring the taxes related to these dispositions until disposition of the replacement properties.

Deferred income taxes at December 28, 1986, also include approximately $60,000,000 of taxes relating to the disposition of broadcasting properties by ABC on January 2, 1986, deferred under the provisions of Section 1071.

10. Stock Option, Stock Purchase and Savings 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:

	1986	1985	1984
Outstanding options, beginning of year	265,799	325,983	379,358
Granted	0	19,845	6,825
Cancelled or expired	(11,700)	(5,425)	(4,738)
Exercised	(87,666)	(74,604)	(55,462)
Outstanding options, end of year	166,433	265,799	325,983
Average price of options exercised during the year	$41.90	$32.66	$19.94
Exercise price of outstanding options, end of year	$23.94 to $220.69	$12.50 to $220.69	$9.13 to $160.00
Options exercisable, end of year	132,525	201,604	254,983
Options available for future grant	204,555	192,855	207,275

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. During 1986, an additional 200,000 shares were approved for the five-year period ending in April, 1992. 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 44,674, 58,314 and 56,088 shares under the Plan in 1986, 1985 and 1984, respectively.

The Company also has the ABC Savings & Investment Plan which allows eligible employees to allocate up to 5% of salary through payroll deduction among a Company stock fund, a diversified equity fund and a guaranteed income fund. The Company matches 50% of the employee's contribution. In 1986, the cost of this plan was $5,866,000.

11. Common Stock, Warrant and Stockholder Information (Unaudited)

As of February 27, 1987, the approximate number of holders of common stock was 5,360. Dividends of $.05 per share have been paid for each quarter of 1986 and 1985. The common stock is traded on the New York and Pacific Stock Exchanges. The high, low and closing prices of the Company's common stock for each quarter of 1986 and 1985 are as follows:

	1986			1985		
	High	Low	Close	High	Low	Close
1st quarter	$256	$208¼	$238¼	$222	$152¼	$213½
2nd quarter	262½	214½	258½	228½	200½	223¼
3rd quarter	272	240	252¼	225½	191½	195½
4th quarter	279¾	245½	267½	229	183¼	224½

In connection with the ABC acquisition, 2,906,703 warrants were issued (see Note 3). As of December 28, 1986, 2,544,141 warrants were outstanding. Beginning in July 1986, the warrants were listed and traded on the Pacific Stock Exchange.

12. Quarterly Financial Data (Unaudited)

The following summarizes the Company's results of operations for each quarter of 1986, 1985 and 1984 (000's omitted except per share amounts). The net income per share computation for each quarter and the year are separate calculations. Accordingly, the sum of the quarterly net income per share amounts may not equal the net income per share for the year.

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
1986					
Net revenues	$912,337	$1,065,674	$959,039	$1,187,324	$4,124,374
Costs and expenses	855,574	866,273	830,806	969,043	3,521,696
Operating income	56,763	199,401	128,233	218,281	602,678
Interest expense	(42,343)	(47,387)	(45,152)	(50,629)	(185,511)
Interest and other income	1,950	2,015	39	1,572	5,576
Income before income taxes	16,370	154,029	83,120	169,224	422,743
Income taxes	14,400	87,000	50,500	88,900	240,800
Income before extraordinary items	1,970	67,029	32,620	80,324	181,943
Extraordinary items	279,996	—	(14,250)	—	265,746
Net income	$281,966	$ 67,029	$ 18,370	$ 80,324	$ 447,689
Income per share					
Before extraordinary items	$ 0.12	$4.15	$2.01	$4.90	$11.20
Extraordinary items	17.36	—	(0.88)	—	16.35
Net income per share	$17.48	$4.15	$1.13	$4.90	$27.55
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)	(7,017)	(7,137)	(27,161)
Interest and other income	6,867	6,663	7,900	7,012	28,442
Income before income taxes	54,894	78,555	60,865	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	—	—	0.58	—	0.58
Net income per share	$2.07	$3.03	$2.94	$2.94	$10.98

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 28, 1986 and December 31, 1985, and the consolidated statements of income, stockholders' equity and changes in financial position for each of the three years in the period ended December 28, 1986. 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 28, 1986 and December 31, 1985, and the consolidated results of operations and changes in financial position for each of the three years in the period ended December 28, 1986, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

Arthur Young & Company
Arthur Young & Company

New York, New York
February 27, 1987

Capital Cities/ABC

Corporate

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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 Television Network Group*
Ronald J. Doerfler, *Senior Vice President and Chief Financial Officer*
Michael P. Mallardi, *Senior Vice President; President, Broadcast Group*
Phillip J. Meek, *Senior Vice President; President, Publishing Group*
Stephen A. Weiswasser, *Senior Vice President and General Counsel*

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Philip R. Beuth, *Vice President*
Allan J. Edelson, *Vice President and Controller*
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Richard L. Freund, *Vice President*
John E. Frisoli, *Vice President*
James M. Goldberg, *Vice President*
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Ann Maynard Gray, *Vice President*
Andrew E. Jackson, *Vice President*
David S. Loewith, *Vice President and Assistant Controller*
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Alfred R. Schneider, *Vice President*
David J. Vondrak, *Vice President and Treasurer*
Gerald Dickler, *Secretary*
Philip R. Farnsworth, *Assistant Secretary*
Allen S. Bomes, *Assistant Treasurer*

* * * *

ABC Television Network Group

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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*
David W. Burke, *Executive Vice President*
Richard C. Wald, *Senior Vice President*

ABC Sports

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

ABC Television Network (New York, NY)

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H. Weller Keever, *Senior Vice President*
George H. Newi, *Senior Vice President*

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Broadcast Group
Michael P. Mallardi, *President*

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Robert O. Niles, *Vice President*

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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*

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James E. Masucci, *Vice President*

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

KTRK-TV (Houston, TX)
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KFSN-TV (Fresno, CA)
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John B. Watkins, *President*

Video Enterprises
Herbert A. Granath, *President*

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

ARTS & ENTERTAINMENT (New York, NY)

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WPLJ-FM (New York, NY)
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KABC-AM (Los Angeles, CA)
George Green, *President, General Manager*

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

WLS-AM/WYTZ-FM (Chicago, IL)

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

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

WHYT-FM (Detroit, MI)
John E. Cravens, *President, General Manager*

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

WRQX-FM (Washington, DC)
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William J. Hare, *President, General Manager*

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

KQRS-AM/FM (Minneapolis, MN)
Mark S. Steinmetz, *President, General Manager*

WPRO-AM/FM (Providence, RI)
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Broadcast Operations & Engineering
Julius Barnathan, *President*

Publishing Group

Phillip J. Meek, *President*

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Robert G. Burton, *President*

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

ABC PUBLISHING AGRICULTURAL GROUP (Lombard, IL)

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

HITCHCOCK PUBLISHING COMPANY (Wheaton, IL)
Loren M. Walsh, *President*

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D. F. Delle Monache, *Vice President, Publisher*

NILS PUBLISHING COMPANY (Chatsworth, CA)
William H. Bang, *President*

WORD, INC. (Waco, TX)
Gary R. Ingersoll, *President*

Daily Newspapers

THE KANSAS CITY STAR/TIMES (Kansas City, MO)
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FORT WORTH STAR-TELEGRAM (Fort Worth, TX)
Richard L. Connor, *President, Publisher*

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

BELLEVILLE NEWS-DEMOCRAT (Belleville, IL)
Gary L. Berkley, *President, Publisher*

THE TIMES LEADER (Wilkes-Barre, PA)
Dale A. Duncan, *President, Publisher*

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Glenn C. Cushman, *Publisher*

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

Weekly Newspapers

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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)

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*

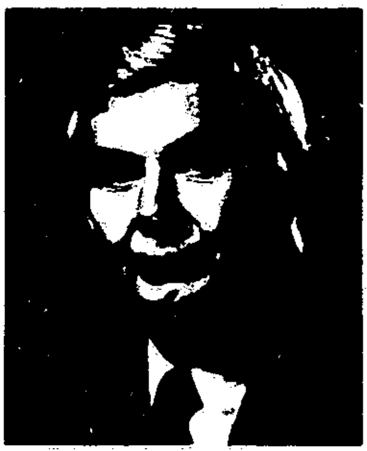
NICKEL NIK (Spokane, WA)
George L. Griffin, *General Manager*

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 Television Network Group

Ronald J. Doerfler
Senior Vice President and Chief Financial Officer

Michael P. Mallardi
Senior Vice President; President, Broadcast Group

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

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
Chairman of the Board and Chief Executive Officer, Beecham Group p.l.c.

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

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ALAN GREENSPAN
President and Chairman of the Board, Townsend-Greenspan & Co., Inc.

LEON HESS
Chairman of the Board and Chief Executive Officer, Amerada Hess Corporation

GEORGE P. JENKINS
Consultant to W. R. Grace & Co.; Retired Chairman of the Board, Metropolitan Life Insurance Company

THOMAS M. MACIOCE
Partner, Shea & Gould, Attorneys at Law; Former 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
Former President and Chief Operating Officer, American Broadcasting Companies, Inc.

JOHN B. POOLE
Retired Chairman of the Board, Poole Broadcasting Company

JOHN B. SIAS
Executive Vice President; President, ABC Television Network Group

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

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 and Pacific Stock Exchanges (Symbol: CCB)

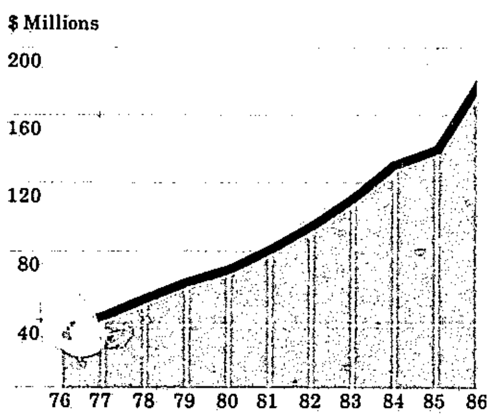
Capital Cities/ABC, Inc.
24 East 51st Street
New York, New York 10022-6887
(212) 421-9595

Operating Highlights

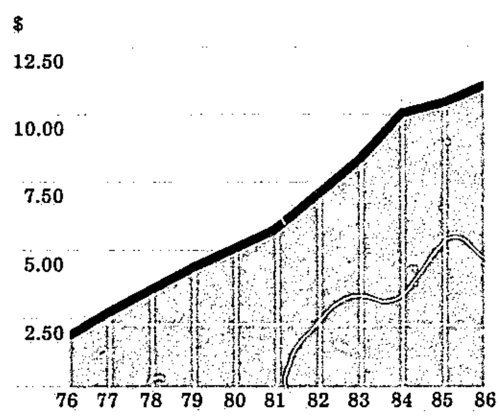
Exhibit 13

	1986	1985
Net revenues	**$4,124,374,000**	$1,020,880,000
Operating income	**$ 602,678,000**	$ 277,501,000
Income before extraordinary items	**$ 181,943,000**	$ 142,222,000
Income per share before extraordinary items	**$11.20**	$10.87
Average shares outstanding	**16,250,000**	13,080,000

Income Before
Extraordinary Items



Income Per Share
Before Extraordinary Items



To Our Shareholders

The acquisition of American Broadcasting Companies, Inc., on January 3 made the year 1986 the most challenging since the very early days of your Company. Although much remains to be done, we are pleased with the progress that has been made toward the goal of merging two outstanding media companies into a unified and effective entity. We continue to be convinced that the thinking which led both companies to complete this business combination remains valid. We are optimistic about the future of the Company, which was renamed Capital Cities/ABC, Inc., coincident with the acquisition.

Quite early in the year it seemed certain that revenues for the three television networks were not going to grow materially over 1985 and that, in this environment, revenues for the ABC Television Network were likely to decline due to its third-place audience position in prime time. Accordingly, the studies, discussions and planning sessions required to integrate two large and diverse media companies were undertaken with a special sense of urgency.

The "clash of cultures" that had been forecast by many observers never took place. While Capital Cities and ABC naturally had developed many different business practices and procedures, the similar heritage of both companies' early years and their common fundamental business principles made the consolidation less difficult. The cooperation of everyone involved kept the inevitable confusion and temporary setbacks in proper perspective throughout a very busy year.

Our early concerns about the short-range revenue prospects for the ABC Television Network were unfortunately borne out as the year went along. Total revenues for the three television networks increased only 3.5 percent in 1986, and ABC experienced a decline of 4 percent. In most dayparts, 1986 audience levels for the ABC Television Network fell somewhat from 1985, and perhaps most discouraging was the fact that the majority of new ABC 1986-87 prime-time programs failed to generate increased audience acceptance. The combination of these factors resulted in the first operating loss for the ABC Television Network since 1971.

Fortunately, revenue gains and cost reduction efforts at the broadcasting operations, and expense control programs at the television network, combined to produce better overall results for 1986 than had been anticipated earlier in the year. The former ABC television stations, radio networks and ESPN all exceeded expectations. Publishing operations were mixed in 1986, with revenue softness at many of our specialized publications and at the *Fort Worth Star-Telegram* offsetting gains elsewhere, which, on a comparable basis, resulted in a modest earnings decline for the group.

In 1986, Capital Cities/ABC achieved net revenues of $4,124,374,000 and income before extraordinary items of $181,943,000, compared with $1,020,880,000 and $142,222,000 of net revenues and earnings, respectively, reported in 1985. Earnings per share before extraordinary items in 1986 were $11.20, a 3 percent increase over $10.87 in 1985. Average shares outstanding in 1986 were 16,250,000 compared with 13,080,000 in 1985.

The Company's 1986 operating results, compared with pro forma 1985 (as if the ABC acquisition had taken place on January 1, 1985) are summarized below:

(Dollars in millions)	1986	Pro forma 1985	1985
Net revenues	$4,124.4	$4,088.9	$1,020.9
Operating costs	3,363.1	3,371.0	685.7
Depreciation and amortization	158.6	147.5	57.7
Total costs	3,521.7	3,518.5	743.4
Operating income	602.7	570.4	277.5
Interest and other, net	(180.0)	(186.4)	(0.7)
Income before taxes	422.7	384.0	276.8
Income taxes	(240.8)	(209.0)	(134.6)
Net income*	$ 181.9	$ 175.0	$ 142.2
Income per share*	$11.20	$10.88	$10.87
Average shares	16,250	16,080	13,080

*Before 1986 extraordinary items.

In connection with the acquisition of ABC, the Company was required to sell certain broadcasting properties and its cable television operations, which resulted in a 1986 extraordinary gain of $279,996,000 (net of income taxes). Additionally, an extraordinary charge of $14,250,000 (net of income taxes) was recorded in 1986, resulting from the settlement of *The Kansas City Star* contract carrier litigation.

Earnings for 1986 were not as satisfactory as they may appear to be. Generally accepted accounting principles require that the assets of an acquired business be appraised and brought to the balance sheet of the acquiring company at their current fair market values. Any excess of the purchase price over fair market value of an acquired company's tangible assets is recorded as an intangible asset (goodwill), which is required to be amortized over a period not to exceed 40 years. With respect to the acquisition of ABC, it was determined that the historic values of the entertainment programming and sports rights commitments at the date of acquisition, in the aggregate, exceeded fair market value by approximately $290,000,000, net of related income tax benefits. The resultant reduction in 1986 programming rights costs was $91,000,000 (net of income taxes), or $5.60 per share. Additional depreciation from the write-up of fixed assets to fair market value, together with the amortization of intangible assets arising from the ABC acquisition amounted to $55,000,000 in 1986, or $3.38 per share. Excluding these two noncash acquisition-related factors, 1986 earnings would have been $146,000,000, or $8.98 per share. The pro forma 1985 earnings would have been $189,000,000, or $11.75 per share, after excluding the ABC acquisition-related noncash items; programming rights adjustments ($41,000,000, net of income taxes) and the additional depreciation and amortization of intangible assets ($55,000,000). It is important to note that the pro forma 1985 results are based upon historical data for the combined companies, and do not necessarily reflect what the results would have been if the ABC acquisition had taken place on January 1, 1985.

The adjustments to fair market value of ABC's entertainment programming and sports rights, based upon currently anticipated programming schedules, will benefit future net income by approximately $43,000,000 in 1987, $95,000,000 in 1988, $54,000,000 in 1989, and $7,000,000 in 1990 through 1995.

Broadcasting and publishing activities of your Company will be discussed in detail in other sections of this report. In general, the condition and prospects of these various businesses are good. Continuing moderation in the rate of inflation has restrained revenue growth for the last two years but also reduced the rate of increase of some of our costs in 1986. For example, we paid little more for newsprint and paper (the principal raw materials for our publishing operations) during 1986 than we paid during late 1984. Television is a somewhat different story. The emergence of competition from over-the-air and satellite-to-cable programming services has put downward pressure on prices to advertisers and has tended to lift costs for attractive programming. These trends will continue and will necessitate constant evaluation of our current practices and future plans.

One important operating highlight deserves special mention in this section of our report. For the fourth quarter of 1986, *The Times Leader* (Wilkes-Barre, Pennsylvania) operated at a profit. It has been a long, difficult and expensive climb back to profitability since October 1978, when *The Times Leader* was forced to suspend its operations and then restart, with virtually no paid circulation, in competition with a newspaper that had been organized by former union employees in anticipation of a strike. We are very proud of the determination of our employees, many of whom have worked tirelessly for eight years to restore *The Times Leader* to editorial and financial viability, and we look forward to continued growth in 1987 and thereafter.

In summary we feel good about 1987 and the prospects for the future. Capital Cities/ABC is well-positioned in a number of excellent markets and media categories, and its financial structure is sound.

We sense a growing confidence among the thousands of able men and women who manage and staff Capital Cities/ABC that, with the new organization structure for the combined Company and the transformation from "them and us" to "we," the increased competition which surely lies ahead can be dealt with successfully and profitably. We are grateful to our employees for their loyalty and patience during an eventful year, and we also take pleasure again in extending thanks to our stockholders for their continuing interest and support.

Thomas S. Murphy

THOMAS S. MURPHY
Chairman

Daniel B. Burke

DANIEL B. BURKE
President

Capital Cities/ABC's broadcasting operations, which consist of the ABC Television Network Group and the Capital Cities/ABC Broadcast Group, had 1986 net revenues of $3,153,619,000 and operating earnings of $474,535,000, compared with net revenues of $293,717,000 and operating earnings of $145,764,000 reported in 1985 prior to the ABC acquisition. Broadcasting operations' 1986 results, compared with pro forma 1985 (as if the ABC acquisition had taken place on January 1, 1985), are summarized as follows:

(Dollars in millions)	1986	Pro forma 1985	1985
Net revenues	$3,153.6	$3,129.8	$293.7
Operating costs	2,554.9	2,584.7	138.5
Depreciation and amortization	124.2	114.4	9.4
Total costs	2,679.1	2,699.1	147.9
Operating income	$ 474.5	$ 430.7	$145.8

The 1986 and pro forma 1985 results are after giving effect to the adjustment to fair market value of the ABC Television Network entertainment programming and sports rights, which benefited 1986 and pro forma 1985 earnings by $180,000,000 and $82,000,000, respectively. Additionally, both 1986 and pro forma 1985 results include depreciation and amortization of intangibles arising from the ABC acquisition of $47,600,000. Excluding these two noncash acquisition-related items, broadcasting earnings for 1986 would have decreased 14 percent to $342,100,000, from pro forma 1985 earnings of $396,300,000.

ABC Television Network Group

The ABC Television Network Group experienced an extremely difficult year in 1986. Soft demand for television network advertising during the year, together with continued disappointing ratings levels, resulted in a 4 percent decline in net revenues from 1985, to $2,100,000,000. While cost containment programs reduced operating expenses significantly below those originally planned, 1986 costs (excluding purchase price adjustments for entertainment programming and sports rights), increased 4 percent over 1985 levels. Approximately one-half of this expense increase was due to revised accounting methods which accelerated the write-off of costs in 1986. The result of these revenue shortfalls and modest cost increases (before purchase price adjustments and amortization of intangible assets) was a $70,000,000 loss in 1986, compared with a pro forma 1985 profit of $105,000,000.

The ABC Television Network's goal in 1986 was to restructure its operations so that it might operate effectively in the most difficult economic and competitive environment it had ever faced. Every area of the network's business was evaluated, resulting in significant changes at many levels. It is believed that these changes will help restore the network to profitability.

A priority was placed on communicating the reasons for these changes to the four major constituencies to the television network's overall performance—employees, affiliates, advertisers and program suppliers. We continue to feel it is vitally important for constituencies which are integral to our business to understand the problems we are facing and what we must do to recover our momentum.

The Company began the year by redefining the organization of the network. The costs of most of the former ABC corporate departments, whose functions were primarily network-related, were assigned to the television network. This allowed the Company to more accurately assess the television network's overall cost of doing business. The network's operating divisions and each of their departments undertook to reexamine their own budgets and staffing levels. The cost reductions attained resulted in a more efficient organization, which will be better able to respond to the increased competition and many changes which are reshaping the industry.

In addition to organizational changes and cost containment efforts, the network revised a number of its accounting policies.

To better match programming expense with revenue flows, methods were changed for the amortization of long-form programming and development costs, which, overall, will recognize expense on an accelerated basis. Partially offsetting these changes was a revised accounting policy to amortize prime-time series programming on a flow of income basis, which is less rapid than the historical method used by ABC.

The television network industry's 3.5 percent revenue gain in 1986 was one of the lowest recorded in more than a decade. The major reasons for this low industry growth were attributed to declines in the rates of inflation and national economic growth. In recent years, there has been a noticeable shift from national advertising media spending (including television network) to promotional spending by the package goods companies. Added national commercial inventory of independent television stations, cable television networks and barter syndication has also served to constrain national media price increases.

While the underlying level of demand for network advertising improved modestly as the year progressed, industry revenue growth for the foreseeable future is expected to approximate the inflation rate. For 1986, the inflation rate was slightly below 2 percent.

In addition to the soft demand for network advertising, the ABC Television Network also experienced disappointing audience levels. Through the first half of the 1986-87 prime-time season, the network continued in third place. ABC showed pronounced weaknesses on Thursday and Saturday nights, and although it retained leadership on Wednesday, there were signs of decline. The Monday night schedule lost audience but remained competitive. The Tuesday, Friday and Sunday audience levels improved.

There were improvements in specific programs. *Moonlighting*, produced in-house by ABC Circle Films, was the highest rated hour among adults 18-49; *Who's the Boss?* and *Growing Pains* remained among the highest ranking series on television; and *The Disney Sunday Movie* made significant gains in younger demographics. Series such as *Head of the Class* and *Perfect Strangers* were solid performers and provide a foundation for improvement in the rest of the schedule.

ABC's aim in reestablishing a more competitive position in prime time is two-fold: to increase overall audience levels and to develop programming for the younger demographic groups that advertisers find most appealing. Building a successful lineup of shows throughout the week is a long-term process, which begins with program development. The network has attracted some of the best talent in the creative community to develop series.

Among those who have been given series commitments for the 1987-88 season are: Steven Bochco *(Hill Street Blues, L.A. Law)* and Terry Louise Fisher *(Cagney & Lacey, L.A. Law)* for a series starring John Ritter; Michael Leeson *(The Cosby Show, Taxi)*; Jay Tarses *(The Bob Newhart Show)* for a series starring Dabney Coleman; Mike Nichols *(The Graduate, Silkwood, Heartburn, Family)*; and Jay Presson Allen *(Cabaret, Funny Lady, Prince of the City, Family).*

Good Morning America remains competitive in attracting key demographics. The program experienced a period of transition as David Hartman ended eleven distinguished years as the host of *GMA*. Changes in format and personalities were announced, and *GMA* began 1987 with new co-host Charles Gibson, an experienced ABC News correspondent, joining Joan Lunden.

Monday to Friday daytime, a most important profit center for the network, experienced audience losses during 1986. Despite a 3 percent falloff from 1985 in both ratings and delivery of 18-49-year-old women, the network remained first in delivering younger demographics. New storylines have been incorporated to strengthen the daytime serial dramas, and steps are being taken to develop innovative programming to bolster the late-morning schedule.

Throughout 1986, *World News Tonight with Peter Jennings* maintained its leadership position in the top 50 markets, although it finished third in the ratings nationally. *World News* also led the other networks in the overall delivery of younger adult viewers.

ABC News' *Nightline* with Ted Koppel, *20/20* with Hugh Downs and Barbara Walters, and *This Week with David Brinkley* continued to provide timely, in-depth news analysis and features while maintaining their audience levels. A highlight for ABC News was its extensive four-day coverage of Liberty Weekend.

Two new programs were introduced in 1986—*Our World,* hosted by Linda Ellerbee and Ray Gandolf; a weekly prime-time look back at history; and *Business World,* anchored by Sander Vanocur, the first regularly-scheduled business program on network television. As 1987 began, the network also launched a weekly information program, *The Health Show,* with Kathleen Sullivan as anchor.

ABC Sports went through a major reorganization in 1986. Significant budget and staff cuts were made during the year. These helped the division moderate substantial losses resulting from excessive costs associated with previously acquired long-term sports rights agreements.

These contracts, especially one with Major League Baseball, will continue to have a negative impact on the division's performance for the next several years. Some agreements were renegotiated in 1986 in response to a weaker sports advertising marketplace. ABC Sports' 1987 program plans include expanded coverage in auto racing, a new college football package, a college basketball schedule and a series of PGA Tour events. Early in 1987 discussions began concerning a new contract for ABC's NFL *Monday Night Football.*

During 1986, ABC programming won more than 200 awards. They included 39 Emmys: six for prime time, 14 for sports, nine for news, five for daytime and five for children's programs.

In the public service area, the network joined the Public Broadcasting Service in launching a campaign to help fight adult illiteracy. That effort, Project Literacy U.S. (PLUS), began its on-air phase in September with an award-winning documentary and continues its awareness campaign through a broad range of programming and public service announcements in 1987. Public service time was also devoted to anti-drug abuse messages featuring ABC personalities.

Another important development for the network involved its affiliated stations and the introduction of NewsOne, a cooperative satellite news service which tripled the amount of news and sports information available to stations. Affiliates also began participating in ABSAT, a satellite uplink transmission system utilizing specially equipped trucks to gather and transmit news coverage.

Remaining unresolved are a number of issues affecting the network's ability to produce its own programs and to acquire financial interests in programs produced by others. Current regulatory restraints sharply limit the Company in both respects. The Company has been in discussions with representatives of the production community in an attempt to obtain agreement about needed changes on those matters. The discussions did not lead to resolution of our differences, but we are hopeful that over the next few years these limitations, which directly affect our costs and those of the production community, can be addressed and modified.

While the ABC Television Network has made progress in addressing its financial difficulties, there will be continuing evaluation of all operations to ensure flexibility and maximum efficiency. The major challenge continues to be development of successful prime-time series. ABC Entertainment will continue to receive the support necessary to work with the Hollywood production community to develop and acquire prime-time programming with broad popular appeal.

Broadcast Group

The new Capital Cities/ABC Broadcast Group had an outstanding year. Net revenues reached $1,100,000,000 in 1986, a 13 percent gain over pro forma 1985. Operating earnings (before amortization of intangible assets) increased 42 percent from pro forma 1985 of $290,000,000, to $412,000,000 in 1986.

Several significant factors contributed to the success of the Broadcast Group in 1986. Strong local advertising growth in our larger markets helped overcome an otherwise sluggish year for national advertising. Also, cost efficiencies achieved throughout the group's operations, especially at the former ABC television stations, substantially increased operating income and margins. The radio networks were able to capitalize on their unique services and to post sizable gains in both revenues and profits. Radio station earnings increased modestly from a year ago, reflecting weak national advertising demand and ratings declines in several markets. Finally, video enterprises attained a major milestone and became profitable for the first time.

