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CAPITAL CITIES ABC INC

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DISCLOSURE INCORPORATED BETHESDA MD 20816

FOR 01/03/88

# Quick Reference Chart to Contents of SEC Filings

REPORT CONTENTS	10-K	20-F	10-Q	8-K	10-C	6-K	Proxy Statement	Prospectus	Registration Statements		ARS	Listing Application	N-SAR	
									'34 Act					'33 Act "S" Type
									F-10	8-A 8-B				
<b>Auditor</b>														
<input type="checkbox"/> Name	A	A					F	A	A		A	A		A
<input type="checkbox"/> Opinion	A	A							A		A			A
<input type="checkbox"/> Changes				A										
<b>Compensation Plans</b>														
<input type="checkbox"/> Equity							F	F	A		F			
<input type="checkbox"/> Monetary							A	F	A		F			
<b>Company Information</b>														
<input type="checkbox"/> Nature of Business	A	A				F		A	A		A			
<input type="checkbox"/> History	F	A						A	F		A			
<input type="checkbox"/> Organization and Change	F	F		A		F		A		F	A			
Debt Structure	A					F		A	A		A	A		A
Depreciation & Other Schedules	A	A				F		A	A		A			
Dilution Factors	A	A		F		F		A	A		A	A		
<b>Directors, Officers, Insiders</b>														
<input type="checkbox"/> Identification	F	A				F	A	A	A		A	F		
<input type="checkbox"/> Background							A	A			A			
<input type="checkbox"/> Holdings		A					A	A	A		A			
<input type="checkbox"/> Compensation		A					A	A	A		A			
Earnings Per Share	A	A	A			F			A		A			A
<b>Financial Information</b>														
<input type="checkbox"/> Annual Audited	A	A							A		A	A		A
<input type="checkbox"/> Interim Audited		A												
<input type="checkbox"/> Interim Unaudited			A			F		F			F			
Foreign Operations	A							A	A		A		F	
Labor Contracts									F		F			
Legal Agreements	F								F		F			
Legal Counsel								A			A			
Loan Agreements	F								F		F			
Plants and Properties	A	F						F	A		F			
<b>Portfolio Operations</b>														
<input type="checkbox"/> Content (Listing of Securities)														A
<input type="checkbox"/> Management														A
Product-Line Breakout	A							A			A			
Securities Structure	A	A						A	A		A			
Subsidiaries	A	A							A		A			
Underwriting								A			A			
Unregistered Securities											A			
Block Movements				F					A					

Legend A - always included - included - if occurred or significant F - frequently included ■ special circumstances only

TENDER OFFER/ACQUISITION REPORTS	13D	13 G	14D-1	14D-9	13E-3	13E-4
Name of Issuer (Subject Company)	A	A	A	A	A	A
Filing Person (or Company)	A	A	A	A	A	A
Amount of Shares Owned	A	A				
Percent of Class Outstanding	A	A				
Financial Statements of Bidders			F		F	F
Purpose of Tender Offer			A	A	A	A
Source and Amount of Funds	A		A		A	
Identity and Background Information			A	A	A	
Persons Retained Employed or to be Compensated			A	A	A	A
Exhibits	F		F	F	F	F

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**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**

304

**For the fiscal year ended January 3, 1988**

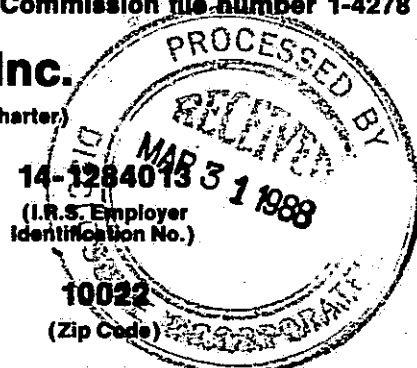
**Commission file number 1-4278**

**Capital Cities/ABC, Inc.**

(Exact name of registrant as specified in its charter)

**New York**

(State or other jurisdiction of  
incorporation or organization)



**24 East 51st Street, New York, N.Y.**

(Address of principal executive offices)

**10022**  
(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  No

The aggregate market value of the voting stock held by non-affiliates of the registrant is \$4,443,300,000 as of February 19, 1988.

The number of shares outstanding of the issuer's common stock as of February 19, 1988: 16,197,692 shares, excluding 2,195,804 treasury shares.

Portions of Part I are incorporated herein by reference to the 1987 Annual Report to Shareholders and the definitive Proxy Statement for the annual meeting of shareholders to be held on May 19, 1988.

Part II and Part IV, with the exception of certain schedules and exhibits, are incorporated herein by reference to the 1987 Annual Report to Shareholders.

Part III is incorporated herein by reference to the definitive Proxy Statement for the annual meeting of shareholders to be held on May 19, 1988.

## PART I

### Item 1. Business.

Capital Cities/ABC, Inc. and/or its subsidiaries (