Net revenue increased 11 percent over pro forma 1985 for the Company's eight television stations. Strong local advertising revenue growth in our largest markets more than offset the continued economic difficulties plaguing Houston. As a result of significant cost savings achieved during the year, increases in operating income substantially outpaced revenue growth. Expenses were reduced by a major restructuring effort, which eliminated redundant positions and generally streamlined administrative functions. In addition to producing a favorable short-term economic impact, management believes these structural changes will foster better local decision-making and generate long-term operational benefits.

The Company's television stations are currently the largest group in the country in terms of television household coverage. The group reaches 24.43 percent of the total ADI (Area of Dominant Influence) television homes (see table which follows). This is just under the 25 percent maximum restriction imposed by the Federal Communications Commission (FCC).

Station and market	Market rank	No. of ADI TV homes	% of ADI TV homes
WABC-TV (New York)	1	6,814,200	7.78%
KABC-TV (Los Angeles)	2	4,532,700	5.17%
WLS-TV (Chicago)	3	3,066,700	3.50%
WPVI-TV (Philadelphia)	4	2,641,400	3.01%
KGO-TV (San Francisco)	5	2,077,000	2.37%
KTRK-TV (Houston)	10	1,457,400	1.66%
WTVD (Durham-Raleigh)	35	620,400	.71%
KFSN-TV (Fresno)	63	405,100	.23%*
Total		21,614,900	24.43%

Source: *Arbitron ADI Market Rankings 1986-1987.*
*For FCC purposes, only one-half of homes reached by a UHF station are counted.

The Capital Cities/ABC television stations take pride in being not only the largest group, but also the most successful in terms of audience ratings. Seven of our eight stations were ranked first in their markets in the overall sign-on to sign-off ratings, according to November 1986 ratings data. The stations have assumed market leadership roles through long-standing commitments to excellent local news and entertainment programming. For example, we are proud to note that *The Oprah Winfrey Show,* which is currently a huge success through national syndication, is produced as a local program by our Chicago station, WLS-TV.

Local programming is a primary focus of our television stations because it enhances our relationships with the communities we serve. Local programming also allows a station to differentiate itself and attract larger audiences. 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	2	1(T)
KABC-TV (Los Angeles)	8	1	1
WLS-TV (Chicago)	7	1	1
WPVI-TV (Philadelphia)	6	1	1
KGO-TV (San Francisco)	7	1	2
KTRK-TV (Houston)	6	1	1
WTVD (Durham-Raleigh)	5	2	2
KFSN-TV (Fresno)	6	1	1

Source: *Nielsen, November 1986, except KFSN-TV which is Arbitron, November 1986.*
(T) Tied

Competition for both viewers and revenues continues to intensify in television. Network affiliates face the challenge of maintaining or building an audience despite the growing number of viewing alternatives offered by independent stations, cable television programs and video cassettes. These competitors will continue to take larger shares of overall television viewing and advertising spending, as will syndicators that compete by selling commercial time bartered from stations in return for programming. In an uncertain future, our station management must continue to be both flexible and observant in order to successfully adapt to the changing environment.

A significant change was made during 1986 in the national advertising sales representation of the Company's television stations. The Capital Cities stations had been represented by an independent firm, Blair Television. The former ABC television stations had used in-house representation through ABC Television Spot Sales. After considerable deliberation, it was decided to consolidate national representation in an expanded in-house entity, renamed Capital Cities/ABC National Television Sales. This decision entailed opening several new sales offices and hiring additional personnel. We believe these added costs are justified by enhanced revenue opportunities.

We wish to thank Blair Television for their excellent performance in representing Capital Cities' television stations nationally for over 28 years.

The radio division enjoyed a good year in 1986. Although net revenue growth over 1985 on a pro forma basis was a modest 4 percent, expense reductions generated a substantial increase in operating income. The division's two components, the radio stations and the radio networks, combine to form the largest and most successful radio group in the industry.

Our radio stations were confronted with a very soft national advertising marketplace in 1986. Local advertising growth and market share improvements in several markets helped offset this national shortfall. The strong audience position established by such perennial market leaders as KGO-AM (San Francisco) and WJR-AM (Detroit) enabled the group to overcome a disappointing revenue year.

A highlight of 1986 was the acquisition of KQRS-AM/FM in June for $10,000,000. These stations serve the Minneapolis-St. Paul market and feature an album-oriented rock format. The popularity of these stations is evidenced by the latest fall 1986 ratings, where KQRS-AM/FM ranks second in its market with an impressive 11 percent share of the overall audience.

Currently, seven of our radio stations are subject to a temporary FCC cross-ownership waiver as a result of the ABC merger. These seven stations (AM and FM stations in New York, Los Angeles, and Chicago; and an AM station in San Francisco) must be sold when the waivers expire in June 1987. In February 1987, however, the FCC released notice of a proposed rule making which may lead to change in the multiple-ownership regulations, and the Company has requested an extension of the waivers pending the outcome of the rule making. We believe strongly in the future of radio (as evidenced by our acquisition of KQRS-AM/FM) and intend to remain an important participant in radio indefinitely.

The Company's 19 radio stations reach 24.23 percent of the metro population age 12 or older in the United States, as shown below:

Station and market	Market rank	1986 Metro population (age 12 or older) #	% of U.S.
WABC-AM/WPLJ-FM (New York)	1	13,958,100	6.94%
KABC-AM/KLOS-FM (Los Angeles)	2	8,604,700	4.28%
WLS-AM/WYTZ-FM (Chicago)	3	6,673,400	3.32%
KGO-AM (San Francisco)	4	4,792,600	2.38%
WJR-AM/WHYT-FM (Detroit)	6	3,573,100	1.78%
WMAL-AM/WRQX-FM (Washington, D.C.)	9	2,965,900	1.48%
WBAP-AM/KSCS-FM (Ft. Worth-Dallas)	10	2,959,100	1.47%
WKHX-AM/FM (Atlanta)	13	2,073,200	1.03%
KQRS-AM/FM (Minneapolis-St. Paul)	18	1,876,700	.93%
WPRO-AM/FM (Providence)	28	1,239,900	.62%
Total		48,716,700	24.23%

Source: *Arbitron, 1986-1987 Populations in U.S. Radio Markets.*

The radio networks consist of six basic networks with approximately 2,150 affiliates nationwide. Paul Harvey, the most popular national radio personality by a large margin, is a prominent feature of the radio networks, and his contract has been extended until 1993. The dominant position of our radio networks is illustrated by the most recent ratings information presented below:

Network	Audience share	National rank
Information	9.6%	1
Entertainment	9.0%	2
Contemporary	8.1%	3
Rock	6.3%	8
FM	6.0%	10
Direction	4.9%	14

Source: *RADAR 33, Spring 1986, Mon-Sun 6 AM-midnight, total persons 12+, average quarterly hour.*

The radio networks were able to combine healthy revenue growth with effective cost control to produce dramatic improvement in operating income. Unlike the national radio spot advertising market, the network radio marketplace grew significantly in 1986, fueled by the emergence of several new major advertisers. The future seems bright as more advertisers recognize the efficiency of this nationwide medium.

Video Enterprises

Video enterprises had a breakthrough year in 1986. Several years of start-up and developmental investments came to fruition as net revenues increased by 42 percent over 1985. The revenue increase helped video enterprises to become profitable for the first time. There are three basic components of video enterprises: cable program services; program distribution; and development and operations.

Cable program services consist of the Company's ownership share in three basic cable channels: ESPN; Arts & Entertainment (A & E); and Lifetime. Growth trends in subscriber levels are shown in the following table:

(Millions)	Average subscribers 1986	1985	1984	1983	1982
ESPN (Launched Sept. 1979)	37.3	36.0	32.6	26.9	19.3
A & E (Launched Feb. 1984)	20.5	18.7	10.5	—	—
Lifetime (Launched Feb. 1984)	25.9	23.0	18.5	—	—
Cable TV Households	39.5	36.1	33.0	30.3	28.2
Total TV Households	86.1	84.9	83.8	83.3	81.5

Sources: *Nielsen; Cable Profile Database.*

ESPN, the largest of the three services, is 80-percent-owned by the Company. ESPN provides 24-hours-a-day sports programming that effectively combines innovative events and standard coverage. Its recent exclusive live coverage of the America's Cup sailing races from Australia speaks to the organization's creativity and scope. Sizable revenue gains were posted in 1986 in both advertising sales and affiliate fees charged to cable systems. The growth potential for ESPN continues to be promising, due to the value it provides to advertisers seeking a sports-oriented target audience and to cable systems as a marketing tool to increase subscribers.

A & E is a quality dramatic and cultural programming outlet that is 38-percent-owned by Capital Cities/ABC. The service has been constantly building since its inception in early 1984, and recent program offerings have received much critical acclaim. Similarly, Lifetime, 33-percent-owned by the Company, is in its growth phase. Less than three years old, Lifetime is targeted towards women viewers and also includes specialized medical programming for doctors on Sunday mornings. A & E and Lifetime will continue to grow within their specialized niches.

Program distribution is the segment of video enterprises that is responsible for international sales and licensing of entertainment, sports and news programs owned by the ABC Television Network.

Program distribution is also involved in the sale of ABC-owned programs on video cassettes.

Development and operations functions as the Company's research and development group in seeking new opportunities in emerging technologies in the electronic media. Electronic and video publishing, and foreign programming ventures are just a few of the ideas that are being actively pursued.

Public Affairs

The Company has long understood and accepted the broadcaster's responsibility for serving its local communities through public affairs programming. The degree of excellence of our properties in this regard is reflected in the numerous awards they have received each year. Award highlights in 1986 include:

- KGO-TV received a George Foster Peabody Award for *Steinbeck Country,* a dramatic portrayal of author John Steinbeck.
- ABC Radio News won an Ohio State Award for *Vietnam Update: 10 Years Later,* which covered over 250 reports and programs on the six radio networks.
- WPVI-TV received the Best Single Public Affairs Program Award from the Pennsylvania Association of Broadcasters for its segment *The MOVE Report & Beyond.*
- A & E was the recipient of the 1986 Listeners' Guild Outstanding Programming Award for achievement in cable programming services.
- WMAL-AM garnered five local Sigma Delta Chi, the Society of Professional Journalists Awards in various categories, including spot news, features and general reporting.

We salute all of the people behind these and countless other local news and public affairs programs. The Capital Cities/ABC Broadcast Group takes considerable pride in the talented efforts of its employees, and will continue to strive for excellence as it fulfills its public responsibilities.

Capital Cities/ABC's Publishing Group, consisting of newspapers, specialized publications and shopping guides, had a difficult year in 1986. Net revenues were $970,755,000 and operating income was $158,999,000 for 1986, compared with net revenues of $642,583,000 and operating income of $138,512,000 reported in 1985. Publishing's 1986 performance, however, was disappointing compared with pro forma 1985 results (as if the ABC acquisition had taken place on January 1, 1985) as summarized below:

(Dollars in millions)	1986	Pro forma 1985	1985
Net revenues	$970.7	$959.1	$642.6
Operating costs	778.1	761.2	482.4
Depreciation and amortization	33.6	31.2	21.7
Total costs	811.7	792.4	504.1
Operating income	$159.0	$166.7	$138.5

On a pro forma basis, net revenues were up slightly more than 1 percent and expenses (excluding amortization of intangible assets) were up 2 percent. The result was a decline in operating income of more than 4 percent, which represented a significant shortfall from our original 1986 plan. Declines at Fairchild Publications, several units of ABC Publishing, the *Fort Worth Star-Telegram* and the southern California shopping guide operations more than offset excellent performances by the Group's other operating units.

With revenue softness continuing, the turnaround planned for 1987 will require creative sales management and careful attention to expenses.

Specialized Publications

Specialized publications as a group had a slight revenue decline in 1986. Although cost control measures kept the operating expense increase to less than 1 percent, operating earnings decreased 5 percent from pro forma 1985.

Fairchild Publications experienced a second consecutive year of lower earnings because of weak advertising markets and increased competition. Revenues were down slightly and operating income declined significantly. Costs increased nearly 5 percent as a result of efforts to maintain market share and a continued shift to coated stock from newsprint. Those increased costs reduced margins, which are still at favorable levels for business publications.

Most of the decline in profits was attributed to the performances of *Women's Wear Daily, Daily News Record* and *Electronic News*, which encountered weak marketplaces and increased competition.

Larger publications posting higher profits included *HFD/Retailing Home Furnishings*, the International Medical News Group and *The Travel Agent* magazine. Both *MIS Week* and *Multichannel News* had outstanding years.

A redesigned *W* virtually alone among major fashion publications showed an increase in advertising pages, although profits were down slightly. Its counterpart for men, *M*, reduced its losses on increased advertising pages. New start-ups included *Children's Business, WWD/Scene* and *DNR International* which are progressing as planned.

ABC Publishing experienced a modest increase in operating income over 1985. Revenues in 1986 were down slightly from 1985, but the decline was more than offset by cost control efforts that reduced expenses below the prior year.

The Chilton Company, which accounts for about 40 percent of ABC Publishing revenues, had record revenues and operating income in 1986. Neal Awards, the highest honor for editorial quality in business press publishing, were awarded to *Food Engineering* and *Automotive Marketing*.

Hitchcock Publishing also experienced a record year in 1986. Its newest publication, *Manufacturing Systems*, continues to make progress in its second year of monthly publication.

PEMCO (Professional Exposition Management Company), which produces eleven industrial trade shows, was acquired in March 1986. The PEMCO operation offers opportunity for growth in the burgeoning trade-show business.

Overall, ABC Consumer Magazines had a substantial gain in operating income, due mainly to the continuing success of the computer magazine group. A new product, *COMPUTE!'s Atari ST Disk & Magazine,* was launched in September and was profitable immediately. Revenue softness caused lower profits at *Modern Photography, High Fidelity* and *Los Angeles Magazine.*

NILS (National Insurance Law Service), which produces a very complete national data base service on insurance laws and regulations, had impressive growth in both revenue and operating income. A new service was launched during 1986 dedicated to the consumer credit law market, which also offers both print and electronic delivery alternatives to its subscribers. NILS also oversees the National Price Service which serves the electrical and plumbing trades.

The ABC Publishing Agricultural Group experienced another difficult year in 1986. Revenues and profits were down substantially at most of the midwestern state farm magazines and the national agricultural and merchandising publications.

Word, Inc.'s operating income was off substantially in 1986, largely because of market conditions. Nevertheless, it was one of the nation's few major religious communications companies to post a profit last year.

The Institutional Investor group of financial publications and services achieved record sales and profits in 1986. The controlled circulation of *Institutional Investor* magazines was increased in January 1987, bringing their worldwide circulation to 134,000, 41 percent higher than the previous year. In addition, the magazine added three more awards for journalistic excellence, bringing its total awards to 34.

Securities Data Company, which provides on-line information from electronic data bases primarily to investment banks, had a profitable year, although down from 1985.

Newspapers

Overall, newspaper revenues increased 4 percent, and operating income and margins declined slightly. Excluding the *Fort Worth Star-Telegram,* where economic conditions in Texas and increased costs associated with the new printing and distribution center depressed earnings, the Company's other newspapers combined had nearly a 7 percent revenue gain and a 12 percent increase in operating income. Preprinted inserts, classified advertising and circulation accounted for all of the increased revenues.

The Kansas City Star and *Times* achieved record revenues and operating profit in 1986. Growth in classified and preprint insert advertising revenues more than offset declines in local retail and national business. Advertising linage was down 1 percent and revenues increased nearly 7 percent.

Following months of negotiations, The Kansas City Star Company reached a comprehensive settlement accord on September 3, 1986, which ended the majority of the lawsuits brought by past and present independent contract carriers. An extraordinary charge of $14,250,000 (net of income taxes) was reflected in the third quarter. In exchange, the settling carriers dismissed all claims both in their state court lawsuits for alleged damages and injunctive relief for alleged violations of their interests in distributorship routes and in their Federal court cases which challenged the Star Company's policies in marketing and pricing of single copies of its newspapers.

The settlement agreement provided for the termination of the resale/distribution contracts with the settling independent contract carriers. The transition to the agency system has been completed, and the Star Company is distributing newspapers directly to virtually all of its subscribers. Under the delivery agent contracts now in effect, the newspaper is able to establish the retail price and standards for delivery of its newspapers to the subscribers to whom it sells directly. Long term, this should result in more effective circulation patterns for advertisers.

At year-end, paid circulation of the afternoon *Star* was down nearly 4 percent; the morning *Times* was off slightly; and the Sunday *Star* was up nearly 3 percent.

The Inland Daily Press Association honored the *Star* with its community service award for local projects that aid the poor, the hungry and the illiterate. It awarded the *Times* first place for local coverage.

The *Fort Worth Star-Telegram* suffered its first year-to-year decline in profits since 1975. Total revenues were down slightly, and expenses were up 7 percent, partly due to the launching of the new facility. Operating income was off 15 percent. The year-to-year effect of the new plant will continue in 1987, largely because of substantially increased depreciation. Despite a price increase, circulation continued to grow and was up an average of 4 percent.

Printing of advance sections at the new printing and distribution center began in late 1986 on the first of four Goss Headliner offset presses. All printing had been transferred to the new facility by January 1987. The 244,000-square-foot facility, located seven miles south of downtown Fort Worth, cost $73,000,000. Editorial, advertising, business and composition functions remain at the downtown site.

The Oakland Press (Pontiac, Michigan) again had record profits, including the doubling of revenues from its companion real estate magazine business. Overall revenues, however, did not rise as fast as in recent years due to gradual softening of the local automotive economy. Total-market products for non-subscribers and the number of preprinted inserts grew at above-normal rates.

The *Belleville News-Democrat* (Belleville, Illinois) had the best relative performance in 1986 of all the Company's newspapers. Revenues were up 9 percent, and operating income increased 13 percent. Daily and Sunday circulation growth continued at healthy levels, and a new locally produced Sunday magazine was introduced.

The Times Leader (Wilkes-Barre, Pennsylvania) cut its operating losses 65 percent from 1985 levels and was profitable for the fourth quarter of 1986. The newspaper's momentum is expected to continue, generating modest profits in 1987.

Shore Line Newspapers added a twentieth masthead to its chain of newsweeklies covering 175,000 homes along the New England coast between New Haven, Connecticut, and Newport, Rhode Island. Earnings improved modestly from 1985 levels.

The Oregon group of small dailies and weeklies continued to experience slow growth in revenue and operating income.

Shopping Guides

Results at Sutton Industries were down substantially as outside commercial work was curtailed and production operations were reorganized to improve efficiency. Sutton distributes over 1,400,000 *Pennysavers* weekly in southern and northern California.

Pennypower, headquartered in Wichita, Kansas, experienced reduced profits because of an ill-fated start-up in Joplin, Missouri, which was discontinued in December after substantial losses. The "Nickel" publications in Seattle-Tacoma and Spokane, Washington, and in Portland, Oregon, had an outstanding year.

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

Results of Operations— 1986 Compared to 1985

The results of operations for 1986 include those of ABC, which was acquired on January 3, 1986, and exclude those of the previously owned cable television division and certain other broadcasting properties which were divested (see Notes 3 and 5 to the Consolidated Financial Statements). The pro forma 1985 financial information which follows is based on historical data and is not necessarily indicative of the results which would have been achieved had the ABC acquisition taken place as of January 1, 1985.

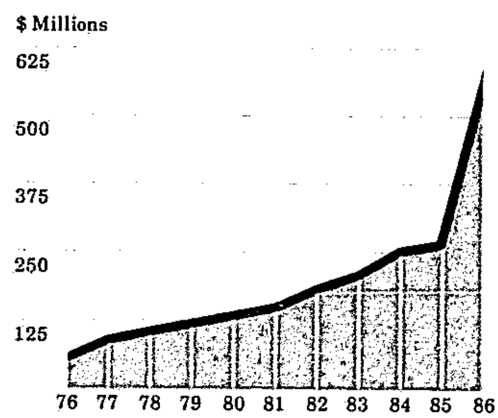
Net revenues for 1986 were $4,124,374,000, compared with $1,020,880,000 in 1985. On a pro forma basis, assuming the acquisition of ABC had taken place on January 1, 1985, net revenues for 1985 would have been approximately $4,088,900,000. Net revenues for 1986 for the Company's broadcasting operations were $3,153,619,000, compared with $3,129,800,000 on a pro forma basis for 1985. The ABC Television Network was affected by the relatively weak demand for network advertising as well as disappointing ratings levels. As a result, net revenues for the network declined 4% from 1985. The Company's other broadcasting operations—television and radio stations, radio networks and video operations—reported 1986 net revenues 13% higher than pro forma 1985. Strong local advertising growth in the larger television markets, as well as increased advertising revenues and affiliate fees charged to cable systems by ESPN, primarily accounted for the increase in net revenues. The Publishing Group reported 1986 revenues of $970,755,000, which was 1% greater than 1985 on a pro forma basis. Revenues at most publications were adversely affected by weakness in advertising demand.

Total costs and expenses for 1986 were $3,521,696,000, compared with $743,379,000 in 1985. On a pro forma basis, total costs and expenses for 1985 would have been $3,518,500,000. Costs and expenses for the Company's broadcasting operations in 1986 were $2,679,084,000, compared with $2,699,100,000 on a pro forma basis for 1985. While cost containment programs at the ABC Television Network reduced operating expenses below those originally planned, 1986 network costs (excluding purchase price adjustments), increased 4% over 1985 levels. Cost efficiencies were achieved at the Company's other broadcasting operations, especially at the former ABC television stations. Total costs and expenses for 1986 for the Company's publishing operations were $811,756,000, compared with $792,400,000 on a pro forma basis for 1985, a 2% increase.

Operating income for 1986 was $602,678,000, compared with $277,501,000 reported in 1985. On a pro forma basis for 1985, the Company's operating income would have been $570,400,000, with broadcasting showing an increase of 10% and publishing a decrease of 5%.

Results for 1986 reflect the fair market values assigned to ABC's assets. Adjustments related to the determination of the fair market value of entertainment programming and sports rights at the ABC Television Network benefited earnings in 1986 by approximately $91,000,000 (net of income taxes), or $5.60 per

Operating Income



share. Results for 1986 also include a charge of $3.19 per share for amortization of intangible assets arising from the acquisition of ABC.

Net financial expense (interest expense less interest income) for 1986 increased $172,867,000 compared with 1985, as a result of the increased debt incurred in connection with the acquisition of ABC. Interest of $11,414,000 and $4,554,000 was capitalized in 1986 and 1985, respectively.

The Company's effective income tax rates (on income before extraordinary items) for 1986 and 1985 were 57.0% and 48.6%, respectively, with the majority of the increase attributable to substantially higher amortization of intangible assets resulting from the acquisition of ABC. Excluding total amortization, substantially all of which is not deductible for tax purposes, the effective tax rate for 1986 would have been 49.5%. The Tax Reform Act of 1986 reduces corporate income tax rates, extends depreciable lives of property, plant and equipment and repeals the investment tax credit, among other things. The new legislation is expected to reduce the Company's 1987 effective tax rate by approximately 4 percentage points.

Consolidated income before extraordinary items for 1986 was $181,943,000, compared with $142,222,000 a year earlier. Earnings per share before extraordinary items were $11.20, compared with $10.87 in the prior year. In transactions related to the acquisition of ABC, the Company sold certain operating properties which resulted in an extraordinary gain in the first quarter of 1986 of $279,996,000 (net of income taxes of $156,800,000). The settlement of *The Kansas City Star* independent contract carrier litigation in the third quarter of 1986 resulted in an extraordinary charge of $14,250,000 (net of income taxes of $14,252,000). Average shares of common stock outstanding for 1986 were 16,250,000, compared to 13,080,000 shares in 1985.

The effect of the amortization of all intangible assets of the Company was to reduce earnings per share by $3.90 and $1.51 in 1986 and 1985, respectively.

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 revenues (excluding cable television operations) were up 8%, or $21,869,000, with radio operations showing the larger percentage gain. Excluding a 1984 television station acquisition, broadcasting revenues were up 5%. Cable television revenues increased 11%, due primarily to the growth in the number of basic subscribers and higher average monthly rates. Publishing 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 revenues increased 3%, with newspaper linage remaining flat and specialized publication linage decreasing 7%.

Total costs and expenses for 1985 were up $71,169,000, or 11% over 1984. Broadcasting expenses (excluding cable television operations) were up $17,743,000, or 14%, partially due to a 1984 television station acquisition. Excluding this acquisition, broadcasting 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 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 costs increased only 3%.

Operating income for 1985 increased 4% to $277,501,000 from the $267,512,000 reported in 1984, with broadcasting (excluding cable television operations) and publishing reporting gains of 3% and 4%, respectively. Operating income for cable television 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 ABC. 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 income 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, compared with $1.07 in 1984.

Available Cash Flow

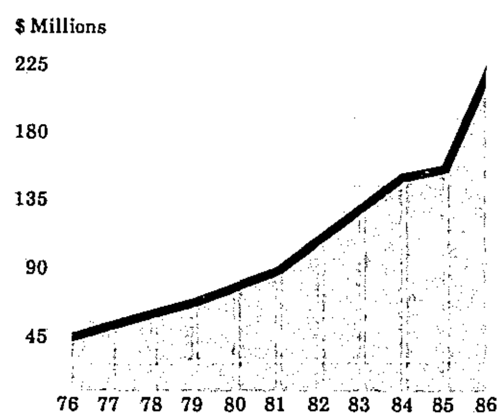
Available cash flow is defined as cash from operations, less amounts reinvested in such operations for capital expenditures and program licenses and rights. In 1986, the Company's available cash flow amounted to $213,659,000, representing an increase of $67,480,000, or 46%, over the $146,179,000 reported in 1985.

Unlike most industrial companies, the Company historically has not been required to reinvest large amounts of capital each year in physical assets, inventories and programming licenses and rights to maintain the same level of production or operations. In 1984 however, the Company began a major capital project of approximately $73,000,000, which moved all *Fort Worth Star-Telegram* printing and distribution functions to a new production facility. As a result of the acquisition of ABC, the Company will require significant capital spending to complete several major facilities started prior to the acquisition, as well as for construction of a planned new headquarters building. Additionally, the ABC Television Network has historically required a substantial investment in entertainment programming and sports rights.

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 1986 of $213,659,000, increased by $1,474,184,000

Available Cash Flow



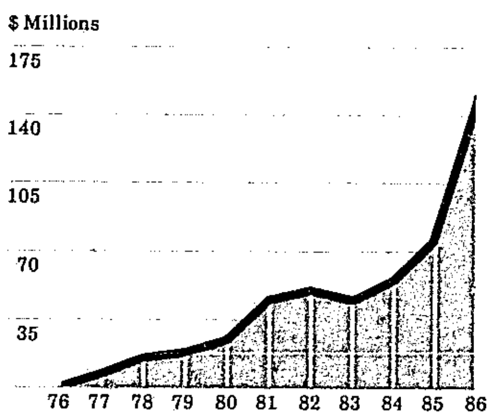
from the issuance and assumption of long-term debt, $517,500,000 from the sale of 3,000,000 shares of common stock to Berkshire Hathaway Inc., $625,678,000 (net of current taxes) from the disposition of certain of the Company's operating properties, and $288,853,000 from other sources, resulted in total cash provided of $3,119,874,000. The acquisition of ABC required $3,370,972,000, the repayment of long-term debt required $367,528,000 and other cash applications in 1986 were $134,424,000, resulting in total cash applied in 1986 of $3,872,924,000. The excess of cash applied over cash provided resulted in a decrease of $753,050,000 in cash and cash investments from December 31, 1985.

Capital Expenditures and Programming Commitments

In 1986, capital expenditures amounted to $153,082,000 compared with $75,384,000 in 1985. The largest portion of 1986 capital spending was in the Company's broadcasting operations where $104,278,000 was spent. Of this amount, $41,610,000 was for facility improvements at the television network and $14,374,000 was spent for the planned upgrade of the WLS-TV station in Chicago.

The Publishing Group spent $48,589,000 in 1986, approximately 80% of which was for the completion of the new production facility for the *Fort Worth Star-Telegram.*

Capital Expenditures



The Company anticipates that 1987 capital expenditures will be approximately $160,000,000. Major projects in the 1987 capital plan include $20,000,000 for the beginning of a new corporate headquarters building, $17,000,000 for the continued construction of the WLS-TV facility, $51,000,000 for other broadcast building improvements and $72,000,000 for broadcasting and publishing equipment to support ongoing operations.

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 were approximately $1,200,000,000 at the end of 1986. 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 $1,948,627,000 at December 28, 1986, an increase of $1,059,367,000 from the 1985 year-end total of $889,260,000. The major increase in stockholders' equity was largely a result of the sale of 3,000,000 shares of common stock to Berkshire Hathaway Inc. and the after-tax extraordinary gain on the required divestitures in connection with the acquisition of ABC, as well as the issuance of warrants.

At December 28, 1986, total interest-bearing debt was $1,821,805,000, an increase of $1,107,507,000 from 1985. As more fully described in Note 4 to the Consolidated Financial Statements, total interest-bearing debt at December 28, 1986, includes $224,830,000 of commerical paper, supported by a $1,000,000,000 bank revolving credit agreement, $1,575,000,000 of public and privately placed notes and debentures and $21,975,000 of other long-term debt. At December 28, 1986, the weighted average interest rate of the commercial paper, and of all other long-term instruments, was 6.2% and 10.3%, respectively.

At December 28, 1986, deferred income taxes amounted to $152,458,000 and minority interest in the Company's consolidated subsidiaries was $41,791,000.

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

(Dollars in millions)	Debt	Total capital	Debt to total capital ratio
1986	$1,821.8	$3,964.7	46%
1985	$ 714.3	$1,644.7	43%
1984	$ 223.0	$ 997.4	22%
1983	$ 221.0	$ 883.8	25%
1982	$ 48.4	$ 619.1	8%

Return on Equity

Return on equity is an important measurement of the effectiveness with which the stockholders' equity is being employed. It is expressed as the percentage relationship that net income (before extraordinary items) bears to average stockholders' equity. The Company's return on average stockholders' equity was 9.7% and 17.5% in 1986 and 1985, respectively. In years prior to 1986, the Company's return on equity has benefited both from its 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 1986, net income (before extraordinary items) increased only $39,721,000 from the prior year, while stockholders' equity increased $1,059,367,000 from the level reported at December 31, 1985 mainly as a result of transactions related to the acquisition of ABC. As a result, the return on equity decreased substantially from the prior year.

Intangible Assets

At December 28, 1986, the Company's intangible assets, before accumulated amortization, totaled $2,452,365,000, of which $2,072,911,000 arose from the acquisition of ABC. These intangible assets accounted for more than 46% of the Company's total assets.

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

All of the Company's intangible assets have resulted from the acquisition of broadcasting and publishing properties. Historically, such intangible assets have increased in value and have long and productive lives. We believe that the Company's intangible assets have or will appreciate in value, and that the requirements of *Opinion No. 17,* when applied to such publishing and broadcasting assets, significantly understate net income and stockholders' equity.

Of total intangible assets, at December 28, 1986, $2,370,453,000 was subject to amortization. The amortization of such intangibles had the effect of reducing 1986 net income by $63,402,000, or $3.90 a share. The amortization of substantially all intangible assets is not a deductible item in computing income taxes.

Financial Summary 1976-1986

(Dollars in thousands except per share data)

	1986	1985	1984
RESULTS FOR THE YEAR			
Net revenues			
Broadcasting	**$3,153,619**	$ 378,297	$ 348,106
Publishing	**970,755**	642,583	591,616
Total	**4,124,374**	1,020,880	939,722
Operating income			
Broadcasting	**$ 519,735**	$ 159,337	$ 151,982
Publishing	**177,201**	149,855	143,012
Income from operations	**696,936**	309,192	294,994
Amortization of intangible assets	**(63,402)**	(19,710)	(17,633)
General corporate expense	**(30,856)**	(11,981)	(9,849)
Total	**602,678**	277,501	267,512
Income before extraordinary items (a)	**$ 181,943**	$ 142,222	$ 135,193
Income per share before extraordinary items (a) (b)	**$11.20**	$10.87	$10.40
Cash dividends declared per common share (b)	**$ 0.20**	$ 0.20	$ 0.20
Average shares (000's omitted) (b)	**16,250**	13,080	13,000
Return on average stockholders' equity (c)	**9.7%**	17.5%	19.9%
SELECTED CHANGES IN FINANCIAL POSITION			
Cash provided			
Operations	**$ 369,478**	$ 223,296	$ 196,600
Increase in long-term debt	**1,474,184**	493,329	18,065
Disposition of interest in operating properties	**625,678**	7,222	5,000
Cash applied			
Acquisitions of operating properties	**$3,383,531**	$ 51,109	$ 146,843
Purchase of common stock for treasury	**1,075**	484	46,135
Capital expenditures	**153,082**	75,384	53,866
Reduction of long-term debt	**367,528**	7,872	16,030
Dividends on common stock	**3,219**	2,595	2,570
AT YEAR-END			
Working capital	**$ 416,230**	$ 830,986	$ 240,985
Total assets	**5,191,416**	1,884,931	1,208,172
Long-term debt	**1,821,805**	714,298	222,995
Stockholders' equity	**1,948,627**	889,260	734,455
Number of shares outstanding (000's omitted) (b)	**16,126**	12,998	12,867
Closing market price of common stock (b)	**$267½**	$224½	$164⅝
Price range of common stock (b)	**$208¼-279¾**	$152¼-229	$123½-174½

(a) Extraordinary items amounted to $265,746,000 ($16.35 per share) in 1986, $7,585,000 ($.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.

1983	1982	1981	1980	1979	1978	1977	1976
$ 302,785	$274,298	$214,498	$167,010	$151,327	$133,360	$112,522	$104,307
459,510	389,282	359,286	305,098	263,563	234,116	193,624	107,860
762,295	663,580	573,784	472,108	414,890	367,476	306,146	212,167
$ 132,293	$124,666	$102,394	$ 85,626	$ 80,551	$ 70,312	$ 56,989	$ 50,509
108,611	82,918	71,252	61,418	53,513	51,542	46,088	26,180
240,904	207,584	173,646	147,044	134,064	121,854	103,077	76,689
(12,174)	(10,668)	(6,992)	(3,464)	(3,077)	(2,993)	(2,639)	(820)
(8,366)	(7,128)	(7,468)	(6,205)	(5,334)	(4,563)	(3,673)	(2,826)
220,364	189,788	159,186	137,375	125,653	114,298	96,765	73,043
$ 114,704	$ 96,317	$ 80,518	$ 70,783	$ 63,758	$ 54,033	$ 43,234	$ 35,620
$8.53	$7.25	$6.12	$5.38	$4.68	$3.80	$2.91	$2.30
$0.20	$0.20	$0.20	$0.20	$0.20	$0.175	$0.10	$0.10
13,455	13,280	13,150	13,165	13,615	14,220	14,852	15,478
19.6%	19.5%	20.1%	21.5%	22.9%	21.8%	19.4%	17.9%
$ 169,363	$137,529	$108,208	$ 86,589	$ 77,888	$ 66,811	$ 53,763	$ 43,309
202,527	1,944	111,640	3,834	1,900	2,696	90,628	
3,200		13,808			15,526	14,389	
$ 22,016	$ 21,588	$157,128	$ 32,308		$ 10,017	$132,159	$ 6,500
43,619	676	125	14,753	$ 24,736	31,097	17,111	14,858
47,595	51,651	48,634	23,611	18,178	16,314	8,209	4,049
32,766	55,867	67,935	23,122	26,928	25,970	23,775	16,275
2,656	2,627	2,603	2,573	2,669	2,438	1,467	1,524
$ 265,847	$ 16,353	$ 4,288	$ 35,408	$ 34,428	$ 18,980	$ 8,998	$ 38,058
1,052,912	776,013	697,620	519,958	473,134	444,797	435,096	328,522
220,960	48,449	102,372	58,667	77,955	102,983	126,257	59,404
625,255	544,267	443,822	359,081	298,497	259,691	236,834	208,501
13,103	13,180	13,025	12,902	13,058	13,514	14,212	14,832
$144	$119⅝	$73¾	$58¾	$48⅝	$39⅝	$30	$28¼
$114¾-157½	$64⅜-136¾	$56½-80½	$40-72	$36¾-49⅞	$27⅛-47¾	$22⅛-30½	$21⅛-28¼

Consolidated Statement of Income

Years ended December 28, 1986 and December 31, 1985 and 1984
(Dollars in thousands except per share amounts)

	1986	1985	1984
Net revenues	**$4,124,374**	$1,020,880	$939,722
Costs and expenses			
Direct operating expenses	**2,534,503**	428,992	388,110
Selling, general and administrative	**828,590**	256,687	232,383
Depreciation	**95,201**	37,990	34,084
Amortization of intangible assets	**63,402**	19,710	17,633
	3,521,696	743,379	672,210
Operating income	**602,678**	277,501	267,512
Other income (expense)			
Interest expense	**(185,511)**	(22,738)	(27,161)
Interest income	**8,939**	19,033	27,352
Miscellaneous, net	**(3,363)**	3,026	1,090
	(179,935)	(679)	1,281
Income before income taxes	**422,743**	276,822	268,793
Income taxes			
Federal	**206,400**	117,700	116,000
State and local	**34,400**	16,900	17,600
	240,800	134,600	133,600
Income before extraordinary items	**181,943**	142,222	135,193
Extraordinary items, net of taxes	**265,746**	—	7,585
Net income	**$ 447,689**	$ 142,222	$142,778
Income per share:			
Before extraordinary items	**$11.20**	$10.87	$10.40
Extraordinary items	**16.35**	—	.58
Net income	**$27.55**	$10.87	$10.98
Average shares outstanding (000's omitted)	**16,250**	13,080	13,000

See accompanying notes

Consolidated Statement of Changes in Financial Position

Years ended December 28, 1986 and December 31, 1985 and 1984
(Dollars in thousands)

	1986	1985	1984
Cash provided			
Operations			
Income before extraordinary items	**$ 181,943**	$142,222	$135,193
Depreciation	**95,201**	37,990	34,084
Amortization of intangible assets	**63,402**	19,710	17,633
Other noncash items, net	**28,932**	23,374	9,690
Total cash from operations	**369,478**	223,296	196,600
Capital expenditures for operations	**(153,082)**	(75,384)	(53,866)
Program licenses and rights, net	**(2,737)**	(1,733)	(3,026)
Available cash flow from operations	**213,659**	146,179	139,708
Common stock sold to Berkshire Hathaway Inc	**517,500**	—	—
Issuance of common stock warrants	**97,193**	—	—
Issuance of long-term debt	**1,350,507**	493,329	4,500
Long-term debt assumed on acquisitions	**123,677**	—	13,565
Disposition of operating properties, net of current taxes	**625,678**	7,222	5,000
Disposition of real estate	**162,165**	—	—
Other, net	**29,495**	3,114	(1,578)
Proceeds from sale of investment in stock, net of taxes	**—**	—	17,769
	3,119,874	649,844	178,964
Cash applied			
Acquisition of ABC	**3,370,972**	53,000	—
Litigation settlement, net of taxes	**14,250**	—	—
Common stock warrants purchased and redeemed	**16,681**	—	—
Acquisition of other operating properties	**12,559**	51,109	146,843
Reduction of long-term debt	**367,528**	7,872	16,030
Changes in other working capital items	**86,640**	2,324	2,867
Purchase of common stock for treasury	**1,075**	484	46,135
Dividends	**3,219**	2,595	2,570
	3,872,924	117,384	214,445
(Decrease) increase in cash and cash investments	**(753,050)**	532,460	(35,481)
Cash and cash investments			
Beginning of period	**768,859**	236,399	271,880
End of period	**$ 15,809**	$768,859	$236,399

See accompanying notes

Consolidated Balance Sheet

December 28, 1986 and December 31, 1985
(Dollars in thousands)

Assets	**1986**	**1985**
Current assets		
Cash	$ **8,843**	$ 8,031
Short-term cash investments	**6,966**	760,828
Accounts and notes receivable (net of allowance for doubtful accounts of $32,764 in 1986 and $6,745 in 1985)	**782,300**	145,382
Program licenses and rights	**349,499**	14,637
Other current assets	**114,510**	24,517
Stock purchase option	—	53,000
Total current assets	**1,262,118**	1,006,395
Property, plant and equipment, at cost		
Land	**324,038**	22,726
Buildings	**481,031**	77,419
Broadcasting, publishing and other equipment	**538,310**	418,347
	1,343,379	518,492
Less accumulated depreciation	**206,807**	200,596
Property, plant and equipment, net	**1,136,572**	317,896
Intangible assets (net of accumulated amortization of $112,472 in 1986 and $81,003 in 1985)	**2,339,893**	431,512
Program licenses and rights, noncurrent	**323,619**	16,550
Other assets	**129,214**	62,578
	$5,191,416	$1,884,931

See accompanying notes

Liabilities and Stockholders' Equity	1986	1985
Current liabilities		
Accounts payable	$ 94,837	$ 31,663
Accrued compensation	115,256	30,041
Accrued interest	54,324	21,601
Accrued expenses and other current liabilities	242,878	46,232
Program licenses and rights	262,352	15,342
Taxes on income	74,266	24,446
Long-term debt due within one year	1,975	6,084
Total current liabilities	845,888	175,409
Deferred compensation	56,672	29,897
Deferred income taxes	152,458	41,144
Unearned subscription revenue	39,483	22,258
Program licenses and rights, noncurrent	201,418	11,004
Other liabilities	85,249	7,542
Long-term debt due after one year	1,819,830	708,214
Total liabilities	3,200,998	995,468
Minority interest	41,791	203
Stockholders' equity		
Preferred stock, no par value (4,000,000 shares authorized)	—	—
Common stock, $1 par value (80,000,000 shares authorized)	18,394	15,394
Additional paid-in capital	647,021	37,844
Retained earnings	1,441,697	997,227
	2,107,112	1,050,465
Less common stock in treasury, at cost (2,267,243 shares in 1986 and 2,395,831 shares in 1985)	158,485	161,205
Total stockholders' equity	1,948,627	889,260
	$5,191,416	$1,884,931

Consolidated Statement of Stockholders' Equity

Years ended December 28, 1986 and December 31, 1985 and 1984
(Dollars in thousands)

	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Total
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
Net income for 1986	—	—	447,689	—	447,689
3,000,000 shares sold to Berkshire Hathaway Inc.	3,000	514,500	—	—	517,500
4,201 shares purchased for treasury	—	—	—	(1,075)	(1,075)
44,674 shares issued under Employee Stock Purchase Plan	—	7,092	—	1,279	8,371
87,666 shares issued on exercise of employee stock options	—	6,974	—	2,503	9,477
Warrant activity:					
2,906,703 warrants issued	—	97,193	—	—	97,193
116,013 warrants redeemed	—	(3,879)	—	—	(3,879)
246,100 warrants purchased	—	(12,802)	—	—	(12,802)
449 warrants exercised	—	99	—	13	112
Cash dividends	—	—	(3,219)	—	(3,219)
Balance December 28, 1986	$18,394	$647,021	$1,441,697	$(158,485)	$1,948,627

See accompanying notes

1. Accounting Policies

Principles of Consolidation—The consolidated financial statements include the accounts of all significant subsidiaries. Investments in other companies which are at least 20% owned are reported on the equity method. All significant intercompany accounts and transactions have been eliminated.

Property, Plant and Equipment-Depreciation—Depreciation is computed on the straight-line method for financial accounting purposes and on accelerated methods for tax purposes. Estimated useful lives for major asset categories are 10-40 years for buildings and improvements, 4-8 years for broadcasting equipment, and 5-20 years for printing machinery and equipment. Leasehold improvements are amortized over the terms of the leases. Prior to 1986, cable television plant was depreciated over 10-12 years.

Intangible Assets—Intangible assets consist of amounts by which the cost of acquisitions exceeded the values assigned to net tangible 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,* substantially all of these intangible assets 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 underlying assets. Prior to 1986, intangible assets related to cable television franchises were amortized over the remaining terms of the franchises.

Program Licenses and Rights—Program licenses and rights and the related liabilities are recorded when the license period begins and the program is available for use. Television network and station rights for theatrical movies and other long-form programming are charged to expense primarily on accelerated bases related to the usage of the program. Television network series costs are charged to expense based on the flow of anticipated revenue. Sports rights are generally charged to expense when the event is telecast.

Unearned Subscription Revenue—Subscription revenue is recorded as earned over the life of the subscriptions. Costs in connection with the procurement of subscriptions are generally charged to expense as incurred.

Investment Tax Credit—The investment tax credit is taken into income as a reduction of the Federal income tax provision for eligible assets.

Capitalized Interest—Interest is capitalized in accordance with *Financial Accounting Standards Board Statement No. 34.* As a result, $11,414,000, $4,554,000 and $1,248,000 was capitalized in 1986, 1985 and 1984, respectively.

Reporting Year—Beginning in 1986, the Company changed its reporting year from a calendar year to a fiscal year ending the Sunday closest to December 31.

2. Income Per Share

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

	1986	1985	1984
Common shares	16,090	12,955	12,875
Stock options	95	125	125
Warrants	65	–	–
Total	16,250	13,080	13,000

3. Acquisitions

1986—Acquisition of American Broadcasting Companies, Inc. (ABC)—On January 3, 1986, the Company acquired ABC for an aggregate consideration of $3,370,972,000. Each share of ABC common stock was converted into $118.108 plus 0.1024 of a warrant. Each warrant entitles the holder to purchase one share of the Company's common stock at $250.00 per share until July 29, 1988. Until April 3, 1986 warrant holders could have redeemed all or a portion of the warrants at $30.00 per warrant. The value of the 2,906,703 warrants of $97,193,000, has been included in additional paid-in capital.

The ABC operations include the ABC Television Network, four television stations, nine radio stations, six radio networks, various consumer and trade magazines and periodicals, and the production and supply of cable 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 February 1987, however, the FCC released a notice of proposed rule making which may lead to a change in the multiple-ownership regulations, and the Company has requested an extension of the waivers pending the outcome of the rule making.

The aggregate cash purchase price was financed by proceeds from the disposal of certain of the Company's and ABC's operating properties (see Note 5), the issuance of $1,375,000,000 of fixed rate long-term debt, the sale of 3,000,000 shares of the Company's common stock to Berkshire Hathaway Inc. for $517,500,000, the issuance of commercial paper and from 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 income statement data 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.

The pro forma information is based on the fair market values assigned to acquired assets and liabilities 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.

(000's, except per share)	Year ended Dec. 31, 1985
Net revenues	$4,088,900
Operating income	$570,400
Income before extraordinary items	$175,000
Income per share before extraordinary items	$10.88

The following summarizes the fair market values of assets acquired and liabilities assumed by the Company (000's omitted):

Current assets		
Cash and cash investments	$223,753	
Accounts receivable	495,521	
Program licenses and rights	377,423	
Other current assets	64,552	$1,161,249
Property, plant and equipment		1,077,399
Intangible assets		2,075,828
Program licenses and rights		389,771
Other assets		82,173
		4,786,420
Current liabilities		
Program licenses and rights	$(275,371)	
Accounts payable and accruals	(406,214)	
Long-term debt	(1,503)	(683,088)
Program licenses and rights		(284,477)
Other liabilities		(184,571)
Long-term debt		(122,174)
Minority interest		(41,062)
		3,471,048
Elimination of cash and long-term debt included above		(100,076)
Net consideration		$3,370,972

1986—Other Acquisitions—In 1986, the Company also acquired radio stations KQRS-AM/FM, Golden Valley, Minnesota, and PEMCO, a trade show exhibition company for a combined cash purchase price of $12,559,000.

1985—In 1985, the Company purchased a cable television system, the assets of WPLO-AM (name changed to WKHX-AM in 1986), Atlanta, Georgia, two shopping guides and the remaining 10% interest in Capital Cities Cable, Inc., for an aggregate cash purchase price of $51,109,000.

4. Long-Term Debt

Long-term debt at December 28, 1986 and December 31, 1985 is as follows (000's omitted):

	1986	1985
Commercial paper supported by bank revolving credit agreement	$ 224,830	$ —
10.8% Senior Notes due 1994, with annual sinking fund payments of $93,750 beginning in 1991	375,000	—
8¼% notes due 1996	200,000	—
10½% notes due 1997	200,000	200,000
11¾% subordinated debentures due 2013, with annual sinking fund payments beginning in 1994	200,000	200,000
11⅝% debentures due 2015, with annual sinking fund payments beginning in 1996	300,000	300,000
8¾% debentures due 2016, with annual sinking fund payments beginning in 1997	300,000	—
Other long-term debt	21,975	14,298
	$1,821,805	$714,298

The aggregate payments of long-term debt outstanding at December 28, 1986, for the next five years, excluding commercial paper, are summarized as follows: 1987—$1,975,000; 1988—$1,541,000; 1989—$1,941,000; 1990—$2,429,000; 1991—$95,306,000.

Primarily to finance the acquisition of ABC, a subsidiary of the Company issued commercial paper, $224,830,000 of which was outstanding at December 28, 1986, at a weighted average interest rate of 6.2%. 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 3/16%. Under terms of the bank revolving credit agreement, the Company and its consolidated subsidiaries are required to maintain a consolidated net worth of $1,400,000,000 at December 28, 1986, increasing annually by one-third of the consolidated net income of the previous year.

The amount of commercial paper outstanding at December 28, 1986 is classified as long-term, since the Company intends to renew or replace with long-term borrowings all, or substantially all, of the commercial paper. However, the amount of commercial paper outstanding in 1987 is expected to fluctuate and may be reduced from time to time.

The 8¾% debentures, 11⅝% debentures and 11¾% debentures are redeemable at the option of the Company, in whole or in part, at a declining premium to par until 2006, 2005 and 2003, respectively, and at par thereafter, provided however, that these debentures not be redeemed from, or in anticipation of, funds borrowed at certain specified lower interest rates. The 10½% notes and 8¼% notes are redeemable at par starting in 1992 and 1993, respectively. The 10.8% Senior Notes are not redeemable prior to 1992, at which time they may be redeemed at a price of 104% of par until maturity.

The Company has unconditionally guaranteed the 10.8% Senior Notes, the 8¼% notes, the 8¾% debentures which have been issued by a wholly-owned subsidiary, and the commercial paper, and any borrowings which may be made by a subsidiary under the bank revolving credit agreement.

Other interest-bearing debt at December 28, 1986 includes $21,975,000 substantially issued in prior years by ABC. During 1986 the Company called for redemption $81,969,000 principal amount of 9.35% sinking fund debentures due July 15, 2000 and $17,660,000 principal amount of 7% subordinated notes due through 1992, both issued in prior years by ABC. The funds needed to effect these redemptions were obtained through the issuance of commercial paper.

The proceeds from the issuance of virtually all of the outstanding debt were used to finance the acquisition of ABC.

5. Extraordinary Items

1986

In transactions related to the acquisition of ABC, 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, Los Angeles and Buffalo, and all of its cable television systems. The proceeds of these sales (net of taxes currently payable) were $625,678,000 and resulted in an extraordinary gain of $279,996,000 (net of income taxes of $156,800,000).

During the third quarter of 1986, the Company and its subsidiary, The Kansas City Star Company (the Star), settled all but four of the approximately 285 actions brought against them by the Star's independent contract carriers concerning its newspaper delivery routes and distribution system. The settlement will allow the Star to convert virtually all of its newspaper delivery routes from those operated by independent contract carriers to routes operated by independent delivery agents. The settlement resulted in an extraordinary charge of $14,250,000 (net of income taxes of $14,252,000).

1984

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

6. Commitments

At December 28, 1986, the Company is committed for the purchase of broadcast rights for various feature films, sports events and other programming aggregating approximately $1,200,000,000.

The aggregate payments related to these commitments during the next five years are summarized as follows: 1987—$488,299,000; 1988—$332,384,000; 1989—$229,649,000; 1990—$98,140,000; 1991—$23,018,000.

Rental expense under operating leases amounted to $70,019,000, $8,701,000 and $6,181,000 for 1986, 1985 and 1984, respectively.

Future minimum annual rental payments under noncancellable leases are as follows (000's omitted):

	Capital Leases	Operating Leases
1987	$ 4,302	$ 65,247
1988	3,599	59,772
1989	2,700	47,570
1990	2,642	29,290
1991	2,767	25,340
1992 and thereafter	140,556	148,692
Minimum lease payments	156,566	$375,911
Imputed interest	(131,409)	
Present value of minimum lease payments	$ 25,157	

Total minimum payments for operating leases have not been reduced for future minimum sublease rentals aggregating $66,336,000.

7. Employees' Profit Sharing and Pension Plans

The Company has qualified profit sharing or defined benefit pension plans covering substantially all of its employees not covered by union plans. The profit sharing plans provide for contributions by the Company in such amounts as the Board of Directors may annually determine. Contributions to the profit sharing plans of $5,173,000, $5,774,000 and $5,229,000 were charged to expense in 1986, 1985 and 1984, respectively.

With respect to the defined benefit pension plans, the Company's policy is to fund amounts as are necessary on an actuarial basis to provide for benefits in accordance with the requirements of ERISA. Benefits are generally based on years of service and compensation.

Effective January 1, 1986, the Company adopted *Financial Accounting Standards Board Statement No. 87.* The effect of the change in method of accounting as a result of the adoption of FASB No. 87 was a reduction in pension cost in 1986 of approximately $14,800,000 from what otherwise would have been charged to expense under the method used in prior years. Net pension cost for 1986 was $6,198,000, compared with $831,000 and $1,628,000 for 1985 and 1984, respectively.

The components of net pension cost for 1986 were as follows (000's omitted):

Service cost of current period	$ 13,142
Interest cost on projected benefit obligation	22,177
Actual return on plan assets	(51,112)
Net amortization and deferral	21,991
Net pension cost	$ 6,198

The weighted average discount rate and the rate of increase in future compensation levels used in determining the actuarial present value of the projected benefit obligation were 8% and 5%, respectively. The expected long-term rate of return on assets was 8%.

The actuarial present value of accumulated plan benefits at December 31, 1985 was $47,151,000 including vested benefits of $45,171,000.

The following table sets forth the pension plans' funded status and amounts recognized in the balance sheet at December 28, 1986 (000's omitted):

Actuarial present value of accumulated plan benefits including vested benefits of $207,266	$225,836
Plan assets at fair value, primarily publicly traded stocks and bonds	$ 378,230
Projected benefit obligation for service rendered to date	(292,350)
Plan assets in excess of projected benefit obligation	85,880
Prior service cost not yet recognized in net periodic pension cost	0
Unrecognized net gain from past experience different from that assumed	(24,614)
Unrecognized net asset (transition amount) being recognized principally over 15 years	(31,928)
Prepaid pension cost included in balance sheet	$ 29,338

8. Segment Data

The Company operates the ABC Television Network and eight affiliated television stations, six radio networks and 19 radio stations, and provides programming for cable television. The Company publishes newspapers, shopping guides, various specialty and business periodicals and books; and also distributes information from electronic data bases. Operations are classified into two business segments: Broadcasting and Publishing. There are no product transfers between segments of the Company, and virtually all of the Company's business is conducted within the United States. Prior to 1986, the Company owned and operated cable television systems. They were classified as a separate business segment and are included below in the Broadcasting segment. Cable television net revenues and income from operations for 1985, were $84,580,000 and $5,206,000, respectively. The segment data follows (000's omitted):

	1986	1985	1984	1983	1982
Broadcasting					
Net revenues	$3,153,619	$ 378,297	$ 348,106	$ 302,785	$274,298
Direct operating costs	2,554,932	192,249	172,867	151,603	134,910
Depreciation	78,952	26,711	23,257	18,889	14,722
Total operating costs	2,633,884	218,960	196,124	170,492	149,632
Income before amortization of intangible assets	519,735	159,337	151,982	132,293	124,666
Amortization of intangible assets	45,200	8,367	7,800	7,597	6,760
Income from operations	$ 474,535	$ 150,970	$ 144,182	$ 124,696	$117,906
Assets at year-end	$4,186,650	$ 537,797	$ 507,433	$ 455,341	$435,223
Capital expenditures	104,278	26,327	26,370	36,782	45,908
Publishing					
Net revenues	$ 970,755	$ 642,583	$ 591,616	$ 459,510	$389,282
Direct operating costs	778,201	482,333	438,414	342,253	298,444
Depreciation	15,353	10,395	10,190	8,646	7,920
Total operating costs	793,554	492,728	448,604	350,899	306,364
Income before amortization of intangible assets	177,201	149,855	143,012	108,611	82,918
Amortization of intangible assets	18,202	11,343	9,833	4,577	3,908
Income from operations	$ 158,999	$ 138,512	$ 133,179	$ 104,034	$ 79,010
Assets at year-end	$ 920,896	$ 455,274	$ 430,997	$ 287,523	$260,890
Capital expenditures	48,589	45,869	26,700	10,666	5,535
Consolidated					
Net revenues	$4,124,374	$1,020,880	$ 939,722	$ 762,295	$663,580
Income from operations	$ 633,534	$ 289,482	$ 277,361	$ 228,730	$196,916
General corporate expense	(30,856)	(11,981)	(9,849)	(8,366)	(7,128)
Operating income	602,678	277,501	267,512	220,364	189,788
Interest expense	(185,511)	(22,738)	(27,161)	(14,633)	(7,982)
Interest and other income	5,576	22,059	28,442	18,773	3,511
Income before income taxes	$ 422,743	$ 276,822	$ 268,793	$ 224,504	$185,317
Assets employed by segments	$5,107,546	$ 993,071	$ 938,430	$ 742,864	$696,113
Investments and corporate assets	83,870	891,860	269,742	310,048	79,900
Total assets at year-end	$5,191,416	$1,884,931	$1,208,172	$1,052,912	$776,013

9. Income Taxes

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

	1986		1985		1984	
	Amount	%	Amount	%	Amount	%
Income tax expense at statutory rate	$194,462	46.0	$127,338	46.0	$123,645	46.0
State and local income taxes, net of Federal benefit	18,576	4.4	9,126	3.3	9,504	3.5
Investment tax credits	(4,800)	(1.1)	(5,653)	(2.0)	(4,600)	(1.7)
Amortization of intangibles	28,705	6.8	5,601	2.0	4,791	1.8
Other, net	3,857	0.9	(1,812)	(0.7)	260	0.1
Total	$240,800	57.0	$134,600	48.6	$133,600	49.7

Income tax expense before extraordinary items is comprised of the following (000's omitted):

	1986	1985	1984
Federal			
Current	$205,800	$104,100	$114,100
Deferred	600	13,600	1,900
	206,400	117,700	116,000
State and Local			
Current	34,300	14,900	17,300
Deferred	100	2,000	300
	34,400	16,900	17,600
Total	$240,800	$134,600	$133,600

The provision for deferred income taxes represents the tax effect of transactions reported in different periods for financial and income tax reporting purposes, and results from the following timing differences (000's omitted):

	1986	1985	1984
Accelerated depreciation	$22,500	$11,200	$7,500
Program costs	(15,600)		
Other	(6,200)	4,400	(5,300)
Total	$ 700	$15,600	$2,200

The extraordinary gain on the disposition of certain of the Company's broadcasting and cable properties is net of income taxes of $156,800,000 (see Note 5). Of this amount, approximately $67,000,000 has been deferred pursuant to Section 1071 of the Internal Revenue Code, under which the Company received tax certificates from the Federal Communications Commission deferring the taxes related to these dispositions until disposition of the replacement properties.

Deferred income taxes at December 28, 1986, also include approximately $60,000,000 of taxes relating to the disposition of broadcasting properties by ABC on January 2, 1986, deferred under the provisions of Section 1071.

10. Stock Option, Stock Purchase and Savings 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:

	1986	1985	1984
Outstanding options, beginning of year	265,799	325,983	379,358
Granted	0	19,845	6,825
Cancelled or expired	(11,700)	(5,425)	(4,738)
Exercised	(87,666)	(74,604)	(55,462)
Outstanding options, end of year	166,433	265,799	325,983
Average price of options exercised during the year	$41.90	$32.66	$19.94
Exercise price of outstanding options, end of year	$23.94 to $220.69	$12.50 to $220.69	$9.13 to $160.00
Options exercisable, end of year	132,525	201,604	254,983
Options available for future grant	204,555	192,855	207,275

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. During 1986, an additional 200,000 shares were approved for the five-year period ending in April, 1992. 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 44,674, 58,314 and 56,088 shares under the Plan in 1986, 1985 and 1984, respectively.

The Company also has the ABC Savings & Investment Plan which allows eligible employees to allocate up to 5% of salary through payroll deduction among a Company stock fund, a diversified equity fund and a guaranteed income fund. The Company matches 50% of the employee's contribution. In 1986, the cost of this plan was $5,866,000.

11. Common Stock, Warrant and Stockholder Information (Unaudited)

As of February 27, 1987, the approximate number of holders of common stock was 5,360. Dividends of $.05 per share have been paid for each quarter of 1986 and 1985. The common stock is traded on the New York and Pacific Stock Exchanges. The high, low and closing prices of the Company's common stock for each quarter of 1986 and 1985 are as follows:

	1986			1985		
	High	Low	Close	High	Low	Close
1st quarter	$256	$208¼	$238¼	$222	$152¼	$213½
2nd quarter	262½	214½	258½	228½	200½	223¼
3rd quarter	272	240	252¼	225½	191½	195½
4th quarter	279¾	245½	267½	229	183¼	224½

In connection with the ABC acquisition, 2,906,703 warrants were issued (see Note 3). As of December 28, 1986, 2,544,141 warrants were outstanding. Beginning in July 1986, the warrants were listed and traded on the Pacific Stock Exchange.

12. Quarterly Financial Data (Unaudited)

The following summarizes the Company's results of operations for each quarter of 1986, 1985 and 1984 (000's omitted except per share amounts). The net income per share computation for each quarter and the year are separate calculations. Accordingly, the sum of the quarterly net income per share amounts may not equal the net income per share for the year.

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
1986					
Net revenues	$912,337	$1,065,674	$959,039	$1,187,324	$4,124,374
Costs and expenses	855,574	866,273	830,806	969,043	3,521,696
Operating income	56,763	199,401	128,233	218,281	602,678
Interest expense	(42,343)	(47,387)	(45,152)	(50,629)	(185,511)
Interest and other income	1,950	2,015	39	1,572	5,576
Income before income taxes	16,370	154,029	83,120	169,224	422,743
Income taxes	14,400	87,000	50,500	88,900	240,800
Income before extraordinary items	1,970	67,029	32,620	80,324	181,943
Extraordinary items	279,996	—	(14,250)	—	265,746
Net income	$281,966	$ 67,029	$ 18,370	$ 80,324	$ 447,689
Income per share					
Before extraordinary items	$ 0.12	$4.15	$2.01	$4.90	$11.20
Extraordinary items	17.36	—	(0.88)	—	16.35
Net income per share	$17.48	$4.15	$1.13	$4.90	$27.55
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)	(7,017)	(7,137)	(27,161)
Interest and other income	6,867	6,663	7,900	7,012	28,442
Income before income taxes	54,894	78,555	60,865	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	—	—	0.58	—	0.58
Net income per share	$2.07	$3.03	$2.94	$2.94	$10.98

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 28, 1986 and December 31, 1985, and the consolidated statements of income, stockholders' equity and changes in financial position for each of the three years in the period ended December 28, 1986. 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 28, 1986 and December 31, 1985, and the consolidated results of operations and changes in financial position for each of the three years in the period ended December 28, 1986, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

Arthur Young & Company

Arthur Young & Company

New York, New York
February 27, 1987

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 Television Network Group*
Ronald J. Doerfler, *Senior Vice President and Chief Financial Officer*
Michael P. Mallardi, *Senior Vice President; President, Broadcast Group*
Phillip J. Meek, *Senior Vice President; President, Publishing Group*
Stephen A. Weiswasser, *Senior Vice President and General Counsel*

Arnold H. Agree, *Vice President*
Philip R. Beuth, *Vice President*
Allan J. Edelson, *Vice President and Controller*
Joseph M. Fitzgerald, *Vice President*
Richard L. Freund, *Vice President*
John E. Frisoli, *Vice President*
James M. Goldberg, *Vice President*
Robert T. Goldman, *Vice President*
Ann Maynard Gray, *Vice President*
Andrew E. Jackson, *Vice President*
David S. Loewith, *Vice President and Assistant Controller*
Patricia J. Matson, *Vice President*
Alfred R. Schneider, *Vice President*
David J. Vondrak, *Vice President and Treasurer*
Gerald Dickler, *Secretary*
Philip R. Farnsworth, *Assistant Secretary*
Allen S. Bomes, *Assistant Treasurer*

* * * *

ABC Television Network Group

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*
David W. Burke, *Executive Vice President*
Richard C. Wald, *Senior Vice President*

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

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

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

Broadcast Group
Michael P. Mallardi, *President*

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

WABC-TV (New York, NY)
Walter C. Liss, Jr., *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*

National Television Sales
John B. Watkins, *President*

Video Enterprises
Herbert A. Granath, *President*

ABC DISTRIBUTION (New York, NY)
John T. Healy, *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*

WLS-AM/WYTZ-FM (Chicago, IL)

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

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

WHYT-FM (Detroit, MI)
John E. Cravens, *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)
William J. Hare, *President, General Manager*

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

KQRS-AM/FM (Minneapolis, MN)
Mark S. Steinmetz, *President, General Manager*

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

ABC Radio Networks (New York, NY)
Aaron M. Daniels, *President*

Broadcast Operations & Engineering
Julius Barnathan, *President*

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Publishing Group
Phillip J. Meek, *President*

Specialized Publications
FAIRCHILD PUBLICATIONS (New York, NY)
John B. Fairchild, *Chairman and Chief Executive Officer*
Kenneth S. Share, *Executive Vice President*
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*
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*

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

ABC PUBLISHING AGRICULTURAL GROUP (Lombard, IL)

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

HITCHCOCK PUBLISHING COMPANY (Wheaton, IL)
Loren M. Walsh, *President*

LOS ANGELES MAGAZINE (Los Angeles, CA)
D. F. Delle Monache, *Vice President, Publisher*

NILS PUBLISHING COMPANY (Chatsworth, CA)
William H. Bang, *President*

WORD, INC. (Waco, TX)
Gary R. Ingersoll, *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)
Richard L. Connor, *President, Publisher*

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

BELLEVILLE NEWS-DEMOCRAT (Belleville, IL)
Gary L. Berkley, *President, Publisher*

THE TIMES LEADER (Wilkes-Barre, PA)
Dale A. Duncan, *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)

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 Television Network Group

Ronald J. Doerfler
Senior Vice President and Chief Financial Officer

Michael P. Mallardi
Senior Vice President; President, Broadcast Group

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

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
Chairman of the Board and Chief Executive Officer, Beecham Group p.l.c.

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 & Co., Inc.

LEON HESS
Chairman of the Board and Chief Executive Officer, Amerada Hess Corporation

GEORGE P. JENKINS
Consultant to W. R. Grace & Co.; Retired Chairman of the Board, Metropolitan Life Insurance Company

THOMAS M. MACIOCE
Partner, Shea & Gould, Attorneys at Law; Former 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
Former President and Chief Operating Officer, American Broadcasting Companies, Inc.

JOHN B. POOLE
Retired Chairman of the Board, Poole Broadcasting Company

JOHN B. SIAS
Executive Vice President; President, ABC Television Network Group

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

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 and Pacific Stock Exchanges (Symbol: CCB)

Exhibit (22)

As of December 28, 1986

Subsidiaries of Capital Cities/ABC, Inc.

	Jurisdiction of Incorporation
Capital Cities/ABC, Inc. (parent)	New York
ABC Holding Company, Inc.	Delaware
ABC Consumer Magazines Holding Company, Inc.	Delaware
ABC Consumer Magazines, Inc.	Delaware
ABC Network Holding Company, Inc.	Delaware
ABC Equipment Leasing, Inc.	New York
ABC, Inc.	New York
ABC International Television, Inc.	New York
ABC Motion Pictures, Inc.	Delaware
ABC Records, Inc.	New York
ABC Circle Music, Inc.	New York
American Broadcasting Music, Inc.	New York
Anchor Music, Inc.	New York
ABC Theatre Holdings, Inc.	Delaware
ABC Interstate Theatres, Inc.	Delaware
ABC Southeastern Theatres, Inc.	Delaware
Miami Florida Theatre Building, Inc.	Florida
Calpar Theatres, Inc.	California
Ambro Land Holdings, Inc.	Delaware
Ambroco Development Corp.	New York
Broadway Development Corp.	New York
Columbus West Development Corp.	New York
67th Street Development Corp.	New York
66th Street Development Corp.	New York
Circle Location Services, Inc. (formerly ABC Entertainment, Inc.)	Delaware
Stage Five Productions, Inc.	California
TNC Company, Inc.	Delaware
ABC News Holding Company, Inc.	Delaware
ABC News, Inc.	Delaware
ABC News Intercontinental, Inc.	Delaware
ABC News Overseas Sales, Inc.	Delaware
ABC Radio Network, Inc.	Delaware
ABC Radio Network Sales, Inc.	New York
ABC/Watermark, Inc.	Delaware
ABC Sports Holding Company, Inc.	Delaware
ABC Sports, Inc.	New York
ABC Sports Intercontinental S.A.R.L.	France
American Broadcasting Companies, Inc.	Delaware
Capital Cities/ABC National Television Sales, Inc.	Delaware
Capital Cities/ABC Video Enterprises, Inc.	Delaware
Chilton Holding Company, Inc.	Delaware
Chilton Company	Delaware
The Center for Curriculum Development, Inc.	Delaware
Compute Holding Company, Inc.	Delaware
COMPUTE! Publications, Inc.	North Carolina

Capital Cities/ABC, Inc. (parent)(continued)	
ABC Holding Company, Inc. (continued)	
ESPN Holding Company, Inc.	Delaware
ABC Video Enterprises, Inc.	Delaware
ABC Merchandising, Inc.	New York
ABC Pictures International, Inc.	New York
ABC Sports International, Inc.	Delaware
ABC Wide World of Learning, Inc.	New York
Ambro Distributing Corporation Limited	United Kingdom
ESPN, Inc.	Delaware
ESPN (U.K.) Limited	United Kingdom
TelelST, Inc.	Delaware
Farm Progress Holding Company, Inc.	Delaware
Farm Progress Companies, Inc.	Illinois
Farm Progress Insurance Services, Inc.	Illinois
Indiana Prairie Farmer Insurance Services, Inc.	Indiana
The Miller Publishing Company, Inc.	Minnesota
Hitchcock Holding Company, Inc.	Delaware
Hitchcock Publishing Company	Delaware
Professional Exposition Management Company, Inc.	Delaware
KABC-AM Radio, Inc.	Delaware
KGO-AM Radio, Inc.	Delaware
KGO Television, Inc.	Delaware
KLOS-FM Radio, Inc.	Delaware
L.I.C. Warehouse Realty Company, Inc.	Delaware
Los Angeles Magazine Holding Company, Inc.	Delaware
Los Angeles Magazine, Inc.	Delaware
NILS Holding Company, Inc.	Delaware
NILS Publishing Company	Delaware
National Price Service, Inc.	Delaware
101 West 67th Street Realty Company, Inc.	Delaware
77 West 66th Realty Company, Inc.	Delaware
1313 Vine Realty Company, Inc.	Delaware
36 & 40 West 66 Realty Company, Inc.	Delaware
WABC-AM Radio, Inc.	Delaware
WABC Television, Inc.	Delaware
WLS-AM Holding Company, Inc.	Delaware
WLS, Inc.	Delaware
WLS Television, Inc.	Delaware
WMAL Holding Company, Inc.	Delaware
WMAL, Inc.	Delaware
Word Holding Company, Inc.	Delaware
Word, Incorporated	Texas
Word Direct Marketing Services, Inc.	Texas
Word (U.K.) Limited	United Kingdom
WPLJ-FM Radio, Inc.	Delaware
WYTZ-FM Radio, Inc.	Delaware

Capital Cities/ABC, Inc. (parent)(continued)

ABC Television, Inc.	New York
Cablecom-General, Inc.	Oklahoma
Capital Cities Entertainment Systems, Inc.	Delaware
Capital Cities Media, Inc.	New York
Capital Cities of Illinois, Inc.	Delaware
Capital Cities of Kansas, Inc.	Delaware
Pennypower Shopping News, Inc.	Kansas
Capital Cities Vision, Inc.	New York
CC Finance Holding Corpcration	Delaware
Capital Cities/ABC Finance Company, Inc.	Delaware
CC Texas Holding Co., Inc.	Delaware
WXYZ, Inc.	Michigan
CCC Properties, Inc.	New York
Institutional Investor, Inc.	Delaware
The Kansas City Star Company (also owns the preferred stock of Capital Cities Media, Inc.)	Missouri
KQRS Holding Corporation	Delaware
KQRS, Inc.	Delaware
Legal Com of Delaware, Inc.	Delaware
The Oakland Press Company	Michigan
Securities Data Company, Inc.	New York
Sutton Industries, Inc.	Delaware
Tele Hi-Fi Company	Oklahoma
Texas Media Holding Company, Inc.	Delaware
KTRK, Inc.	Delaware
Star-Telegram, Inc.	Delaware
WBAP-KSCS, Inc.	Delaware
Wilson Publishing Company	Rhode Island

POWER OF ATTORNEY TO SIGN ANNUAL REPORT ON FORM 10-K

KNOW ALL MEN BY THESE PRESENTS, that the undersigned director of CAPITAL CITIES/ABC, INC. (the "Company"), in his capacity as set forth below, hereby constitutes and appoints Thomas S. Murphy, Daniel B. Burke and Ronald J. Doerfler, and each of them severally, his true and lawful attorneys-in-fact and agents, each with full power to act with or without the others and with full power of substitution and resubstitution, to do any and all acts and all things and to execute any and all instruments which said attorneys-in-fact and agents and each of them may deem necessary or desirable to enable the Company to comply with the Securities Exchange Act of 1934, as amended, and any rules, regulations and requirements of the Securities and Exchange Commission thereunder in connection with the filing of an Annual Report on Form 10-K for the year ended December 28, 1986 (the "Report") under such Act, including without limitation the power and authority to sign the name of the undersigned director in the capacity indicated below opposite the name of such director to the Report to be filed with the Securities and Exchange Commission, to any and all amendments to said Report, and to any and all instruments or documents filed as a part of or in connection with such Report or any and all amendments thereto; and the undersigned hereby ratifies and confirms all that said attorneys-in-fact and agents and each of them shall do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has subscribed these presents this 17th day of March, 1987.

Capacity: Director

Robert P. Bauman
Name

Robert P. Bauman
Signature

POWER OF ATTORNEY TO SIGN ANNUAL REPORT ON FORM 10-K

KNOW ALL MEN BY THESE PRESENTS, that the undersigned director of CAPITAL CITIES/ABC, INC. (the "Company"), in his capacity as set forth below, hereby constitutes and appoints Thomas S. Murphy, Daniel B. Burke and Ronald J. Doerfler, and each of them severally, his true and lawful attorneys-in-fact and agents, each with full power to act with or without the others and with full power of substitution and resubstitution, to do any and all acts and all things and to execute any and all instruments which said attorneys-in-fact and agents and each of them may deem necessary or desirable to enable the Company to comply with the Securities Exchange Act of 1934, as amended, and any rules, regulations and requirements of the Securities and Exchange Commission thereunder in connection with the filing of an Annual Report on Form 10-K for the year ended December 28, 1986 (the "Report") under such Act, including without limitation the power and authority to sign the name of the undersigned director in the capacity indicated below opposite the name of such director to the Report to be filed with the Securities and Exchange Commission, to any and all amendments to said Report, and to any and all instruments or documents filed as a part of or in connection with such Report or any and all amendments thereto; and the undersigned hereby ratifies and confirms all that said attorneys-in-fact and agents and each of them shall do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has subscribed these presents this 17th day of March, 1987.

Capacity: Director

Warren E. Buffett
Name

Warren E Buffett
Signature

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Capacity: Director

Daniel B. Burke

Name

Daniel B Burke

Signature

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Capacity: Director

Frank T. Cary
Name

Frank T. Cary
Signature

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IN WITNESS WHEREOF, the undersigned has subscribed these presents this 17th day of March, 1987.

Capacity: Director

Gerald Dickler

Name

Gerald Dickler

Signature

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IN WITNESS WHEREOF, the undersigned has subscribed these presents this 17th day of March, 1987.

Capacity: Director

Joseph P. Dougherty
Name

Joseph P. Dougherty
Signature

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IN WITNESS WHEREOF, the undersigned has subscribed these presents this 17th day of March, 1987.

Capacity: Director

John B. Fairchild
Name

JBF
Signature

POWER OF ATTORNEY TO SIGN ANNUAL REPORT ON FORM 10-K

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Capacity: Director

Leonard H. Goldenson
Name

Leonard H Goldenson
Signature

POWER OF ATTORNEY TO SIGN ANNUAL REPORT ON FORM 10-K

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IN WITNESS WHEREOF, the undersigned has subscribed these presents this 17th day of March, 1987.

Capacity: Director

Alan Greenspan
Name

Signature

POWER OF ATTORNEY TO SIGN ANNUAL REPORT ON FORM 10-K

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Capacity: Director

Leon Hess
Name

Leon Hess
Signature

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Capacity: Director

George P. Jenkins
Name

George P. Jenkins
Signature

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Capacity: Director

Thomas M. Macioce
Name

Thomas M. Macioce
Signature

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Capacity: Director

John H. Muller, Jr.
Name

Signature

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Capacity: Director

Frederick S. Pierce
Name

Frederick S. Pierce
Signature

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Capacity: Director

John B. Poole

Name

John B. Poole

Signature

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Capacity: Director

John B. Sias
Name

John B. Sias
Signature

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Capacity: Director

William I. Spencer

Name

W I Spencer

Signature

POWER OF ATTORNEY TO SIGN ANNUAL REPORT ON FORM 10-K

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IN WITNESS WHEREOF, the undersigned has subscribed these presents this 17th day of March, 1987.

Capacity: Director

M. Cabell Woodward, Jr.
Name

M. Cabell Woodward
Signature

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 11-K
ANNUAL REPORT

Pursuant to Section 15(d) of the
Securities Exchange Act of 1934

For the Plan Year ended December 31, 1986

A. Full title of the plan and the address of the plan, if different from that of the issuer named below:

ABC SAVINGS & INVESTMENT PLAN
1330 Avenue of the Americas
New York, New York 10019

B. Name of issuer of the securities held pursuant to the plan and the address of its principal executive office:

CAPITAL CITIES/ABC, INC.
24 East 51st Street
New York, New York 10022

Item 1. Changes in the Plan.

Upon the acquisition of American Broadcasting Companies, Inc. ("ABC") by Capital Cities/ABC, Inc. (the "Company") on January 3, 1986, the Company's common stock, $1.00 par value ("Common Stock") became available for Fund A contributions instead of ABC common stock, which was converted into cash. The Plan had been amended prior to the Company's acquisition of ABC to provide for this change and to provide implementing procedures to effect this change.

The Plan was also amended, on March 21, 1986, to transfer the functions of the Investment Committee to the Employee Benefits Committee.

Item 2. Changes in Investment Policy.

This item is not applicable.

Item 3. Contributions Under the Plan.

This item is not applicable.

Item 4. Participating Employees.

There were approximately 6,950 employees participating in the Plan at the end of its fiscal year.

Item 5. Administration of the Plan.

(a) The Plan is administered by the Employee Benefits Committee, consisting of not fewer than three persons who are appointed by and serve at the pleasure of the Board of Directors of ABC. The members of the Employee Benefits Committee as of December 31, 1986 are Ronald J. Doerfler, Thomas J. Gorey, Jr. and David J. Vondrak. Communications to members of the Committee should be addressed to them at 1330 Avenue of the Americas, New York, New York 10019.

Ronald J. Doerfler is Senior Vice President and Chief Financial Officer and David J. Vondrak is Vice President and Treasurer of Capital Cities/ABC, Inc. Thomas J. Gorey, Jr. is Vice President, Employee Benefits of American Broadcasting Companies, Inc.

(b) Total amount of compensation received from the Plan by each of the administrators:

None.

Item 6. Custodian of Investments.

(a) Trustee of the Plan which acts as custodian of any of the securities or other investments of the Plan is:

Bankers Trust Company
280 Park Avenue
New York, New York 10017

(b) Compensation received from the Plan:

None. Expenses from the administration of the Plan are borne by ABC. Brokerage commissions and stock transfer taxes are charged to the Plan.

(c) Nature and amount of any bond furnished by the Trustee:

None.

Item 7. Reports to Participating Employees.

Each member is furnished a statement at the end of each calendar quarter showing:

(a) Member's account

(1) Current investment direction
(2) Cumulative contribution to Plan, net of withdrawals, plus loans
(3) Opening balance (market value) of each fund in which participant is invested
(4) Current quarter's contribution
(5) Investment results
(6) Dividends
(7) Fund reallocation
(8) Closing balance
(9) Vested value
(10) Number of shares and uninvested cash in Fund A
(11) Loans and loan repayments
(12) Withdrawals

(b) Company's account

(1) Opening balance - all Capital Cities/ABC, Inc. Common Stock
(2) Current quarter's contributions
(3) Investment results
(4) Dividends
(5) Closing balance
(6) Vested value
(7) Number of shares and uninvested cash in Fund A
(8) Withdrawals

Item 8. Investment of Funds.

(a) (1) The aggregate dollar amount of brokerage commissions paid by the Plan during the three most recent fiscal years is $139,071.

(2) During the three most recent fiscal years, Neuberger & Berman, Inc., an affiliate of the Plan's Investment Manager, was paid brokerage commissions for purchases of securities for Fund B, totalling $66,484. During 1986, the commissions paid to Neuberger & Berman constituted 71.7 percent of the total brokerage commissions paid by the Plan. The dollar amount of transactions involving the payment of commissions to Neuberger & Berman constituted 10.3 percent of the aggregate dollar amount of transactions during 1986. The difference in the two percentages is due mainly to the type of transactions handled by Neuberger & Berman which are generally smaller in number of shares and dollar amount. Transactions of this type tend to have a relatively higher commission rate than the larger trades handled by other brokers.

(b) During the calendar year 1986, neither the Plan nor its investment manager directed the Plan's brokerage transactions to a broker or brokers because of research services.

<u>Item 9.</u> <u>Financial Statements and Exhibits.</u>

(a) Financial Statements:

Accountants' Reports

Combined Statements of Financial Condition as of December 31, 1986 and 1985

Combined Statements of Income and Changes in Plan Equity for the years ended December 31, 1986, 1985 and 1984

Notes to Financial Statements

Supplemental Schedules:

Investments at December 31, 1986

Combining Statement of Financial Condition as of December 31, 1986 and 1985

Combining Statements of Income and Changes in Plan Equity for the years ended December 31, 1986, 1985 and 1984

Consent of Arthur Young & Company
Consent of Peat, Marwick, Mitchell & Co.

(b) Exhibits:

Text of the ABC Savings & Investment Plan as amended through December 31, 1986.

S I G N A T U R E S

Pursuant to the requirements of the Securities Exchange Act of 1934, the trustees (or other persons who administer the Plan) have caused this annual report to be signed by the undersigned thereunto duly authorized.

ABC Savings & Investment Plan

Date: March 24, 1987

By David J Vondrak

David J. Vondrak, a member of the Employee Benefits Committee.

ABC SAVINGS & INVESTMENT PLAN

Financial Statements and Schedules

December 31, 1986

(With Accountants' Reports Thereon)

ABC SAVINGS & INVESTMENT PLAN

Table of Contents

ACCOUNTANTS' REPORT

The Board of Directors
Capital Cities/ABC, Inc.:

We have examined the combined statement of financial condition of the ABC Savings & Investment Plan at December 31, 1986 and the combined statement of income and changes in plan equity for the year then ended. Our examination was 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 combined financial statements as mentioned above present fairly the financial position of the ABC Savings & Investment Plan at December 31, 1986 and the income and changes in plan equity for the year then ended in conformity with generally accepted accounting principles applied on a basis consistent with that of the proceeding year.

The additional schedules in 1986 have been subjected to the auditing procedures applied in the examinations of the basic financial statements and in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Arthur Young & Company
ARTHUR YOUNG & COMPANY

New York, New York
March 24, 1987

PEAT MARWICK
Certified Public Accountants

ACCOUNTANTS' REPORT

The Board of Directors
American Broadcasting Companies, Inc.:

We have examined the combined statement of financial condition at December 31, 1985, the combined statements of income and changes in plan equity for each of the years in the two-year period ended December 31, 1985, and the related supporting schedules of the ABC Savings & Investment Plan. 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 aforementioned combined financial statements present fairly the financial condition of the ABC Savings & Investment Plan at December 31, 1985 and the income and changes in plan equity for each of the years in the two-year period ended December 31, 1985, in conformity with generally accepted accounting principles applied on a consistent basis. Also, in our opinion, the related supporting schedules, when considered in relation to the basic combined financial statements taken as a whole, present fairly in all material respects the information set forth therein.

Peat, Marwick, Mitchell & Co.

PEAT, MARWICK, MITCHELL & CO.

New York, New York
March 21, 1986

ABC SAVINGS & INVESTMENT PLAN

Combined Statements of Financial Condition

December 31, 1986 and 1985

	1986	1985
Assets		
Investments, at market (notes 1 and 3):		
Equity securities:		
Capital Cities/ABC Inc. common stock	$ 110,002,339	$ -
American Broadcasting Companies, Inc. common stock	-	119,651,818
Other	10,251,425	10,139,875
Total equity securities	120,253,764	129,791,693
Other investments (at cost which approximates market):		
Bankers Trust Generalized Employee Benefit Trust Interim Investment Fund	210,231	4,304,078
Funds on deposit with insurance company	33,221,230	19,809,482
Total other investments	33,431,461	24,113,560
Total investments	153,685,225	153,905,253
Due from participants (note 2)	821,209	315,879
Interest and dividends receivable	355,760	256,432
Due from (to) Capital Cities/ABC, Inc.	(31,092)	286,855
Total assets	$ 154,831,102	$154,764,419
Liabilities and Plan Equity		
Due to former participants	$ 4,210,799	$ 3,519,670
Net payables from purchases of investments	-	1,627,568
Plan equity	150,620,303	149,617,181
Total liabilities and plan equity	$ 154,831,102	$154,764,419

See accompanying notes to financial statements.

ABC SAVINGS & INVESTMENT PLAN

Combined Statements of Income and Changes in Plan Equity

Years ended December 31, 1986, 1985 and 1984

	1986	1985	1984
Investment income:			
Dividends	$ 432,733	$ 1,848,789	$ 1,646,140
Interest	5,172,428	2,326,293	1,652,088
Total investment income	5,605,161	4,175,082	3,298,228
Appreciation of American Broadcasting Companies, Inc. common stock distributed to terminated and withdrawing participants (note 1)	-	4,260,949	945,537
Appreciation of Capital Cities/ABC Inc. common stock and warrants distributed to terminated and withdrawing participants (note 1)	498,230	-	-
Net gain on tender of American Broadcasting Companies, Inc. common stock (net of unrealized gains at the beginning of the year of $78,649,963)	886,103	-	-
Net gain on sales of other common stock	1,609,427	1,659,316	135,244
Net increase in unrealized appreciation of plan assets held at year end (note 1)	16,166,936	52,539,115	5,544,118
	24,765,857	62,634,462	9,923,127
Contributions:			
Participants' (note 2)	13,670,223	13,767,869	13,409,964
Employer (notes 1 and 2)	5,741,290	6,085,443	6,390,055
Total contributions	19,411,513	19,853,312	19,800,019
Interest on participants' loans (note 2)	59,331	8,860	-
Total	44,236,701	82,496,634	29,723,146
Distributions to terminated and withdrawing participants (note 1):			
Capital Cities/ABC, Inc. common stock at market value	6,817,473	-	-
American Broadcasting Companies, Inc. common stock, at market value	-	6,773,788	2,132,717
Cash	36,416,106	11,452,885	5,295,160
Total distributions	43,233,579	18,226,673	7,427,877
Change in plan equity	1,003,122	64,269,961	22,295,269
Plan equity:			
Beginning of year	149,617,181	85,347,220	63,051,951
End of year	$150,620,303	$149,617,181	$85,347,220

See accompanying notes to financial statements.

ABC SAVINGS & INVESTMENT PLAN

Notes to Financial Statements

December 31, 1986, 1985 and 1984

(1) Summary of Significant Accounting Policies

(a) The accompanying combined financial statements present plan equity and changes therein of the ABC Savings & Investment Plan (the Plan) on an accrual basis. The Plan consists of three funds:

Fund A - Capital Cities/ABC, Inc. Common Stock Fund
Fund B - Diversified Equity Fund
Fund C - Guaranteed Fund

(b) The investment in common stock of Capital Cities/ABC, Inc. (Capital Cities/ABC) and in 1985 and 1984, American Broadcasting Companies, Inc. (ABC) is stated at market value which is based on the year-end stock quotation from the New York Stock Exchange. As a consequence of the merger of ABC with Capital Cities Communications, Inc. the ABC common stock owned by the plan was converted into cash and substantially all of the proceeds received were reinvested in common stock of Capital Cities/ABC purchased in the open market. Security transactions are recognized on the trade date. Dividend income is recorded on an accrual basis as of the ex-dividend date.

Investments of the Diversified Equity Fund consist of equity securities, stated at market value, of companies other than Capital Cities/ABC. Investments of the Guaranteed Fund consist of funds on deposit with an insurance company under contract which provides for a guaranteed minimum annual rate of interest.

Uninvested cash may be temporarily invested in obligations of the U.S. Government or other short-term investments.

Unrealized appreciation at the beginning and end of each year and the net increase (decrease) for each year included in the accompanying statements of income and change in plan equity are as follows:

	1986	1985	1984
Balance at beginning of year	$ 79,060,972	$26,521,857	$20,977,739
Less: Amount realized due to tender of ABC common stock	78,649,963	-	-
	411,009	26,521,857	20,977,739
Balance at end of year	16,577,945	79,060,972	26,521,857
Net increase	$ 16,166,936	$52,539,115	$ 5,544,118

(c) Distributions to terminated and withdrawing participants are based upon the market value of units and/or shares credited to participants' accounts as of the effective date of termination or withdrawal. The difference between the market value on the effective date of distribution and the cost of shares distributed is shown separately in the accompanying combined statements of income and changes in plan equity.

(d) Employer contributions are reported net of forfeitures of $871,772, $725,212 and $266,048 for 1986, 1985 and 1984, respectively.

(continued)

ABC SAVINGS & INVESTMENT PLAN

Notes to Financial Statements

December 31, 1986, 1985, and 1984

(2) Description of Plan

The Plan is an employee savings and investment plan for participating employees of ABC, Inc. (a wholly owned subsidiary of Capital Cities/ABC) and subsidiary companies as follows:

American Broadcasting Companies, Inc.
ABC International Television, Inc.
ABC Consumer Magazines, Inc.
ABC Merchandising, Inc.
ABC Motion Pictures, Inc.
ABC News, Inc.
ABC News Intercontinental, Inc.
ABC Pictures International, Inc.
ABC Radio Network, Inc.
ABC Radio Network Sales, Inc.
ABC Sports, Inc.
ABC Video Enterprises, Inc.
ABC/Watermark, Inc.
ABC Wide World of Learning, Inc.
Capital Cities/ABC National Television Sales, Inc.
Chilton Company
COMPUTE! Publications, Inc.
ESPN, Inc.
Farm Progress Companies, Inc.
Hitchcock Publishing Company
KABC-AM Radio, Inc.
KABC-TV division of Capital Cities/ABC, Inc.
KGO-AM Radio, Inc.
KGO Television, Inc.
KLOS-FM Radio, Inc.
Los Angeles Magazine, Inc.
NILS Publishing Company
Personal Growth Resources, Inc.
The Miller Publishing Company, Inc.
WABC-AM Radio, Inc.
WABC Television, Inc.
WLS, Inc.
WLS Television, Inc.
WMAL, Inc.
Word Direct Marketing Services, Inc.
Word, Incorporated
WPLJ-FM Radio, Inc.
WYTZ-FM Radio, Inc.

(continued)

ABC SAVINGS & INVESTMENT PLAN

Notes to Financial Statements

December 31, 1986, 1985 and 1984

(2) Continued

Under the Plan, eligible employees may authorize payroll deductions within specified limits to be invested in one or more of the three funds. Capital Cities/ABC will contribute an amount equal to 50% of such deductions to be invested in the fund consisting of the common stock of Capital Cities/ABC, Inc. (Fund A). Participants contribute either 2, 3, 4, or 5% of their annual compensation and are fully vested with respect to their own contributions at all times. Participants with less than 10 years of service vest with respect to employer contributions over a three-year period, one-third each year. Upon completion of 10 years of service, death, permanent disability, retirement or termination of service after age 65, a participant's account is considered fully vested.

Effective January 1, 1984, the Plan was amended to allow the employer contributions made under the ABC Leisure Magazines, Inc. Retirement Savings Plan, which was merged into the Plan on that date, to be transferred to comparable investment funds of the Plan. This resulted in employer contributions of $32,283 and $276,270 being transferred to Funds B and C, respectively.

Effective January 1, 1985, the Plan was amended in order to comply with the provisions of the Retirement Equity Act of 1984 and amendments to the United States Internal Revenue Code.

Also effective January 1, 1985, the Plan was amended to allow members to obtain loans equal to the lesser of the amount of such member's account attributable to tax deferred contributions or the maximum amount allowable under federal tax regulations. The loans bear interest at a rate determined by the Employee Benefits Committee.

On November 11, 1985, the Plan was amended to permit the Employee Benefits Committee to postpone distributions of a member's account in instances where a member's termination of service arises out of a change in ownership of stock or all or part of the assets of a member's employing unit and such member is reemployed by the acquiring entity if such termination is not deemed a "separation from service" within the meaning of the applicable income tax rulings or regulations. In such instances the Employee Benefits Committee may postpone the distribution until such distribution may be accomplished without adverse income tax consequences to the member or to the Plan or may allow a transfer to another qualified plan or allow a permissible tax-free rollover.

(continued)

ABC SAVINGS & INVESTMENT PLAN

Notes to Financial Statements

December 31, 1986, 1985 and 1984

(2) Continued

The value of a participant's account is determined based upon share value for Fund A and unit values for Funds B and C. Upon permanent disability or retirement, the amount credited to a participant's account is distributed to him or his beneficiary, either in a lump sum or in installments over a period not exceeding ten years. Upon termination of employment for reasons other than permanent disability or retirement, the amount credited to the participant's account is distributed to him in a lump sum. A participant may withdraw from the Plan either 25%, 50%, 75% or 100%, in a lump sum, of the amount credited to his account attributable to his contributions at any time, subject to certain restrictions regarding resumption of contributions and subsequent withdrawals. Upon a withdrawn participant's termination, the vested amount credited to his account attributable to company contributions is distributed to him. If a participant terminates prior to vesting with respect to employer contributions, forfeited funds are used to reduce the contribution of the sponsor companies. Distributions of Fund A are paid either in shares of Capital Cities/ABC common stock or cash. Distributions for Funds B and C are paid in cash.

On January 3, 1986 the Plan's investment in common stock of ABC was converted into cash as a consequence of the Merger. Prior to the effective date of the Merger, the Plan was amended to substitute common stock of Capital Cities/ABC as an allowable investment in Fund A and to enable each participant to exercise special investment elections to reallocate certain of their interests in the various funds of the Plan and file revised investment elections for future employee contributions.

The Plan was also amended on March 21, 1986, to transfer the functions of the Investment Committee to the Employee Benefits Committee.

As of December 31, 1986 there were 6,695 participants in Fund A, 2,236 participants in Fund B and 4,090 participants in Fund C.

As of December 31, 1986 there were 3,376,727 total units in Fund B and 14,875,250 total units in Fund C with unit values of 3.06 and 2.22 respectively.

ABC SAVINGS & INVESTMENT PLAN

Notes to Financial Statements

December 31, 1986, 1985 and 1984

(3) Changes in Investment in Equity Securities

Changes in investment in equity securities, at cost, for the years ended December 31, 1986 and 1985 were as follows:

	Shares	Cost
Capital Cities/ABC, Inc. common stock:		
Balance at December 31, 1985	-	$ -
Purchases	445,142	101,557,593
Distribution to terminated and withdrawing participants	(34,877)	(7,958,542)
Balance at December 31, 1986	410,265	$ 93,599,051
ABC, Inc. common stock:		
Balance at December 31, 1984	973,001	$ 35,284,362
Purchases	83,542	8,339,612
Distributions to terminated and withdrawing participants	(67,685)	(2,622,119)
Balance at December 31, 1985	988,858	$41,001,855
Purchases	600	72,705
Tender	(989,458)	(41,074,560)
Balance at December 31, 1986	-0-	$ -0-
Other equity securities:		
Balance at December 31, 1984	212,000	$ 6,579,219
Purchases	368,900	14,299,016
Sales	(312,000)	(11,149,369)
Balance at December 31, 1985	268,900	$ 9,728,866
Purchases	383,133	11,291,696
Sales	(325,773)	(10,943,793)
Balance at December 31, 1986	326,260	$10,076,769

ABC SAVINGS & INVESTMENT PLAN

Notes to Financial Statements

December 31, 1986, 1985 and 1984

(4) Administration of the Plan
Under the terms of a trust agreement between Bankers Trust Company (Trustee) and the Plan, the Trustee manages Plan assets on behalf of the Plan. As of December 31, 1986 and 1985, substantially all Plan assets were held by the Trustee.

Costs of administering the Plan are paid directly by sponsor companies; Plan assets are not used to meet such obligations.

(5) Temination of the Plan
Although the sponsor companies have not expressed any intent to terminate the Plan, it may be terminated at any time by action of the Board of Directors of ABC (a wholly owned subsidiary of Capital Cities/ABC), subject to the provisions of the Merger Agreement regarding maintenance of employee benefit plans. In the event of termination, the amounts credited to the participants' accounts become fully vested and the Trustee is required to distribute such amounts to participants or continue the trust fund and pay benefits therefrom in accordance with the provisions of the Plan.

(6) Federal Income Taxes
The Internal Revenue Service has issued a determination letter dated September 8, 1986 stating that the Plan as amended through that date meets the requirements of Section 401(a) of the Internal Revenue Code, as amended, and that the trust established thereunder is entitled to exemption from payment of Federal income taxes under provisions of Section 501(a) of the Code.

ADDITIONAL SCHEDULES

Schedule 1

ABC SAVINGS & INVESTMENT PLAN

Investments

December 31, 1986

Identity and description of issue	Number of shares	Cost	Market value
Common stock:			
Allied Signal Inc.	6,500	$ 281,557	$ 260,813
American Brands	5,000	224,102	212,500
American President	8,000	192,591	209,000
American Standard Corp.	5,500	206,268	235,813
Atlantic Richfield	2,000	119,150	120,000
Black & Decker	8,000	163,324	130,000
Borg Warner Corp.	6,000	134,348	228,750
Burlington	3,000	204,399	159,750
Capital Cities/ABC, Inc.	410,265	93,599,051	110,002,339
Cheeseborough Ponds Inc.	5,500	230,718	395,312
Chromally American Corp. Ltd.	6,000	135,330	131,250
Contel	7,000	187,429	198,625
Continental Illinois Corp.	10,000	52,500	53,750
Deere & Co.	10,000	275,919	228,750
Dom Tar, Inc.	10,000	211,553	255,000
Dupont E.I. De Nemours & Co.	2,000	154,326	168,000
Engelhard Corp.	10,000	240,126	280,000
E. Systems Inc.	10,000	285,890	298,750
General Dynamics Corp.	2,500	179,188	169,375
Great Atlantic & Pacific Tea Inc.	5,000	106,945	117,500
Grolier Inc.	16,000	175,200	154,000
GTE Corp.	6,000	270,771	350,250
Henley Group Inc.	8,000	165,688	181,000
Humana Inc.	15,000	394,552	286,875
Ingersoll Rand Co.	6,000	323,399	334,500
Interco Inc.	6,000	212,235	221,250
Kansas City Southern Ind. Inc.	4,000	224,488	189,000
Kollmorgen Corp.	6,000	113,070	77,250
Litton Industries Inc.	4,000	314,202	296,000
Mobil Corp.	12,000	362,891	481,500
National Distillers & Chemical Corp.	6,000	221,808	255,750
Occidental Petroleum Corp.	10,000	327,273	275,000
Penn Centr. Corp.	1,800	101,127	96,750
Petrie Stores Corp.	9,000	247,396	238,500

Schedule 1 (continued)

ABC SAVINGS & INVESTMENT PLAN

Investments, continued

December 31, 1986

Identity and description of issue	Number of Shares or Face Value	Cost	Market value
Common stock (continued):			
Pioneer Hi Bred Int'l.	8,000	$ 270,373	$ 240,000
Prince Computer	7,000	144,698	114,625
Raytheon Co.	4,000	235,240	269,000
Seagram Ltd.	3,000	174,804	182,250
Sears Roebuck & Co.	4,000	183,080	159,000
S.L. Industries	11,660	107,745	102,025
Southland Corp.	4,000	187,939	188,000
Tenneco Inc.	5,000	197,325	191,250
Texas Inds. Inc.	8,000	205,962	189,000
United Technologies Corp.	6,000	270,726	276,000
Wang Labs	7,000	94,150	81,375
West Point Pepperell Inc.	1,900	100,787	99,037
Weyerhaeuser Co.	9,000	286,271	339,750
Williams Co.	9,900	284,343	230,175
W.R. Grace & Co.	5,000	243,023	241,875
Total Common Stock	735,525	$103,625,820	$120,196,264
Preferred Stock:			
American President	1,000	50,000	57,500
Total Equity Securities	736,525	103,675,820	120,253,764
Other investments:			
Bankers Trust Generalized Employee Benefit Trust Interim Investment Fund	210,231	210,231	210,231
Funds on deposit with insurance company:			
Group Annuity Contracts with Aetna Life Insurance Company	33,221,230	33,221,230	33,221,230
Total Other Investments		33,431,461	33,431,461
Total Investments		$137,107,281	$153,685,225

Schedule 2

ABC SAVINGS & INVESTMENT PLAN

Combining Statement of Financial Condition

December 31, 1986

Assets	Total Funds	Fund A - Capital Cities/ABC, Inc. Common Stock Fund	Fund B - Diversified Equity Fund	Fund C - Guaranteed Fund
Investments, at market				
Equity Securities:				
Capital Cities/ABC, Inc. common stock	110,002,339	110,002,339	-	$ -
Other common stock	10,251,425	-	10,251,425	-
Total equity securities	$120,253,764	$110,002,339	$10,251,425	$ -
Other investments (at cost which approximates market):				
Bankers Trust Generalized Employee Benefit Trust Interim Investment Fund	210,231	13,749	196,482	-
Funds on deposit with insurance company	33,221,230	-	-	33,221,230
Total other investments	$ 33,431,461	$ 13,749	$ 196,482	$33,221,230
Total investments	153,685,225	110,016,088	10,447,907	33,221,230
Due from participants	821,209	821,209	-	-
Interest and dividends receivable	355,760	25,915	28,648	301,197
Due (to) from Capital Cities/ABC, Inc.	(31,092)	(601,601)	102,897	467,612
Interfund transfer receivable (payable)	-	26,365	(32,460)	6,095
Total assets	$154,831,102	$110,287,976	$10,546,992	$33,996,134
Liabilities and Plan Equity				
Due to former participants	$ 4,210,799	$ 2,886,294	$ 238,958	$ 1,085,547
Payable from purchase of investments	-	-	-	-
Plan equity	150,620,303	107,401,682	10,308,034	32,910,587
Total liabilities and plan equity	$154,831,102	$110,287,976	$10,546,992	$33,996,134

Schedule 2 (continued)

ABC SAVINGS & INVESTMENT PLAN

Combining Statement of Financial Condition

December 31, 1985

Assets	Total Funds	Fund A - ABC, Inc. Common Stock Fund	Fund B - Diversified Equity Fund	Fund C - Guaranteed Fund
Investments, at market				
Common stock:				
American Broadcasting Companies, Inc.	$119,651,818	$119,651,818	$ -	$ -
Other common stock	10,139,875	-	10,139,875	-
Total common stock	$129,791,693	$119,651,818	$10,139,875	-
Other investments (at cost which approximates market):				
Bankers Trust Generalized Employee Benefit Trust Interim Investment Fund	4,304,078	2,154,899	$ 1,789,438	359,741
Funds on deposit with insurance company	19,809,482	-	-	19,809,484
Total other investments	24,113,560	2,154,899	1,789,438	20,169,223
Total investments	$153,905,253	$121,806,717	$11,929,313	$20,169,223
Due from participants	315,879	315,879	-	-
Interest and dividends receivable	256,432	10,203	33,738	212,491
Due (to) from American Broadcasting Companies	286,855	(111,372)	193,765	204,462
Interfund transfer receivable (payable)	-	(474,818)	(307,622)	782,440
Total assets	$154,764,419	$121,546,609	$11,849,194	$21,368,616
Liabilities and Plan Equity				
Due to former participants	$ 3,519,670	$ 2,707,639	$ 159,633	$ 652,398
Net Payables from purchase of investments	1,627,568	757,511	870,057	-
Plan equity	149,617,181	118,081,459	10,819,504	20,716,218
Total liabilities and plan equity	$154,764,419	$121,546,609	$11,849,194	$21,368,616

Schedule 3

ABC SAVINGS & INVESTMENT PLAN

Combining Statement of Income and Changes in Plan Equity

Year ended December 31, 1986

	Total Funds	Fund A - Capital Cities/ ABC, Inc. Common Stock Fund	Fund B - Diversified Equity Fund	Fund C - Guaranteed Fund
Investment income:				
Dividends	$ 432,733	$ 77,045	$ 355,688	$ -
Interest	5,172,428	1,896,881	28,227	3,247,320
Total investment income	5,605,161	1,973,926	383,915	3,247,320
Appreciation of Capital Cities/ ABC, Inc. common stock distributed to terminated and withdrawing participants	498,230	498,230	-	-
Net tender on sale of American Broadcasting Companies, Inc. common stock (net of unrealized gains at the beginning of the year of $78,649,963)	886,103	886,103	-	-
Net gain on sales of other common stock	1,609,427	-	1,609,427	-
Net increase in unrealized appreciation of plan assets	16,166,936	16,403,289	(236,353)	-
	$ 24,765,857	$19,761,548	$ 1,756,989	$ 3,247,320
Contributions:				
Participants'	13,670,223	6,172,383	2,246,652	5,251,188
Employer	5,741,290	5,741,290	-	-
Total contributions	19,411,513	11,913,673	2,246,652	5,251,188
Interest on participants' loans	59,331	59,331	-	-
Participants' transfers	-	(12,051,599)	(1,946,524)	13,998,123
Total	44,236,701	19,682,953	2,057,117	22,496,631
Distributions to terminated and withdrawing participants:				
Capital Cities/ABC, Inc. common stock, at market value	6,817,473	6,817,473	-	-
Cash	36,416,106	23,545,257	2,568,586	10,302,263
Total distributions	43,233,579	30,362,730	2,568,586	10,302,263
Change in plan equity	1,003,122	(10,679,777)	(511,469)	12,194,368
Plan equity:				
Beginning of year	149,617,181	118,081,459	10,819,503	20,716,219
End of year	$150,620,303	$107,401,682	$10,308,034	$32,910,587

ABC SAVINGS & INVESTMENT PLAN

Combining Statement of Income and Changes in Plan Equity

Year ended December 31, 1985

	Total Funds	Fund A - ABC, Inc. Common Stock Fund	Fund B - Diversified Equity Fund	Fund C - Guaranteed Fund
Investment income:				
Dividends	$ 1,848,789	$ 1,584,439	$ 264,350	$ -
Interest	2,326,293	58,676	63,422	2,204,195
Total investment income	4,175,082	1,643,115	327,772	2,204,195
Appreciation of American Broadcasting Companies, Inc. common stock distributed to terminated and withdrawing participants	4,260,949	4,260,949	-	-
Net gain on sales of other common stock	1,659,316	-	1,659,316	-
Net increase (decrease) in unrealized appreciation of plan assets	52,539,115	52,513,637	25,478	-
	62,634,462	58,417,701	2,012,566	2,204,195
Contributions:				
Participants'	13,767,869	5,804,843	3,122,154	4,840,872
Employer	6,085,443	6,085,443	-	-
Total contributions	19,853,312	11,890,286	3,122,154	4,840,872
Interest on participants' loans	8,860	8,860	-	-
Participants' transfers	-	(451,481)	(1,292,668)	1,744,149
Total	82,496,634	69,865,366	3,842,052	8,789,216
Distributions to terminated and withdrawing participants:				
American Broadcasting Companies, Inc. common stock, at market value	6,773,788	6,773,788	-	-
Cash	11,452,885	6,989,989	1,190,168	3,272,728
Total distributions	18,226,673	13,763,777	1,190,168	3,272,728
Change in plan equity	64,269,961	56,101,589	2,651,884	5,516,488
Plan equity:				
Beginning of year	85,347,220	61,979,870	8,167,619	15,199,731
End of year	$149,617,181	$118,081,459	$10,819,503	$20,716,219

Schedule 3 (continue

ABC SAVINGS & INVESTMENT PLAN

Combining Statement of Income and Changes in Plan Equity

Year ended December 31, 1984

	Total Funds	Fund A - ABC, Inc. Common Stock Fund	Fund B - Diversified Equity Fund	Fund C - Guaranteed Fund
Investment income:				
Dividends	$ 1,646,140	$ 1,449,645	$ 196,495	$ -
Interest	1,652,088	62,964	82,814	1,506,310
Total investment income	3,298,228	1,512,609	279,309	1,506,310
Appreciation of American Broadcasting Companies, Inc. common stock distributed to terminated and withdrawing participants	945,537	945,537	-	-
Net gain on sales of other common stock	135,244	-	135,244	-
Net increase (decrease) in unrealized appreciation of plan assets	5,544,118	5,800,399	(256,281)	-
	9,923,127	8,258,545	158,272	1,506,310
Contributions:				
Participants'	13,409,964	5,275,646	3,340,857	4,793,461
Employer	6,390,055	6,081,502	32,283*	276,270*
Total contributions	19,800,019	11,357,148	3,373,140	5,069,731
Participants' transfers	-	(285,519)	(470,482)	756,001
Total	29,723,146	19,330,174	3,060,930	7,332,042
Distributions to terminated and withdrawing participants:				
American Broadcasting Companies, Inc. common stock, at market value	2,132,717	2,132,717	-	-
Cash	5,295,160	2,888,046	701,009	1,706,105
Total distributions	7,427,877	5,020,763	701,009	1,706,105
Change in plan equity	22,295,269	14,309,411	2,359,921	5,625,937
Plan equity:				
Beginning of year	63,051,951	47,670,459	5,807,698	9,573,794
End of year	$85,347,220	$61,979,870	$8,167,619	$15,199,731

*See note 2 of Notes to Financial Statements.

ACCOUNTANTS' CONSENT

The Board of Directors
Capital Cities/ABC, Inc.:

We consent to incorporation by reference in Registration Statement No. 33-2196 on Form S-8 of Capital Cities/ABC, Inc. of our report dated March 24, 1987, relating to the combined statement of financial condition of the ABC Savings & Investment Plan (the Plan) as of December 31, 1986, the related combined statement of income and changes in plan equity for the year ended December 31, 1986 and the additional schedules included in the Plan's annual report (Form 11-K) for the year ended December 31, 1986, filed with the Securities and Exchange Commission.

Arthur Young & Company

ARTHUR YOUNG & COMPANY

New York, New York
March 24, 1987

PEAT
MARWICK
Certified Public Accountants

ACCOUNTANTS' CONSENT

The Board of Directors
American Broadcasting Companies, Inc.:

We consent to incorporation by reference in Registration Statement No. 33-2196 on Form S-8 of Capital Cities/ABC, Inc. of our report dated March 21, 1986, relating to the combined statement of financial condition of the ABC Savings & Investment Plan as of December 31, 1985, the related combined statements of income and changes in plan equity for each of the years in the two-year period ended December 31, 1985 and the applicable supplemental schedules, which report appears in the December 31, 1986 annual report on Form 11-K of the ABC Savings & Investment Plan.

Peat, Marwick, Mitchell & Co.

PEAT, MARWICK, MITCHELL & CO.

New York, New York
March 24, 1987

ABC SAVINGS & INVESTMENT PLAN

(As in effect on January 1, 1987)

The ABC Savings & Investment Plan as set forth herein applies to all employees who are in active service on January 1, 1987. In general, the Plan as in effect prior to the effective date of any amendment will continue to apply to those who terminated employment prior to such date.

Section 1 - Definitions

The following words and phrases as used herein have the following meaning unless a different meaning is plainly required by the context:

A. "Plan" means the ABC Savings & Investment Plan as from time to time in effect.

B. "Effective Date" means the first day of the month for which the Plan is declared effective by the Board of Directors.

C. "Company" means American Broadcasting Companies, Inc. and any subsidiary or affiliated corporation which is authorized by the Board of Directors to participate in the Plan and which adopts the Plan, and any successor or successors of any of them, or which may have heretofore been authorized to participate in the Plan by the Board of Directors and which has adopted the Plan.

D. "Board of Directors" means the Board of Directors of American Broadcasting Companies, Inc.

E. The term "Employee Benefits Committee" means the committee appointed by the Board of Directors as described in Section 9.

F. "Plan Year" means the initial period commencing on the effective date and ending on December 31, 1971, and each calendar year thereafter.

G. "Employee" means any staff employee of the Company who is remunerated in U.S. currency, but shall not include:

(i) an employee of the Company who is represented by a union unless such union has a collective bargaining or other agreement with the Company, pursuant to the terms of which the Plan is to be made available to such employee, or

(ii) an employee of a participating subsidiary if at the time of the adoption of the Plan by such subsidiary, or thereafter, it elects to exclude some or all employees described in Section 410(b)(3) (C) of the Internal Revenue Code and the employee is by reason of such election excluded, or

(iii) an individual who is hired on or after January 1, 1982 for what is intended by the Company to be a temporary period for a position in connection with special events designated as such by the Employee Benefits Committee, including but not limited to the 1984 Olympics coverage; provided, that in the event such an individual subsequently becomes a permanent staff employee of the Company, such service shall be counted as service for purposes of eligibility to participate and vesting to the extent that it would have counted in the absence of this clause (iii).

For purposes of this Plan, every nonresident alien who is not remunerated in U.S. currency shall be deemed to be remunerated in U.S. currency if the Board of Directors of the employing company of such employee so determines.

H. 1. In the case of Full-Time Employees, the term "Years of Service" means

(i) the number of calendar years (including each month as 1/12 of a year and each partial month as a full month) contained in the period beginning on the date on which an Employee first completes an Hour of Service with the Company and ending on the date of termination or interruption of such employment.

(ii) Service shall not include any service which preceded an interruption in such service if the person had no vested interest under the Plan at the time of such interruption and if the number of full consecutive one year breaks-in-service contained in such interruption of such service equals or exceeds the greater of 5 or the aggregate number of years of service not theretofore excluded preceding such interruption.

(iii) The service of a person whose service has been interrupted shall include service thereafter but shall not be aggregated with service prior to such interruption until such person completes a 12 consecu-tive month period of service after resumption of his service.

(iv) An interruption of service shall not be deemed to occur if employment recommences within 12 months.

2. In the case of Part-Time Employees, the term "Year of Service" means

(i) any twelve consecutive month period in which a Part-Time Employee has completed 1,000 or more hours of service; provided, however, that any twelve consecutive month period which begins before 1976 shall constitute a year of service if it would qualify as such under the Plan as in effect on either January 1, 1976 or December 31, 1975.

(ii) Service shall not include, with respect to any Part-Time Employee who does not have any vested right to an amount attributable to Company contributions, service prior to a break-in-service if the aggregate number of consecutive one year breaks-in-service of such employee shall equal or exceed the greater of 5 or the aggregate number of such employee's years of service (exclusive of any years of service theretofore excluded under this exception) prior to the commencement of such break-in-service.

3. Service shall also include all service as an employee of the Company and all service as an employee of any corporation on and after the date on which such corporation, together with the Company, would be deemed to be a member of a controlled group of corporations within the meaning of Section 1563(a) (determined without regard to Section 1563(a)(4) and (e)(3)(C)) of the Internal Revenue Code of 1954 to the extent that such periods of employment would have counted as service had such employment been by the Company.

4. Service shall also include, to the extent determined from time to time by the Board of Directors in its discretion and/or in accordance with Regulations which

may be prescribed from time to time by the Secretary of Treasury or his delegate, service as an employee of any predecessor company or any other corporation, company or business which heretofore became or may hereafter become related to the Company, or any related company, by purchase, acquisition, merger, consolidation or otherwise.

5. Service shall also include any period during which an employee is absent from the employ of the Company under a leave of absence authorized by the Company under uniform rules and in a non-discriminatory manner, including a leave of absence for service in the Armed Forces of the United States.

6. Service shall also include, in the event of transfer of employment of a member to a subsidiary or affiliated corporation not participating in the Plan or to an ineligible employee group, service with such subsidiary or affiliate or in such group.

I. "Break-In-Service" means any twelve consecutive month period during which an employee has not completed at least 500 hours of service; provided, however, if any such twelve consecutive month period includes a period of absence from work for maternity or paternity reasons, such employee shall be given credit for such absence at the rate of 8 hours of service per day or such greater number of hours as would normally have been credited to the employee but for such absence, but not more than 501 hours of service for the total period of the absence, credited entirely to a twelve consecutive month period within which the absence commenced if such would avoid a break-in-service for such period or, if not, to the immediately following twelve consecutive month period. For purposes of the foregoing, an absence from work for maternity or paternity reasons means an absence due to the pregnancy of the employee, the birth of a child of the employee, the placement of a child with the employee in connection with the child's adoption by the employee or to the care of such child immediately following the birth or placement of such child. In the case of an absence described in this subsection, the period between the first and second anniversaries of the first date of absence shall be treated neither as a period of Service nor as a period of Break-in-Service.

J. "Twelve Consecutive Month Period" means a period commencing on the date an employee initially enters employment or, if such employment terminates for any reason, the date on which he reenters employment, or any anniversary of such entry or re-entry date, as the case may be.

K. Except as otherwise provided by any law of the United States or any rule or regulation issued under any such law, the term "Hour of Service" means in the case of a Part-Time Employee (a) each hour for which an employee is directly or indirectly paid, or entitled to payment, by his employer for the performance of duties; (b) each hour for which an employee is directly or indirectly paid, or entitled to payment, by his employer for reasons other than the performance of duties; (c) each hour for which back pay, irrespective of mitigation of damages, is either awarded or agreed to by the employer excluding any hour credited under (a) or (b); and (d) each hour attributable to a period of service with respect to which a Member is not paid or entitled to payment (including an approved leave of absence described in Section H (5)). For purposes of paragraph (d) of this Section K, the number of Hours of Service attributable to any such period of service shall be determined by the Employee Benefits Committee on a basis consistent with the Member's customary work week. The Hours of Service to be so credited shall be determined pursuant to 29 Code of Federal Regulations, Section 2530.200b-2 (b) and (c) as promulgated by the United States Department of Labor, as amended from time to time.

Except as otherwise provided by any law of the United States or any rule or regulation issued under any such law, the term "Hour of Service" means, in the case of a Full-Time Employee, each hour for which an employee is directly or indirectly paid, or entitled to payment by his employer for the performance of duties.

Hours of service shall be counted on the basis of such records or assumptions as shall be adopted by the Employee Benefits Committee on a nondiscriminatory basis which is consistent with the Plan and permitted by the Secretary.

L. "Member" means any individual who has become a member in accordance with Section 2 of the Plan and whose interest in the Fund has not been completely distributed pursuant to Section 8.

M. "Compensation" means the amounts paid to a member, commencing with amounts paid at the end of the first full pay period after the effective date, as basic salary and, if any, as commissions and sales bonuses, and any portion of such amounts voluntarily deferred or reduced by the member under this Plan or any other employee benefit plan of the Company available to all levels of employees of the Company on a non-discriminatory basis upon satisfaction of eligibility requirements, but excluding bonuses other than sales bonuses, incentive compensation, profit participation and compensation for overtime or extended work week and any other items of remuneration, provided, that in the case of an Employee who is represented by a union, "Compensation" means the amount of covered compensation as set forth in the collective bargaining or other agreement with the Company pursuant to the terms of which the Plan is to be made available to such Employee.

N. "Contributions of Members" means contributions made under the Plan by payroll deductions authorized by Members pursuant to Section 3 of the Plan.

O. "Company Contributions" means contributions made under the Plan by each corporation participating in the Plan with respect to Members in its service.

P. "Fund" means the trust fund established under the Plan.

Q. "Trustee" means the corporate trustee from time to time acting as trustee of the Fund.

R. "Valuation Date" means the last day of each month.

S. "Secretary" means the United States Secretary of Labor and/or Secretary of Treasury as the context may require.

T. The masculine pronoun wherever used includes the feminine pronoun, and the singular includes the plural.

U. The term "Investment Manager" means an investment adviser registered under the Investment Advisers Act of 1940, a bank (other than the Trustee) as defined in that Act, or an insurance company qualified to perform invest management services under the laws of more than one State, which shall have acknowledged in writing that it is a fiduciary with respect to the Plan and which shall have the power to manage, acquire and dispose of Plan assets held in the Trust Fund.

V. "Affiliated Company" means any company which is a member of a controlled group of corporations within the meaning of Section 1563(a) of the Internal Revenue Code of 1954 as amended (Internal Revenue Code), determined without regard to Section 1563(a)(4) and 1563(e)(3)(C) thereof, which controlled group of corporations includes as Members of the Corporation, Participating Companies and their successors or assigns.

W. The term "Full-Time Employee" means an Employee who is designated as full-time by the Company under standards uniformly applicable to all similarly situated Employees.

X. The term "Part-Time Employee" means an Employee who is not a Full-Time Employee.

Section 2 - Eligibility for Membership

Every Employee who was a Member immediately prior to January 1, 1985 shall be eligible to continue as a Member from and after such date. Every other Employee shall be eligible to become a Member on the first day of any calendar month coinciding with or next following the completion of one Year of Service; except that any Employee who at the time of his employment, transfer to, or reemployment by, the Company has completed one Year of Service may become a Member as of the date of such transfer or reemployment.

Section 3 - Contributions of Members

Each eligible Employee may become a Member by electing to contribute to the Fund 2%, 3%, 4% or 5% of his Compensation. Such contributions may be made out of either after-tax Compensation ("Taxed Contributions of Members") or by way of before-tax deferral of Compensation ("Tax Deferred Contributions of Members"), but not by any combination of same. In no event shall the aggregate of a Member's Tax Deferred Contributions to the Fund for any calendar year exceed $7,000 (or such greater amount as may be prescribed under the Code).

Taxed Contributions and Tax Deferred Contributions of Members shall be made by regular payroll deductions and/or reductions, respectively, as authorized from time to time by the Member on a form filed with the Company during the enrollment periods established from time to time. If a Member has elected to make Tax Deferred Contributions, but is not permitted to make such contributions because of the limitation set forth in the first paragraph of this Section, he shall be deemed to have elected to make Taxed Contributions under the provisions of this paragraph. A Member may at any time suspend his contributions as of the first day of any month by notice filed with the Company during the period established by the Employee Benefits Committee ending on or before the 15th day of the preceding month. In such event, the Member may resume making contributions as of the first day of any subsequent month by filing a new authorization with the Company during the period established by the Employee Benefits Committee ending on or before the 15th day of the preceding month. Subject to the limitation set forth in the first paragraph of this Section, a Member may increase or reduce his contributions within the 2% to 5% limits as of the first day of any month by filing an election with the Company during the period established by the Employee Benefits Committee ending on or before the 15th day of the preceding month authorizing a change in his payroll deductions and/or reductions, provided no such election shall be effective if made prior to the first day of the sixth calendar month following a prior election to increase or reduce his contributions. Amounts contributed by members shall be paid by the Company to the trustee at regular intervals and credited to their accounts in accordance with the certification of the Company as to the names of the contributing Members and the amounts contributed by each Member as Taxed Contributions and Tax Deferred Contributions.

All Tax Deferred Contributions of Members shall be considered as employer contributions for Federal income tax purposes.

Notwithstanding the foregoing, under no circumstances shall a Tax Deferred Contribution election by a Member who is a Highly Compensated Employee, as defined in Section 414(q) of the Internal Revenue Code, be given effect to the extent such election might cause the Plan to fail to meet the discrimination standards set forth in Section 401(k)(3) of such Code. In this regard, the average of the percentages of compensation elected as Tax Deferred Contributions under the Plan, by each eligible Employee who is a Highly Compensated Employee, whether or not participating in the Plan for any year, must be either (a) not more than such average of all other Employees eligible to participate in the Plan for such year multiplied by 1.25 or (b) not more than 2 percentage points greater than such average of all other Employees eligible to participate in the Plan for such year and not more than such average of all other eligible Employees for such year multiplied by 2. For purposes of determining the percentage of compensation elected as Tax Deferred Contributions by an eligible Employee who is a Highly Compensated Employee, the compensation and the Tax Deferred Contributions of such eligible Employee shall be considered to include the compensation and Tax Deferred Contributions of any of his Family Members, as defined in Section 414(q)(6) of the Internal Revenue Code. Any such Family Member shall not be considered to be an eligible

Employee for the purposes of this paragraph. In the event the Company determines that the Tax Deferred Contributions elected by Members who are Highly Compensated Employees might cause the Plan to fail to meet the foregoing limitations, the Company shall reduce the permissible percentages of compensation which may be elected as Tax Deferred Contributions under the Plan by Members who are Highly Compensated Employees. The amount of such reductions shall be determined by the Employee Benefits Committee in its sole discretion and shall be conclusive.

Notwithstanding the foregoing, under no circumstances shall a Taxed Contribution election or a deemed Tax Contribution election by a Member who is a Highly Compensated Employee, as defined in Section 414(q) of the Internal Revenue Code, be given effect to the extent such election or deemed election might cause the Plan to fail to meet the discrimination standards set forth in Section 401(m) of such Code. In this regard, the average of the percentages of compensation elected or deemed elected as Taxed Contributions under the Plan by each eligible Employee who is a Highly Compensated Employee (whether or not participating in the Plan for any year) and allocated as Company matching contributions to such eligible Employee must be either (a) not more than such average of all other Employees eligible to participate in the Plan for such year multiplied by 1.25 or (b) not more than 2 percentage points greater than such average of all other Employees eligible to participate in the Plan for such year and not more than such average of all other eligible Employees for such year multiplied by 2. For purposes of determining the percentage of compensation elected or deemed elected as Taxed Contributions by an eligible Employee who is a Highly Compensated Employee and allocated as Company matching contributions to him, the compensation, Taxed Contributions and Company matching contributions of such eligible Employee shall be considered to include the compensation, Taxed Contributions and Company matching contributions of any of his Family Members, as defined in Section 414(q)(6) of the Internal Revenue Code. Any such Family Member shall not be considered to be an eligible Employee for the purposes of this paragraph. In the event the Company determines that the Taxed Contributions elected or deemed elected by members who are Highly Compensated Employees might cause the Plan to fail to meet the foregoing limitations, the Company shall reduce the permissible percentages of compensation which may be elected or deemed elected as Taxed Contributions under the Plan by Members who are Highly Compensated Employees.

The amount of such reductions shall be determined by the Employee Benefits Committee in its sole discretion and shall be conclusive.

In the case of an Employee who is or was employed by an Affiliated Company which maintained a qualified defined contribution plan ("Other Plan") and who is eligible to become a member in the Plan, the Employee Benefits Committee may in its sole discretion authorize a transfer of such Employee's account in such Other Plan to this Plan. An Employee shall be fully vested in the balance to the credit of his account attributable to the amount transferred pursuant to this paragraph but such transferred amounts shall not be eligible for Company contributions under Section 4. The Employee Benefits Committee may adopt any conditions or requirements for such transfer as it may deem advisable, including, without limitation, written assurance that any Other Plan meets the requirements of Section 401(a) of the Internal Revenue Code or that any transferred amount be in cash. An Employee who has an amount transferred to the Plan shall become a Member.

Section 4 - Company Contributions and Allocation Among Members

The Company shall pay over to the Fund, on a monthly basis, its matching contribution of 50% of Members' contributions after the close of each month. Such matching contribution shall be allocated among the Members in proportion to their contributions made during the month for which the Company contributions are being made. Notwithstanding the foregoing, under no circumstances shall any part of a Company matching contribution be allocated to a Member who is a Highly Compensated Employee, as defined in Section 414(q) of the Internal Revenue Code, if such allocation might cause the Plan to fail to meet the discrimination standards set forth in Section 401(m) of such Code. In this regard, the average of the percentages of compensation elected or deemed elected as Taxed Contributions under the Plan by each eligible Employee who is a Highly Compensated Employee (whether or not participating in the Plan for any year) and allocated as Company matching contributions to such eligible Employee must be either (a) not more than such average of all other Employees eligible to participate in the Plan for such year multiplied by 1.25 or (b) not more than 2 percentage points greater than such average of all other Employees eligible to participate in the Plan for such year and not more than such average of all other eligible Employees for such year multiplied by 2. For purposes of determining the percentage of compensation elected or deemed elected as Taxed Contributions by an eligible Employee who is a Highly Compensated Employee and allocated as Company matching contributions to him, the compensation, Taxed Contributions and Company matching contributions of such eligible Employee shall be considered to include the compensation, Taxed Contributions and Company matching contributions of any of his Family Members, as defined in Section 414(q)(6) of the Internal Revenue Code. Any such Family Member shall not be considered to be an eligible Employee for the purposes of this paragraph. In the event the Company determines that the allocation of any part of a Company matching contribution to Members who are Highly Compensated Employees might cause the Plan to fail to meet the foregoing limitations, the Company shall reduce the amount of Company matching contribution to be allocated to Members who are Highly Compensated Employees. The amount of such reductions shall be determined by the Employee Benefits Committee in its sole siscretion and shall be conclusive.

The total amount of the Fund forfeited by Members during any month shall be applied to reduce future Company Contributions due under the Plan and shall be reallocated among Members in the same manner as Company Contributions are allocated.

Section 5 - The Fund

(a) All contributions under the Plan will be made to the Fund held by the Trustee appointed by the Board of Directors under a Trust Agreement entered into by the Company and the Trustee. No person shall have any right to or interest in the Fund except as provided in the Plan and Trust Agreement.

(b) The Fund shall consist of three funds, funds (A), (B) and (C), as follows:

FUND (A) - CAPITAL CITIES/ABC, INC. COMMON STOCK FUND. A fund, together with the earnings thereon consisting of Common Stock of Capital Cities/ABC, Inc. The Trustee shall regularly purchase or cause to be purchased Common Stock of Capital Cities/ABC, Inc. in the open market in accordance with a non-discretionary purchasing program; provided, however, if Capital Cities/ABC, Inc. directs at any time or from time to time, the Trustee shall purchase, or accept as Company contributions, authorized but unissued shares of such Common Stock or shares of such Common Stock held as treasury stock from Capital Cities/ABC, Inc. Shares of authorized but unissued Common Stock or treasury stock purchased from Capital Cities/ABC, Inc. with the contributions for any month or year and with dividends received by the Trustee during any such month and any such shares contributed by the Company for any month or year shall be purchased or carried by the Trustee at a price equal to the closing price at which Capital Cities/ABC, Inc. Common Stock was traded on the date of the purchase or on the date of the contribution, whichever is applicable, as reported in The Wall Street Journal for consolidated trading of New York Stock Exchange issues. Notwithstanding the foregoing, from and after the effective time of the merger involving the Company and Capital Cities Communications, Inc. and the receipt by the Trust Fund of cash in respect of such merger, amounts held in fund (A) shall be temporarily invested in such short-term fixed income securities as the Trustee determines, after consultation with the Employee Benefits Committee, pending the investment of such cash in Common Stock of Capital Cities/ABC, Inc. in such manner and over such period as the Trustee determines in its sole discretion; provided, however, in no event shall any amounts held in fund (A) which are attributable to any Member's Contributions be invested in Common Stock of Capital Cities/ABC, Inc. until such Member has been furnished with a Prospectus and given the opportunity to make a special investment election pursuant to Section 5(d)(3) of the Plan.

FUND (B) - DIVERSIFIED EQUITY FUND. A fund, together with the earnings thereon, invested in the following types of investments as the Trustee or any Investment Manager appointed pursuant to Section 9 shall in its sole discretion determine: (a) common or capital stocks; (b) preferred stocks, notes, bonds or debentures, convertible into common or capital stocks; (c) warrants or rights to purchase or subscribe for common or capital stocks or securities convertible into common or capital stocks; and (d) other types of equity investments; provided, however, no investment shall be made in stocks or securities of the Company or affiliates, except that such limitation shall not apply to any commingled fund in which the Diversified Equity Fund may be invested.

FUND (C) - GUARANTEED FUND. A fund, together with the earnings thereon, consisting of a funding account established by agreement with one or more insurance companies or other financial institutions as may from time to time be designated by the Company in its discretion. Under such agreement, the insurance company or financial institution shall guarantee the repayment of principal and the payment of interest at a predetermined rate for a fixed period of time. If such agreement expires and no further agreement can be reached with an insurance company or other financial institution on terms which the Company in its discretion deems desirable, notice to such effect shall be given to all Members and such Members shall be given the opportunity to elect a new investment direction, subject to the limitations contained in Section 5(d) affecting amounts then invested in the funding account and future contributions. Any such election shall not be counted as a revised election for purposes of the 12 month limitation provided for in Section 5(d). In the event that a Member fails to make such election within the period specified by the Employee Benefits Committee, all amounts held for his account under fund (C) shall be transferred to fund (B) and his election to invest in fund (C) shall thereafter be deemed to be an election to invest in fund (B).

The Trustee or an Investment Manager (as the case may be) may keep any portion of the above funds of the fund in cash or in short-term obligations of the United States Government or agencies thereof or in other types of short-term investments, including commercial paper (other than obligations of the Company or affiliates), as it may from time to time deem to be in the best interests of the Plan or Fund; provided, however, that cash balances (including any interim investment thereof) shall not be maintained in fund (A) except to the extent that such balances are in anticipation of cash distributions to Members or transfers by Members from fund (A) or are maintained not to disrupt the nondiscretionary purchasing program of the Trustee required by the Plan. Cash may be raised for fund (A) by public or private sale, including sales to the Company, in the sole discretion of the Trustee.

The Company shall cause to be maintained in an equitable manner, which shall include a revaluation as of each Valuation Date at market values, a separate account for each participant, in which shall be kept a separate record of the share of such Member in each fund of the Fund which is attributable to contributions by the Company and to his Taxed and Tax Deferred Contributions. As soon as practicable after the close of each Plan year, there shall be sent to each Member a written statement of the amount to the credit of his account as of the last Valuation Date of such year.

(c) ELECTIONS FOR INVESTMENT. All Company Contributions shall be invested in fund (A). At the time an Employee enrolls for membership under the Plan, he shall elect in writing to the Company to have his contributions invested either 100% in fund (A), 100% in fund (B), 100% in fund (C), or 50% in fund (A) and 50% in fund (B), or 50% in fund (A) and 50% in fund (C), or 50% in fund (B) and 50% in fund (C), or 33-1/3% in fund (A), 33-1/3% in fund (B) and 33-1/3% in fund (C). If an employee fails to make a written election to the Company then his contribution shall be invested 100% in fund (A).

(d) CHANGE OF ELECTIONS FOR INVESTMENT. Each Member may, by filing a revised written election with the Company during the period established by the Company ending on or before the 15th day of any month, make the following changes in his investment elections:

(1) he may, not more than once in any twelve month period, file a revised investment election with the Company applicable to his contributions to be made for the month following such election and thereafter, subject to the limitations applicable to his initial investment election;

(2) he may, not more than once in any twelve month period, elect to increase or decrease his interest attributable to his contributions in one or more of funds (A), (B), or (C) by transferring all or part of such interest in any such fund to one or more other such fund so that after any such transfer such interest will be allocated among or between the funds subject to one of the following alternatives:

(i) 100% in fund (A)

(ii) 100% in fund (B)

(iii) 100% in fund (C)

(iv) 50% in fund (A) and 50 % in fund (B)

(v) 50% in fund (A) and 50 % in fund (C)

(vi) 50% in fund (B) and 50 % in fund (C)

(vii) 33-1/3% in fund (A), 33-1/3% in fund (B) and 33-1/3% in fund (C).

Once a transfer has occurred with respect to a revised election, no adjustment between funds shall be allowed on account of changes in value of the assets held in such funds until another revised election is made.

(3) he may, following the effective time of the merger involving the Company and Capital Cities Communications, Inc. and prior to February 15, 1986 (or such later date as the Company may determine if such merger is delayed for any reason), file a revised investment election under either or both the preceding subsections (1) and (2) without having such election or elections count as an election for purposes of the twelve month limitation rule set forth therein. If a Member fails to make a revised investment election pursuant to this subsection (3) prior to February 15, 1986 (or such later deadline as may be specified by the Company), his most recent investment elections shall continue in effect until changed pursuant to subsection (1) or (2) above.

All transfers under this paragraph (d) shall be made as of the Valuation Date following the date on which the Member files a revised written investment election with the Company.

Section 6 - Voting of and Tender or Exchange Offers for American Broadcasting Companies, Inc. Common Stock

6.1 Common stock of Capital Cities/ABC, Inc.

("Company Stock") held by the Trustee shall be voted by the Trustee at each annual meeting and at each special meeting of stockholders of Capital Cities/ABC, Inc. as directed by the Member (or his beneficiary) to whose account such Stock is credited. Fractional shares shall be aggregated for this purpose. The Company shall cause each Member (or his beneficiary) to be provided with a copy of a notice of each such stockholder meeting and a proxy statement, together with the appropriate form for indicating his voting instructions. If instructions are not timely received by the Trustee with respect to any such Stock, the Trustee shall vote such stock for or against matters voted on by stockholders in the same proportion as the votes cast in accordance with the instructions which have been timely received by the Trustee as to voting.

6.2 Each Member or his beneficiary shall have the right to direct the Trustee as to the manner in which to respond to any tender, exchange or purchase offer, or any matter related thereto, with respect to Company Stock credited to his account. The Trustee will endeavor to distribute or cause to be distributed to each such Member or beneficiary all written materials received by the Trustee as record owner of Company Stock pertaining to any such offer and shall provide forms for giving such directions. A Member or beneficiary may at any time revoke or change any such direction upon submission to the Trustee of a timely new direction. If directions are not timely received by the Trustee with respect to any such Stock, the Trustee shall accept or reject the offer with respect to such Stock as the Trustee, in its sole discretion, determines.

6.3 The Trustee shall discharge its duties with respect to Company Stock over which it has voting authority or the authority to accept or reject a tender, purchase or exchange offer solely in the interests of the Members and beneficiaries of the Plan. To this end the Trustee is expressly authorized and directed to consider the long-term best interests of such Members and beneficiaries including, but not limited to, the history and reputation of any person or persons making a tender, purchase or exchange offer for Company Stock with respect to continuation of employee benefit plans comparable to the Plan, the discharge or layoff of employees whose employer has been the successful target of a similar offer and the closing or sale of business operations of any such prior target, as well as the immediate financial gain, if any, to be realized by Members and their beneficiaries under the Plan in respect of any such offer. The Trustee is authorized to engage independent advisors, consultants and experts in furtherance of its duties and responsibilities hereunder and the Company agrees to share with the Trustee any reports and advice obtained by it from its own advisors, consultants and experts. The Trustee shall also be authorized to consider and give substantial weight to the instructions and directions given to them by a majority in number of the Members and beneficiaries with respect to Company Stock allocated to their accounts and the Trustee may, but need not necessarily, conclude on the basis of such instructions or directions by a majority in number of Members and beneficiaries that the course selected by them is in the best interests of all Members and beneficiaries. If such majority in number of Members and beneficiaries exceeds 66 2/3%, the Trustee may conclusively rely upon the decision of such group as the course which serves the best interest of Plan Members and their beneficiaries. The Trustee shall also be authorized to disseminate to Members and beneficiaries any information obtained by such Trustee which the Trustee determines, in its sole discretion, to be relevant to the decisions of such Members and beneficiaries, including but not limited to, the decision of the Trustee and the primary reason therefor.

6.4 The Company undertakes that it will not exercise duress over any Plan Member with respect to his decisions to be made hereunder and that it will pay all expenses of the Trustee in fulfilling its fiduciary obligations hereunder, including expenses of any legal proceedings involving the Trustee or the Trust Fund. The Trustee shall be entitled to rely on Section 404(a) of ERISA in acting in accordance with any instructions or directions received by the Trustee from members and beneficiaries and, by following the standards set forth above in this Section, the Trustee shall have fulfilled its responsibilities under Section 404(a)(1)(B) of ERISA. The Company acknowledges its fiduciary responsibility in prescribing such standards in this Plan, considers such standards to be in furtherance of the legislative objectives of ERISA and undertakes that it will, at its sole expense, defend any legal action challenging such standards or any actions taken by the Trustee pursuant thereto and will hold the Trustee harmless for acting in good faith pursuant to such standards.

<u>Section 7 - Vesting</u>

The amount to the credit of a Member's account which is attributable to his Taxed and Tax Deferred Contributions shall be fully vested at all times.

The amount to the credit of a Member's account which is attributable to Company Contributions allocated to his account for each Plan Year shall vest as follows:

A. one-third at the end of the Plan Year for which the contributions were made;

B. an additional one-third at the end of the Plan Year immediately following the Plan Year for which the contributions were made; and

C. an additional one-third at the end of the second Plan Year following the Plan Year for which the contributions were made.

Notwithstanding the foregoing, upon completion of 10 or more Years of Service a Member shall be fully vested in all amounts to the credit of his account which are attributable to Company Contributions.

Section 8 - Distributions

(a) Retirement, Disability or Death. As of a Member's 65th birthday he shall be 100% vested in the amount to the credit of his account. If a Member's Service is terminated by retirement under the Company's Retirement Plan or under a retirement plan to which the Company contributes, or if his Service is terminated on or after his 65th birthday, or if his service is terminated by retirement after his completion of 10 or more Years of Service and on or after his 55th birthday, or if his Service is terminated by reason of disability or death, the amount to the credit of his account as of the Valuation Date coinciding with or next succeeding such date of termination shall be fully vested and shall be distributed to him, if living, or to his designated beneficiaries, if he dies before receiving the distribution, in a lump sum within sixty (60) days following such Valuation Date, or as soon thereafter as practicable; provided, however, if the Member is married at the time of his death, such distribution shall be made to his surviving spouse unless such spouse has consented to the Member's beneficiary designation in the manner prescribed by section 205(c)(2)(A) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA").

In lieu of such immediate lump sum distribution, a Member whose Service has terminated by retirement or disability or at or after age 65 other than by death may elect prior to his termination of Service to have the amount to the credit of his account as of the last Valuation Date in the year of termination distributed in a lump sum during the year following such termination of Service. In lieu of a lump sum distribution, such Member may elect prior to his termination date to have the amount to the credit of his account paid in annual installments to the Member over a period of not more than ten (10) years, or the life expectancy of the Member, if such period is less than ten (10) years, commencing on any date elected by him, but not later than a date in the calendar year following either his 65th birthday or his termination of Service, whichever is later, and continuing on or about each subsequent anniversary of such commencement date with each installment calculated annually by dividing the then current value of his account determined as of the last Valuation Date preceding the payment date by the remaining number of unpaid installments. If a Member elects installments hereunder and dies prior to the end of the payment period, the amount to the credit of the Member's account as of the Valuation Date coinciding with or next succeeding the date on which the Company receives notice of the Member's death shall be paid in a lump sum to the Member's designated beneficiary, or if none, to the Member's estate; provided, however, if the Member is married at the time of his death his surviving spouse shall be considered to be his designated beneficiary unless such spouse has consented to the Member's beneficiary designation in accordance with section 205(c)(2)(A) of ERISA. The Member's share of the additional Company matching contributions, if any, for the year of retirement, disability, termination or death shall either be distributed within ninety (90) days following the end of such year or as soon thereafter as practicable to him or to his designated beneficiaries or, if he has elected an optional form of distribution, shall be added to the amount payable under the option elected by him. Any election may be changed at any time by the Member prior to his termination of Service but shall be irrevocable thereafter. However, the Member may accelerate the payment of any installment or installments by reasonable advance notice to the Employee Benefits Committee or the Employee Benefits Committee may accelerate the payment of any installment or installments if such installment represents an amount less than a certain minimum determined by such Committee.

If the amount to the credit of a Member's account is distributable to him on a deferred basis as provided above, his account shall remain in the Fund subject to periodic revaluation and the consequent risk of loss. Each installment distribution shall be made from funds (A), (B) and (C) in the same proportion that the value of his interest in each such fund bears to the total value of his account as of the applicable Valuation Date.

Any Member whose Service is terminated by retirement who elects to receive installment payments pursuant to the preceding paragraph may also elect no later than the 15th day of the month prior to his Retirement Date (as defined in the Company's Retirement Plan), subject to the limitations contained in Section 5(d), to file a revised investment election with respect to the amount to the credit of his account, including any amount to the credit of his account attributable to Company Contributions and invested in fund (A). Such revised election shall be effective and any transfer required by such election shall be made as of the Valuation Date following the Member's Retirement Date. Any such election shall not be counted as a revised election for purposes of the 12 month limitation provided for in Section 5(d), but shall be irrevocable thereafter.

A Member shall be considered disabled if a medical examiner satisfactory to the Company certifies that he is mentally or phy ically disabled for further performance of duty and that such disability is likely to be permanent.

Designation of beneficiaries shall be made in writing and filed with the Company in such form and in such manner as the Company may from time to time designate. Beneficiaries may be changed in the same manner at any time prior to the death of the Member. Any beneficiary designation made by a married Member who is an Employee on or after January 1, 1985 shall be ineffective unless his spouse is the designated beneficiary or consents to such designation in accordance with section 205(c)(2)(A) of ERISA. Any beneficiary designation made by an unmarried Member who subsequently marries or by a married Member who subsequently remarries shall be ineffective unless his spouse or new spouse, respectively, is the designated beneficiary or consents to such designation in accordance with section 205(c)(2)(A) of ERISA.

(b) Termination of Service for Any Other Reason. If the Service of a Member terminates prior to his 65th birthday for any reason other than retirement, disability or death, the amount to the credit of his account which is vested under Section 7 of the Plan as of the Valuation Date coinciding with or next following the date of such termination shall be distributed to him as soon thereafter as practicable and the balance shall be forfeited. If such Member is reemployed in the Plan Year in which such termination occurs without incurring a Break-In-Service on account of such termination of Service, such balance shall be restored to his account.

Notwithstanding the foregoing, if a Member's Service is terminated prior to his 65th birthday for any reason other than retirement, disability or death, and as a result of such termination an amount to the credit of his account is forfeited, the amount of such forfeiture shall be restored by the Company to his account provided (a) he is reemployed by the Company prior to the expiration of 60 consecutive months and (b) within 5 years of his reemployment date he repays to the Fund an amount of cash equal to the amount distributed to him from the Fund at termination of his Service. Any amounts repaid or restored under this paragraph shall be repaid or restored to funds (A), (B) and/or (C) in accordance with the investment election of the Member in effect at the time of repayment and restoration.

Notwithstanding the foregoing, if a Member's Service is terminated as the result of a Company reorganization, including a change in ownership of the stock or all or part of the assets of his employing company or employing unit, the vested amount to the credit of such Member's account as of the Valuation Date coinciding with or next following the date of such termination shall be distributed to him as soon thereafter as practicable; provided, however, that if the termination of Service of such Member and other affected Members are not regarded, or may not be regarded, as "separations from service" within the meaning of the Federal income tax rulings and regulations, the Employee Benefits Committee in its sole and absolute discretion may determine, with the advice of counsel and under standards uniformly applicable to all Members affected by such reorganization of the Company, to postpone distribution of all or any portion of the Member's account until such distribution may be accomplished without adverse income tax consequences to the Member or the Plan. The Employee Benefits Committee shall also have the authority to approve the transfer of all or any portion of the Member's account to a tax-qualified plan in which he becomes a participant or in which he becomes eligible to participate after his termination of Service or to approve a later distribution of all or any portion of his account if the Federal income tax laws permit a tax-free rollover of such distribution by the Member and such distribution does not have adverse tax consequences to the Plan. If distribution of all or any portion of a Member's account is postponed pursuant to this paragraph of the Plan, such account shall remain in the Trust Fund subject to periodic revaluation under the terms of the Plan and the Member shall continue to have such rights of membership in the Plan as may be determined by the Employee Benefits Committee in its sole and absolute discretion, except that he shall not be permitted to make any further contributions under the Plan, shall not share in any additional Company contributions made under the Plan and shall not be permitted to utilize the loan provision set forth in Section 8(e) of the Plan.

(c) Withdrawals of Amounts Attributable to Member Contributions. A Member may at any time withdraw either 25%, 50%, 75% or 100% of the amount to the credit of his account attributable to his Taxed Contributions as of the Valuation Date coinciding with or next following the date on which he files a withdrawal application with the Company. A Member who has attained age 59 1/2 may also at any time withdraw either 25%, 50%, 75% or 100% of the amount to the credit of his account attributable to his Tax Deferred Contributions as of the Valuation Date coinciding with or next following the date on which he files a withdrawal application with the Company (excluding, however, any portion of his account invested under Section 8(e) in a loan to such Member). If a Member makes a withdrawal of Taxed Contributions pursuant to this paragraph, his contributions shall be automatically suspended and may not be resumed, (i) in the case of a 25% withdrawal, until the first day of any calendar month following the expiration of three months from the Valuation Date of his withdrawal, (ii) in the case of a 50% withdrawal, until the first day of any calendar month following the expiration of six months from the Valuation Date of his withdrawal, (iii) in the case of a 75% withdrawal, until the first day of any calendar month following the expiration of nine months from the Valuation Date of his withdrawal, or (iv) in the case of a 100% withdrawal, until the first day of any calendar month following the expiration of twelve months from the Valuation Date of his withdrawal. If a Member makes a withdrawal of Tax Deferred Contributions pursuant to this paragraph, he shall incur no suspension penalty. Any such distribution to a Member shall be made from funds (A), (B) and/or (C) in the same proportion that the value of his interest in such fund bears to the total value of his account as of the applicable Valuation Date. Notwithstanding the foregoing, a Member with an outstanding loan balance under Section 8(e) of more than $10,000 shall not be permitted to make a withdrawal under this Section 8(c) which would reduce the total vested amount to the credit of the Member's account after such withdrawal (exclusive of such loan balance) to an amount less than 200% of such loan balance.

(d) Special Withdrawal. In accordance with rules established by the Employee Benefits Committee uniformly applicable to all Members, a Member with the approval of such Committee may at any time withdraw without penalty a specified amount of the vested portion of his account attributable to his Taxed and Tax Deferred Contributions and Company Contributions (excluding, however, any portion of his account invested under Section 8(e) in a loan to such Member) upon his written application to such Employee Benefits Committee showing demonstrable financial need for a distribution in the amount requested in order to meet extraordinary medical or medically related expenses, substantial costs related to residential requirements of the Member and his family, or family educational expenses in an amount considered by such Committee to be burdensome in relation to the Member's other available financial resources for meeting such expenses, extraordinary expenses related to unanticipated casualty, accident or other misfortune or any other similar needs approved by such Committee in its sole discretion. Any such distribution to a Member shall be made first from amounts to the credit of his account attributable to his Taxed Contributions and only after exhaustion of such amounts from amounts to the credit of his account attributable to Company Contributions made with respect to his Taxed Contributions and only after exhaustion of both such amounts from amounts to the credit of his account attributable to his Tax Deferred Contributions and only after exhaustion of all such amounts from amounts to the credit of his account attributable to Company Contributions made with respect to his Tax Deferred Contributions. All such distributions shall be made from funds (A), (B) and/or (C) in the same proportion that the value of his interest in such fund bears to the total value of his account as of the applicable Valuation Date. Notwithstanding the foregoing, a Member with an outstanding loan balance under Section 8(e) of more than $10,000 shall not be permitted to make a withdrawal under this Section 8(d) which would reduce the total vested amount to the credit of the Member's account after such withdrawal (exclusive of such loan balance) to an amount less than 200% of such loan balance.

(e) Loans. Members in active Service may, after two (2) years of membership, be entitled to borrow against their account balances to the extent such balances are attributable to their Tax Deferred Contributions; provided, however, any such loan and the reason therefor must be approved in advance by the Employee Benefits Committee under rules applicable to all Members on a reasonably equivalent basis. No Member shall be permitted to have more than one loan outstanding at any point in time and no loan shall be approved by the Employee Benefits Committee within twelve (12) months after the Member has repaid or completed repayment of a prior loan. All loans shall bear a reasonable rate of interest as determined by the Employee Benefits Committee to remain in effect for the term of the loan, shall be adequately secured by the Member's account and by the Member's executed promissory note, and shall be repayable in full over a nonrenewable repayment period not to exceed five (5) years from the date the loan is made to the Member. Prior to the time a Member receives the proceeds of any loan, he shall authorize repayment of same, together with interest thereon, by regular payroll deductions or by such other method as may be approved by the Employee Benefits Committee; provided, however, the Member may at any time prepay in full the outstanding balance of such loan without penalty.

The amount to the credit of a Member's account which is attributable to his Tax Deferred Contributions and which is the maximum amount available for a loan shall be determined as of the Valuation Date immediately following the date his loan is approved by the Employee Benefits Committee except that under no circumstance may a Member borrow more than the smaller of:

(a) $50,000; or

(b) one half of the total amount to the credit of the Member's account attributable to his Taxed Contributions, Tax Deferred Contributions and vested Company Contribution (but not less than $10,000). In addition, no Member shall be permitted to borrow less than a minimum amount determined from time to time by the Employee Benefits Committee in its sole discretion.

If a Member defaults on any scheduled repayment of principal and/or interest, the Employee Benefits Committee shall have the right to accelerate repayment or to demand immediate repayment of the entire amount outstanding. Failure by the Employee Benefits Committee to accelerate repayment or to demand immediate repayment of any loan in default shall not be regarded as a waiver of such right.

Each loan made hereunder shall be an investment of the Member's account over which such Member has exercised investment control and the proceeds of any such loan paid to the Member shall be made from funds (A), (B) and/or (C) in the same proportion that the value of his interest in each such fund attributable to his Tax Deferred Contributions bears to the total value of his account attributable to his Tax Deferred Contributions as of the applicable Valuation Date. All interest payments and repayments of principal shall be credited to the Member's account and shall be invested in funds (A), (B) and/or (C) in accordance with the Tax Deferred Contributions investment election of the Member in effect at the time of such payments.

Upon the termination of Service of a Member for any reason at a time when he has any unpaid balance of principal or interest on an outstanding loan, such loan shall thereupon be deemed to be in default and the value of the Member's account shall be reduced by the amount of such unpaid balance of principal and interest in complete satisfaction of the Member's loan obligation hereunder.

(f) Method of Distribution. Withdrawals pursuant to Section 8(d) and loans pursuant to Section 8(e) shall be in cash. Withdrawals pursuant to Section 8(c) and distributions on account of termination of Service shall be in cash and to the extent any such withdrawal or distribution is from fund (A) such withdrawal or distribution shall be in whole shares of Common Stock of Capital Cities/ABC, Inc. and cash in lieu of fractional shares unless the Member elects by reasonable written notice to the Company prior thereto that such withdrawal or distribution be entirely in cash. If a member becomes entitled to a distribution of whole shares of Common Stock prior to the date fund A is substantially reinvested in such Common Stock, the amount of his distribution from fund A shall be determined as of the Valuation Date immediately following such date and shall be made as soon thereafter as practicable. The Employee Benefits Committee shall have the right in its sole discretion to direct at any time the distribution in cash of the entire amount vested in the account of any Member who is not currently making contributions if such account has a value less than a certain minimum determined by the Employee Benefits Committee.

(g) Notwithstanding any other provision of this Section to the contrary:

(i) The distribution of a Member's benefits under the Plan shall be made or commence to be made not later than

(A) April 1 of the calendar year following the calendar year in which the Member attains age 70-1/2, if he is a 5-Percent Owner.

(B) the later of (1) the date set forth in paragraph (A) and (2) April 1 of the calendar year following the calendar year in which the Member retires, if he is not a 5-Percent Owner.

(ii) If the Member's retirement benefits have not been distributed in their entirety by the applicable date set forth in paragraph (i), they shall be distributed, in accordance with rules prescribed by Treasury regulations, beginning not later than such date,

(A) over the life of the Member, or

(B) over the lives of the Member and a beneficiary designated by him, or

(C) over a period not extending beyond the life expectancy of the Member or the life expectancy of the Member and such designated beneficiary.

(iii) No distribution of any part of a Member's benefits shall be made to him until he attains age 65, unless the Member consents in writing to such distribution.

(h) Notwithstanding any other provision of this Section to the contrary, the distribution of any benefits on account of a Member's death shall be made in accordance with the following limitations:

(i) If the distribution of the Member's retirement benefits has commenced in accordance with the provisions of subsection (g), and the Member dies before such benefits have been distributed to him in their entirety, then the remaining portion of such benefits shall be distributed at least as rapidly as under the method by which such benefits were being distributed at the date of the Member's death.

(ii) If the Member dies before any part of his benefits have been distributed to him, then such benefits shall be distributed to the Member's beneficiary(ies) within 5 years after his death.

(iii) For the purposes of paragraph (ii), if any portion of the Member's benefits is payable to (or for the benefit of) a designated beneficiary and will be distributed beginning not later than one year after the date of the Member's death (or such later date as may be prescribed by Treasury regulations) over the life of such designated beneficiary or over a period not extending beyond such beneficiary's life expectancy, then such portion shall be treated as distributed in full on the date on which distributions of such portion begin.

(iv) Notwithstanding the provisions of paragraph (ii), if the designated beneficiary referred to in paragraph (iii) is the Member's surviving spouse, the Member's benefits shall not be required to be distributed beginning earlier than on the date the Member would have attained age 70-1/2. If such surviving spouse dies before such distributions begin, the rule of paragraph (ii) shall be applied as if the surviving spouse were the Member.

(i) For the purposes of the application of the rules of subsections (g) and (h), the following shall apply:

(i) "5-Percent Owner" shall mean any person who owns (or is considered as owning within the meaning of Internal Revenue Code Section 318) more than 5% of the outstanding stock of the Company or stock possessing more than 5% of the total combined voting power of all stock of the Company.

(ii) The life expectancies of a Member and his spouse may be redetermined, in accordance with rules prescribed by Treasury regulations, but not more frequently than annually.

(j) Notwithstanding any other provision of this Section, no form of benefit distribution shall be prescribed by or for a Member unless either:

(i) (A) payments under such form will not be made for a period in excess of the life expectancy of the Member and his spouse; and

(B) the periodic payments to be made to the Member's beneficiary will not be greater than the periodic payments to be made to the Member during his lifetime; or

(ii) the present value of the total payments to be made to the Member under such form shall be more than 50% of the present value of the total payments to be made to him and his beneficiary under such form.

Section 9 - ADMINISTRATION OF THE PLAN

(a) The Company, by its approval of the Plan, as amended, accepts responsibility as a named fiduciary of the Plan with respect to the selection, retention and replacement of the Trustee of the Trust Fund, the selection of the members of the Employee Benefits Committee and for reviewing the performance of such Committee as to the fiduciary duties and responsibilities vested in it under the Plan as hereinafter set forth. The Company shall act through its Board of Directors or any committee of the Board authorized by the Board of Directors to so act.

(b) The Employee Benefits Committee shall consist of not less than three persons to be appointed by the Board of Directors. Any member of such Committee may resign or be removed by the Board of Directors and new members may be appointed by the Board of Directors.

(c) Any person appointed to be a member of the Employee Benefits Committee shall signify his acceptance in writing to the Board of Directors. Any member of such Committee may resign by delivering his written resignation to the Board of Directors and such resignation shall become effective upon delivery or upon any date specified therein.

(d) The Employee Benefits Committee shall select a Chairman and may select a Secretary (who may, but need not, be a member of the Committee) to keep its records or to assist it in the doing of any act or thing to be done or performed by the Committee.

(e) The Employee Benefits Committee may hold meetings for any purpose so long as two members shall be present at such meetings provided that a majority of the members of such Committee at the time in office shall constitute a quorum for the taking of action at any meeting. Any determination of the Committee may be made by a majority of the members present at any meeting thereof, or without a meeting by a resolution or written memorandum concurred in by all of the members then in office.

(f) The Employee Benefits Committee shall have primary responsibility and authority for the determination of the Plan's overall investment objectives and policies, the selection, retention and replacement of any Investment Manager or Managers from time to time designated by it to have responsibility for the management and control of assets of the Trust Fund or any portion thereof, and the Insurance Company or Companies, the allocation of Plan assets among and the determination of investment objectives and policies with respect to the Trustee and each such Investment Manager and Insurance Company or Companies. Such Committee shall report regularly, at least annually, to the Board of Directors with respect to its activities in connection with carrying out its responsibilities and authority under the Plan.

(g) The Employee Benefits Committee shall also have responsibility and authority for reviewing the Plan's investment objectives and policies set forth for fund (B), and for reviewing and evaluating the performance and policies of the Trustee of the Trust Fund, any Investment Manager, the Insurance Company or Companies and the terms of any contract purchased by the Company pursuant to fund (C). The Committee shall have no authority with respect to the acquisition or disposition of Plan assets and such authority shall be the exclusive responsibility of the Trustee of the Trust Fund or an Investment Manager or Managers, as the case may be.

(h) Except to the extent reserved to the Board of Directors, the Employee Benefits Committee shall have primary responsibility and authority for the administration of the Plan, including the adoption of rules for the administration of Sections 3 and 8(d) and (e) of the Plan and full authority to determine all questions arising in connection with such Sections, and shall have the power and the duty to take all action and to make all decisions necessary or proper to carry out the Plan. The determination of the Employee Benefits Committee as to any question involving the general administration and interpretation of the Plan shall be final, conclusive and binding. Any discretionary actions to be taken under the Plan by the Employee Benefits Committee with respect to the classification of employees, Members, contributions or benefits shall be uniform in their nature and applicable to all persons similarly situated. Without limiting the generality of the foregoing, the Employee Benefits Committee shall have the following powers and duties:

(1) To require any person to furnish such information as it may request for the purpose of the proper administration of the Plan as a condition to receiving any benefit under the Plan;

(2) To make and enforce such rules and regulations and prescribe the use of such forms as it shall deem necessary for the efficient administration of the Plan;

(3) To interpret the Plan and to resolve ambiguities, inconsistencies and omissions;

(4) To decide on questions concerning the Plan and the eligibility of any employee for Membership in the Plan in accordance with the provisions of the Plan;

(5) To determine the amount of benefits which shall be payable to any person in accordance with the provisions of the Plan; and

(6) To allocate any such powers and duties to or among such one or more members of the Employee Benefits Committee and to delegate any discretionary or minis-

terial powers to such agents, depositaries and others as it shall deem advisable for the proper administration of the Plan.

(i) The Employee Benefits Committee shall have the responsibility for compiling the financial information and projections with respect to anticipated contributions to and distributions from the Plan so that the current and ongoing liquidity and other financial needs of the Plan may be properly integrated into its recommendations to the Board of Directors respecting the Plan's investment objectives.

(j) The Employee Benefits Committee and any persons to whom it may delegate any of its duties or powers, the Company and the officers and directors thereof shall be entitled to rely conclusively upon, and shall be fully protected in any action taken or suffered by them in good faith in reliance upon, any actuary, accountant, counsel, other specialist or other person selected by the Committee or in reliance upon any tables, valuations, certificates, opinions or reports which shall be furnished by any of them or by the Trustee or the Insurance Company or Companies. No member of the Employee Benefits Committee or the Company or the officers or directors thereof shall be liable for any neglect, omission or wrongdoing of the Trustee or the Insurance Company or Companies. The Employee Benefits Committee shall have the authority to retain counsel, independent consultants and advisors and such clerical, medical and accounting services as it may require in carrying out the provisions of the Plan and to compensate same out of Plan assets.

(k) In carrying out its responsibilities, neither the Employee Benefits Committee nor any person to whom it may delegate any of its duties or powers shall be liable for any action or failure to act except for its or his own gross negligence or willful misconduct, nor for the payment of any benefit or other amount under the Plan. No member of the Employee Benefits Committee shall be personally liable under any contract, agreement, bond or other instrument made or executed by him or on his behalf as a member of the Committee; nor for any mistake of judgment made by him or on his behalf as a member of the Committee; nor for any action, failure to act, or loss unless resulting from his own gross negligence or willful misconduct; nor the neglect, omission or wrongdoing of any other member of the Committee.

(l) All expenses incurred prior to termination of the Plan that shall arise in connection with the administration of the Plan, including but not limited to the compensation of the Trustee, administrative expenses and other proper charges and disbursements of the Trustee and compensation and other expenses and charges of any actuary, accountant, counsel, specialist or other person who shall be employed by the Employee Benefits Committee, shall be paid by the Company except to the extent that such expenses are charged to the Trust Fund or the fund held under the Insurance Contract or Contracts.

(m) Subject to the provisions of the Trust Agreement and the Insurance Contract or Contracts, the Employee Benefits Committee shall determine the manner in which the funds of the Plan shall be disbursed pursuant to the Plan.

(n) The Employee Benefits Committee may authorize one or more of its number or any agent to make any payment in its behalf, or to execute or deliver any instrument except that a requisition for funds from the Trustee shall be signed by two members of the Committee.

(o) The members of the Employee Benefits Committee shall serve with such compensation for their services as shall be agreed by the Company. All reasonable expenses incurred in the performance of their duties shall be paid by the Company. Unless otherwise determined by the Board of Directors, no member of the Employee Benefits Committee shall be required to give any bond or other security in any jurisdiction.

(p) The Secretary of the Employee Benefits Committee shall cause to be attached to the Plan a current list of the persons serving from time to time as Trustee and Members of such Committee under the provisions of the Plan.

(q) As of January 1, 1975, the Employee Benefits Committee shall cause every person who shall be a fiduciary of the Plan and every person who shall be authorized to handle funds or other property of the Plan who shall not be specifically exempt from the requirements of this Section 9(q) under the provisions of Section 4.12 of the Employee Retirement Income Security Act of 1974 or any Regulation of the Secretary thereunder, to be bonded pursuant to such Act.

(r) Any person may serve in more than one fiduciary capacity under the Plan.

(s) Except as provided in Sections 405(b)(1) and 405(d) of the Employee Retirement Income Security Act of 1974, any provision of the Plan which purports to relieve any fiduciary from responsibility or liability for any responsibility, obligation or duty under Title I, Part 4 of said Act shall be null and void.

Section 10 - Amendment, Termination or Suspension

No part of the corpus or income of the Fund shall be used for or diverted to purposes other than for the exclusive purposes of providing benefits to Members and their beneficiaries and defraying reasonable expenses of administering the Plan. Subject to this provision, the Plan may be amended at any time by action of the Board of Directors, and any amendment may be given retroactive effect; provided, however, that no amendment shall have the effect of depriving any member or beneficiary of all or any part of the amount then credited to his account under the Plan, nor shall any amendment be made without the approval of stockholders of American Broadcasting Companies, Inc. which would have the effect of increasing the aggregate annual cost to the Company (except to the extent that any such increased cost results from an amendment which increases the number of employees eligible to participate in the Plan), after giving effect to all previous amendments, by more than 15% of what such aggregate annual cost would have been if no such amendments had been made.

The Plan may be terminated at any time by action of the Board of Directors. In the event of termination or complete discontinuance of contributions under the Plan by the Company no contribution shall be made thereafter, except for a month preceding the month in which such termination or discontinuance occurs, and the rights of all Members at the date of termination or discontinuance to the amounts to the credit of their accounts shall thereupon become vested. Pursuant to the instructions of the Employee Benefits Committee, the Trustee shall thereupon either proceed to liquidate the Fund by distributing to all Members the amounts to the credit of their accounts in cash or in kind, as determined by the Employee Benefits Committee or continue to hold the Fund in trust and to pay benefits therefrom in accordance with the provisions of the Plan, disregarding, however, all provisions for forfeitures.

Company Contributions may from time to time be temporarily suspended by action of the Board of Directors. In the event of temporary suspension of contributions, no contribution shall be made thereafter during the period of such suspension, except for a month preceding the month in which such suspension occurs. Such suspension may also, at the discretion of the Committee, result in the temporary suspension of Members' Contributions under the Plan but Members' Contributions may be resumed at the end of such temporary suspension. The period of temporary suspension of contributions shall be determined solely by the Board of Directors. A temporary suspension of contributions for a period ending later than the last day of the Plan Year following the last Plan Year for which a substantial Company contribution was made shall result in the vesting of amounts to the credit of Members' accounts on such date.

No merger or consolidation of the Plan with, or transfer of assets or liabilities to, any other plan shall be effective unless each Member would be entitled to a benefit immediately after the merger, consolidation or transfer, if the Plan then terminated, which is equal to or greater than the benefit which he would have been entitled to receive under the Plan immediately before such merger, consolidation or transfer if the Plan had then terminated.

Section 11 - Miscellaneous

No benefit under the Plan shall be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance or charge, or to attachment, garnishment or other legal process. Any attempted anticipation, alienation, sale, transfer, assignment, pledge, encumbrance or charge of benefits or subjection of benefits to lien or adverse legal process of any kind will not be recognized by the Employee Benefits Committee and the Employee Benefits Committee in such case may terminate the right of such person to such benefits and direct that they be held or applied for the benefit of such person, his spouse, children or other dependents in such manner and in such proportions as the Employee Benefits Committee deems advisable. Notwithstanding the foregoing, the Company reserves the right by action of the Employee Benefits Committee to apply any undistributed amount credited to a Member's or beneficiary's account in satisfaction or in partial satisfaction of liabilities or indebtedness owed by such Member or beneficiary to the Company. Notwithstanding any other provision of the Plan to the contrary, distribution of the amount to the credit of a Member's account shall be made in accordance with the terms of a qualified domestic relations order to a Member's spouse, former spouse, child or other dependent or any person specified in such order provided such order and the terms thereof meet the requirements of section 206(d) of ERISA. Also, the Employee Benefits Committee may authorize the immediate cash-out of any Member's account subject to a qualified domestic relations order if the value of such account does not exceed $3,500.

The establishment of the Plan and membership therein shall not confer upon any person any right to be continued as an employee of the Company. The Plan is not intended to and shall not establish a contractual relationship or affect any contractual relationship now existing or hereafter established between any employee and the Company.

Each Member and beneficiary shall keep the Employee Benefits Committee advised of his current address. If amounts become distributable under the Plan and the Employee Benefits Committee is unable to locate the member or beneficiary to whom the distributions are payable, the account of such member or beneficiary shall be closed after three (3) years from the time such distributions first become payable and the amount of such account shall be applied to reduce Company contributions. If, however, such Member or beneficiary subsequently makes proper claim to the Employee Benefits Committee for such amount, the amount of such account will be restored to the Fund by the Company and will be distributable in accordance with the terms of the Plan.

Errors made in the administration of the Plan, including, but not limited to, errors in the calculation of Company Contributions and the allocation thereof to Members' accounts, may be corrected retroactively or prospectively by the Company at the time such errors are ascertained whether or not such errors relate to a Plan Year which has elapsed.

The Plan shall be construed, administered and enforced according to the laws of the State of New York, except to the extent that state law shall have been preempted by the provisions of the Employee Retirement Income Security Act of 1974 or any other laws of the United States heretofore or hereafter enacted, as the same may be amended from time to time.

The Employee Benefits Committee shall notify each Member or beneficiary as the case may be of any election available to such Member or beneficiary within the time prescr'bed by applicable law or regulation for the giving of such notice.

<u>Section 12 - Limitations</u>

(A) In no event may a Member's Annual Addition or Projected Annual Benefit in any Limitation Year exceed the maximum permitted under Section 415 of the Code. For this purpose:

(a) "Annual Addition" means, with respect to any Defined Contribution Plan, the aggregate of -

(1) the Member's voluntary contributions; and

(2) aggregate employer contributions (including salary deferral contributions) and

forfeitures allocated to the Member's accounts for the Limitation Year; and

(3) in plan years beginning after March 31, 1984, contributions allocated to any individual medical benefit account of a 5% owner under a Defined Benefit Plan.

(b) "Limitation Year" means the twelve (12) month period from January 1 to the succeeding December 31.

(c) "Defined Benefit Plan" means any retirement plan maintained by the Company or any affiliated employer within the meaning of Section 415(h) of the Code that is not a Defined Contribution Plan.

(d) "Defined Contribution Plan" means any retirement plan maintained by the Company or any affiliated employer within the meaning of Section 415(h) of the Code which provides for an individual account for each participant and for benefits based solely on the amount contributed to such account and any income, expense, gains and losses, and forfeitures of accounts of other participants which may be allocated to such account.

(e) (1) A Member's "Projected Annual Benefit" under a Defined Benefit Plan shall be equal to the annual retirement benefit to which he would be entitled under such plan if he were to continue employment until his normal retirement age under such plan and all other relevant factors used to determine benefits under the plan were to remain the same as in the current plan year for all future plan years.

(2) For purposes of this Subparagraph (e) -

(A) an annual retirement benefit which is provided in a form other than a straight life annuity or a qualified joint and survivor annuity described in Section 401(a)(1)(G)(iii) or 417 of the Code shall be adjusted to an equivalent benefit in the form of a straight life annuity using an interest assumption not less than the greater of (5%) or the reasonable actuarial assumption used in the plan.

(B) an annual retirement benefit which is attributable all or in part to employee or rollover contributions (as defined in Section 402(a)(5), 403(a)(4), 408(d)(3) or 409(b)(3) (C) of the Code) shall be reduced so that it will be the equivalent of an annual retirement benefit derived solely from employer contributions.

(B) <u>Maximum Annual Addition</u>

In no event may a Member's Annual Addition under all Defined Contribution Plans exceed the lesser of: $30,000 or such greater amount as shall be prescribed by the Secretary of the Treasury as of the first day of the applicable Limitation Year, or 25% of Compensation (determined after giving effect to salary deferral elections) from the Company and from all affiliated employers described in Section 415(h) of the Code during the Limitation Year.

In the event that a Member's Annual Addition would exceed the foregoing limitations, his allocations under plans in which he is eligible to participate according to the terms of the particular plan shall be reduced in the following order:

(1) Employee Contributions and associated Company Matching Contributions under the American Broadcasting Companies, Inc. Savings & Investment Plan.

(2) Contributions under any other employee stock ownership plan other than the Employee Stock Ownership Plan of American Broadcasting Companies, Inc.

(3) Company contributions under the Employee Stock Ownership Plan of American Broadcasting Companies, Inc.

For any Limitation Year during which no more than one-third of employer contributions are allocated to officers, shareholders and highly compensated employees described in Section 415(c)(6)(A) of the Code under the PAYSOP, and subject to the combined limitations set forth herein, the maximum dollar limitation under any payroll employee stock ownership plan or leveraged employee stock ownership plan described in Section 4975(e)(7) of the Code shall be twice the dollar limitation set forth in the preceding paragraph.

(C) Maximum Projected Benefit

In no event may a Member's Projected Annual Benefit under Defined Benefit Plans for any Limitation Year exceed the amount prescribed by Section 415 of the Internal Revenue Code, as amended by the Tax Equity and Fiscal Responsibility Act of 1982 ("TEFRA"). For purposes of determining the Projected Annual Benefit payable under TEFRA, subject to the adjustments hereinafter set forth, the Projected Annual Benefit of a Member who completes at least 10 Years of Service and to whom payments commence on or after age 62 at any time within a Limitation Year shall not exceed the lesser of:

(a) $90,000 or such greater amount as shall be prescribed by the Secretary of the Treasury as of the first day of a Limitation Year in accordance with Section 415(b) of the Code; or

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(b) one hundred percent (100%) of the Member's average annual compensation (determined after giving effect to salary deferral elections) on his high three (3) years of employment.

Notwithstanding the foregoing:

(a) if the Member has never participated in any Defined Contribution Plans, his Projected Annual Benefit shall be not less than $10,000 or such proportional amount thereof as shall be applicable because fewer than 10 Years of Service have been completed;

(b) if an annual retirement benefit begins before a Member's sixty-second (62nd) birthday, the otherwise applicable dollar limitation shall be adjusted (but not below $75,000 or the actuarial equivalent of a $75,000 benefit commencing at age 55) to the actuarial equivalent of a benefit commencing at age sixty-two (62) using an interest assumption equal to the greater of the reasonable actuarial assumption used in the plan or five percent (5%);

(c) if an annual retirement benefit begins after a Member's sixty-fifth (65th) birthday, the otherwise applicable dollar limitation shall be adjusted so that it is the actuarial equivalent of an annual retirement benefit commencing at age 65 using an interest assumption equal to the lesser of 5% or the reasonable actuarial assumption used in the plan;

(d) if any Member has completed fewer than 10 Years of Service with the Company and affiliates, the dollar limitation otherwise applicable to him shall be reduced by multiplying it by a fraction, the numerator of which is his Years of Service as of the close of the Limitation Year and the denominator of which is 10.

(D) Combined Limitations

If any Member participates in a Defined Benefit Plan and a Defined Contribution Plan, the sum of his Defined Benefit Plan Fraction and Defined Contribution Plan Fraction may not exceed 1.0 in any Limitation Year.

The "Defined Contribution Plan Fraction" is a fraction -

(A) The numerator of which is the cumulative Annual Additions to a Member's account as of the close of the Limitation Year, and

(B) The denominator of which is the sum of the lesser of the following amounts for this Limitation Year and each prior Limitation Year:

(i) the product of 1.25 and the maximum dollar limitation under Section 415(c) for this Limitation Year and each prior Limitation Year; or

(ii) the product of -

(I) 1.4 multiplied by

(II) the maximum compensation limitation under Section 415(c) for such Limitation Year.

The "Defined Benefit Plan Fraction" is a fraction -

(A) the numerator of which is the aggregate Projected Annual Benefit of the Member under all Defined Benefit Plans (determined as of the close of the Limitation Year); and

(B) the denominator of which is the lesser of:

(i) the product of 1.25 multiplied by the maximum dollar limitation under Section 415(b) for such year, or

(ii) the product of -

(I) 1.4 multiplied by

(II) the maximum compensation limitation under Section 415(b) for such year.

In any Limitation Year in which a Member would exceed the foregoing 1.0 limitation, his benefits shall be reduced by the Committee to the extent necessary so that the sum of his Defined Contribution Plan Fraction and his Defined Benefit Plan Fraction will not exceed 1.0 in the following non-discretionary order:

(1) Any Defined Benefit Plan of any subsidiary or

affiliate of the Company in an ascending order based upon the Member's Credited Service under each of these Defined Benefit Plans, beginning with the Defined Benefit Plan under which the Member has the least years of Credited Service and ending with the Defined Benefit Plan under which the Member has the most years of Credited Service.

(2) Retirement Plan of American Broadcasting Companies, Inc.

(3) Defined Contribution Plans, in the order specified in Section 11.2(B).

(4) Employee Stock Ownership Plan of American Broadcasting Companies, Inc.

In any Limitation Year in which this Plan is a Top Heavy Plan but accrued benefits of Key Employees do not exceed 90% of accrued benefits (in each case, calculated by aggregating all plans which cover Key Employees or are required or permitted to be aggregated therewith), the Defined Benefit Plan Fraction and Defined Contribution Plan Fraction of any Key Employee shall be calculated by substituting "1.0" wherever "1.25" appears unless a minimum contribution of at least 4% of compensation or a minimum benefit of 3% of final compensation, or its equivalent (as provided in Section 416(c) of the Code) is provided for Members who are not Key Employees.

In all other circumstances in which this is a Top Heavy Plan in any Limitation Year, the Defined Benefit Plan Fraction and Defined Contribution Plan Fraction of Key Employees shall be calculated by substituting "1.0" for "1.25" wherever 1.25 appears herein.

(E) Plans in Existence on July 1, 1982

For purposes of determining whether such adjustment is necessary, the sum of such fractions as applied to plans in existence on July 1, 1982 (disregarding all Plan amendments subsequent to July 1, 1982) which did not exceed one and four-tenths (1.4) under prior law as of December 31, 1982 shall not exceed 1.0 and the Defined Benefit Plan Fraction of any Member whose projected annual benefit did not exceed $136,425 or his last 3 years' compensation on such date, subject to such conditions, shall not exceed .8.

Upon irrevocable election by the plan administrator, the Defined Contribution Plan Fraction for Limitation Years ending after January 31, 1983 shall be calculated with respect to each Member by multiplying the amount in effect under Section 415(e)(3)(B) of the Code by a transition fraction, the numerator of which shall be the lesser of $51,875 or 1.4 multiplied by 25 percent of the Member's compensation for the Limitation Year ending in 1981 and the denominator of which shall be the lesser of $41,500 or 25 percent of the Member's compensation for the Limitation Year ending in 1981.

(F) Interpretation

This Section shall be interpreted in accordance with regulations under Section 415 of the Code, as amended by the Tax Equity and Fiscal Responsibility Act of 1982, the Deficit Reduction Act of 1984, and any successor legislation.

Section 13 - Top-Heavy Contingency

13.1 The provisions of this Section 13 shall apply only in a Plan Year in respect of which the Plan becomes top-heavy as herein defined and thereafter to the extent provided herein.

13.2 The Plan shall be considered to be top-heavy in any Plan Year if the aggregation group of which the Plan is required to be a part becomes top-heavy for such year; provided, however, the Plan shall not be considered to be top-heavy in such Plan Year if by the inclusion of additional plans permitted to be included in such required aggregation group the resulting permissive aggregation group is not top-heavy for such year.

a) The required aggregation group as to the Plan shall include the Plan and any pension, profit sharing or stock bonus plan of the Company, its subsidiaries and any other corporation or entity under common control by or with the Company if such plan is intended to be a qualified plan under Section 401(a) of the United States Internal Revenue Code, as amended (the "Code"), and either (i) includes or has included any key employee as a participant in this Plan Year or in the 5 preceding Plan Years or (ii) enables the Plan or any such plan to meet the anti-discrimination requirements and minimum participation standards applicable to qualified plans under the Code.

b) The permissive aggregation group shall include plans in the required aggregation group and any other plan of an employer in the controlled group specified in subparagraph (a) or to which such employer contributes if such plan is intended to be qualified under Section 401(a) of the Code and continues to meet the anti-discrimination requirements and minimum participation standards of the Code when considered together with the plans in the required aggregation group.

13.3 A required aggregation group or a permissive aggregation group shall be considered to be top-heavy if as of the applicable determination dates the sum of the present value of the cumulative accrued benefits for key employees under all defined benefit plans in such group and the aggregate value of the accounts of key employees under all defined contribution plans in such group exceed sixty percent (60%) of the sum of such values for all employees participating in or eligible for participation in such plans.

a) The applicable determination date for each such plan shall be the last day of its plan year which immediately precedes the plan year for which such plan is being tested or, in the case of a new plan, the last day of its first plan year.

b) The present value of accrued benefits of employees under each defined benefit plan shall be determined as of the plan's most recent valuation date within the twelve month period ending on the determination date (or, in the case of a new plan, as of the determination date) and shall be based upon the assumption that each employee terminated his service on the determination date with a fully vested accrued benefit on such date and elected a lump sum distribution in an amount equal to the present value of such benefit based upon the actuarial assumptions, mortality rates and assumed earnings used to maintain the plan's minimum funding account as defined in Section 412 of the Code.

c) The present values of accrued benefits and the values of accounts used in the sixty percent (60%) calculation described herein shall be increased by all distributions made within the five (5) year period ending on the determination date to employees covered by plans in the aggregation group.

d) Rollover accounts, benefits of former key employees and benefits of persons not employed for the five (5) year period ending on the determination date shall not be taken into account to the extent provided by Section 416(g)(4) of the Code.

13.4 Key employee shall include any employee who at any time during the plan year or any of the four (4) preceding plan years is or was:

a) an officer of his employer having an annual compensation greater than one hundred and fifty percent (150%) of the amount in effect for such year under Section 415(c)(1)(A) of the Code, except that the number of officers included herein shall not exceed the lesser of 50 officers or 10% of the maximum number of employees in the aggregation group in any year of the five year period and that in such case the highest paid officers shall be the key employees; or

b) an Employee who owns directly or indirectly more than .5% of the outstanding stock of the Company.

13.5 A non-key employee shall include any employee who is not a key employee.

13.6 In the event the Plan becomes top-heavy for any Plan Year, all plans in the required aggregation group will also be top-heavy for such year and all non-key employees will be participating in more than one top-heavy plan. In such event there shall be provided to each non-key employee under the Company's retirement plan covering such non-key employee a minimum benefit equal to:

a) An annual retirement benefit (with no ancillary benefits) commencing at normal retirement at or after age 65 equal to 3% of his average annual compensation for each year of service from and after December 31, 1983 during which such plan was top-heavy, excluding any such service in excess of ten (10) years; minus

b) The amount of such retirement benefit which could be purchased for such employee by application of all amounts allocated to his accounts under this Plan and each defined contribution plan of the Company as the result of employer contributions, tax-deferred employee salary reductions and forfeitures for all plan years during which such employee was a participant, but excluding any such allocations which were forfeited by such employee. The determination of the amount of such retirement benefit which could be purchased for each non-key employee shall be made by the Company's independent actuaries as of the date of such employee's termination of service and shall utilize the earnings and actuarial assumptions most recently published by the Pension Benefit Guaranty Corporation.

c) Average annual compensation of a non-key employee for purposes of the foregoing shall mean his average annual aggregate compensation, as determined under Section 415(c)(3) of the Code, for the five (5) consecutive years of his service resulting in the highest such average, or for the actual years of his service if fewer than five (5), but in no event shall any compensation in excess of $200,000 be counted for any year.

13.7 In the event the Plan becomes top-heavy an employee's compensation taken into account for purposes of the Plan shall not exceed $200,000 for each plan year in which the Plan continues to be top-heavy, except that such maximum shall be automatically adjusted without Plan amendment to reflect cost-of-living adjustments made to such amount by the Secretary of the Treasury pursuant to Section 416(d)(2) of the Code.

13.8 In the event the Plan becomes super top-heavy in any plan year, the combined benefit limitation applicable to any employee participating in the Plan and a defined benefit plan of one or more employers in a controlled group shall be reduced for such year from 1.25 to 1.0 for purposes of Sections 416(e)(2)(B) and (3)(B) of the

Code and Section 12(D) of the Plan. The Plan shall be considered to be super top-heavy in any plan year if the percentage determined under Section 13.3 of the Plan for such year equals or exceeds ninety percent (90%).

13.9 If this Plan shall become a top-heavy plan, accrued benefits of all employees who completed an Hour of Service after the Plan became top-heavy shall be fully (100%) vested after the completion of 3 Years of Service. This accelerated vesting schedule shall not apply if the Plan ceases to be top-heavy except to the extent that the Plan resumes top-heavy status or to the extent that Members with 5 or more Years of Service elect in accordance with Section 411(a)(10) of the Code to have the special vesting schedule continue to determine the non-forfeitable percentage of their accrued benefits.

SCHEDULE I

SPECIAL PROVISIONS APPLICABLE TO CERTAIN FORMER EMPLOYEES OF ABC RECORDS, INC.

Any Employee of ABC Records, Inc. whose service with the Company (as defined in Section 1 of the Plan) was terminated as a result of the sale of the assets of ABC Records, Inc. to MCA Inc. on March 4, 1979 shall be fully vested in the amount to the credit of his account in the Plan which is attributable to Company Contributions (as defined in Section 1 of the Plan) allocated to his account as of the date of such termination.

SCHEDULE II

SPECIAL PROVISIONS APPLICABLE TO CERTAIN FORMER EMPLOYEES OF R. L. WHITE COMPANY, INC.

Any Employee of R. L. White Company, Inc. whose service with the Company was terminated as a result of the closing of the Information Systems division or the Multiple Listing Services division of R. L. White Company, Inc. on or about March 31, 1982, or the closing of the remainder of R. L. White Company, Inc. on or about June 30, 1982, shall be fully vested in the amount to the credit of his account which is attributable to the Company Contributions (as defined in Section 1 of the Plan) allocated to his account as of the date of such termination.

SCHEDULE III

SPECIAL PROVISIONS APPLICABLE TO MEMBERS ON JULY 1, 1983

Notwithstanding anything in the Plan to the contrary, any Employee who is a Member, or is eligible to become a Member on July 1, 1983 may make any number of elections with respect to his contributions and/or the investment of the balance to the credit of his account attributable to his contributions and such elections shall not be considered for purposes of the restrictions on the number of such elections permitted in any period of time by the Plan; provided that such elections are made on or before August 31, 1983 and are effective no earlier than July 1, 1983 and no later than September 1, 1983.

Notwithstanding anything in the Plan to the contrary, all suspensions of a Member's right to contribute to the Plan which are in effect on July 1, 1983 shall be deemed to be terminated on such date and any Member who had incurred such a suspension shall be eligible to make contributions to the Plan as and from July 1, 1883 or such later date as may be permitted for the resumption of contributions and selected by the Member.

SCHEDULE IV

SPECIAL PROVISIONS APPLICABLE TO FORMER MEMBERS OF THE ABC LEISURE MAGAZINES, INC. RETIREMENT SAVINGS PLAN

Effective January 1, 1984, notwithstanding any other Section of the Plan, any former member of the ABC LEISURE MAGAZINES, INC. RETIREMENT SAVINGS PLAN (the "LM Plan"), which was merged into the Plan on or about January 1, 1984, and who is now a Member of the Plan:

(A) (1) who was fully vested under the LM Plan in the amount to the credit of his account which was attributable to Company Contributions (as defined in the LM Plan) immediately prior to the merger, shall be fully vested in the amount to the credit of his account which is attributable to Company Contributions (as defined in Section 1 of the Plan) allocated to his account

(a) as of the effective date of the merger; and

(b) subsequent to the effective date of the merger;

(2) who was not fully vested under the LM Plan in the amount to the credit of his account which was attributable to Company Contributions (as defined in the LM Plan) immediately prior to the merger, shall be vested in the amount to the credit of his account which is attributable to Company Contributions (as defined in Section 1 of the Plan) allocated to his account not less than the vesting percent

age that would otherwise govern the Member had there been no merger and the provisions of the LM Plan still governed.

(B) Years of Service and Hours of Service (as defined in Section 1 of the Plan) shall include all Years of Service and Hours of Service (as defined in Section 1 of the LM Plan) credited to the Member under the LM Plan immediately prior to the merger.

(C) The last paragraph of Section 3 of the Plan shall not apply to any amounts to the credit of his account attributable to Company Contributions (as defined in the LM Plan) immediately prior to tne merger.

SCHEDULE V

SPECIAL PROVISIONS APPLICABLE TO CERTAIN FORMER EMPLOYEES OF SILVER SPRINGS, INC. AND WEEKI-WACHEE SPRING, INC.

Any Employee of Silver Springs, Inc. and Weeki-Wachee Spring, Inc. on the date of the sale of the stock of ABC Leisure Attractions, Inc. (scheduled to occur on or about May 25, 1984) shall be fully vested in the amount to the credit of his account in the Plan which is attributable to Company Contributions (as defined in Section 1 of the Plan) allocated to his account as of the date of such sale and shall be deemed to have terminated his employment with the Company (as defined in Section 1 of the Plan) as of such date.

SCHEDULE VI

SPECIAL PROVISIONS APPLICABLE TO EMPLOYEES OF ABC RADIO DALLAS, INC.

In the case of any Employee of ABC Radio Dallas, Inc. who was employed by KIXK(FM) on July 16, 1984, Service shall include service with KIXK(FM) prior to its acquisition by American Broadcasting Companies, Inc. on July 16, 1984.

Contributions of Members and Company Contributions made on behalf of such Members shall be made based on the Member's Compensation received on or after October 1, 1984.

SCHEDULE VII

SPECIAL PROVISIONS APPLICABLE TO CERTAIN EMPLOYEES OF STATIONS WABC-AM, WPLJ-FM, WLS-AM/FM, WRIF-FM, KSRR-FM, KTKS-FM, KABC-AM, KLOS-FM, KGO-AM AND WXYZ-TV AND CERTAIN EMPLOYEES OF THE ABC RADIO DIVISION STAFF AND THE ABC OWNED RADIO STATIONS STAFF

Any Employee (as defined in Section 1 G of the Plan) of stations WABC-AM, WPLJ-FM, WLS-AM/FM, WRIF-FM, KSRR-FM, KTKS-FM, KABC-AM, KLOS-FM, KGO-AM and WXYZ-TV and any Employee of the ABC Owned Radio Stations Staff and the ABC Radio Division Staff, with the exception of the President, ABC Radio, whose Service with the Company (as defined in Section 1(C) of the Plan) is terminated as a result of the divestiture by the Company of any of the said stations and in connection with the merger of American Broadcasting Companies, Inc. and Capital Cities Communications, Inc. on or about the merger date or sale date, if later, shall be fully vested in the amount to the credit of his account in the Plan which is attributable to Company Contributions (as defined in Section 1(O) of the Plan).

To Be Incorporated By Reference Into Form S-8 Registration Statment No. 2-58945

UNDERTAKINGS

The undersigned registrant hereby undertakes to deliver or cause to be delivered with the prospectus to each employee to whom the prospectus is sent or given a copy of the registrant's annual report to stockholders for its last fiscal year, unless such employee otherwise has received a copy of such report, in which case the registrant shall state in the prospectus that it will promptly furnish, without charge, a copy of such report on written request of the employee. If the last fiscal year of the registrant has ended within 120 days prior to the use of the prospectus, the annual report of the registrant for the preceding fiscal year may be so delivered, but within such 120 day period the annual report for the last fiscal year will be furnished to each such employee.

The undersigned registrant hereby undertakes to transmit or cause to be transmitted to all employees participating in the plan who do not otherwise receive such material as stockholders of the registrant, at the time and in the manner such material is sent to its stockholders, copies of all reports, proxy statements and other communications distributed to its stockholders generally.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

END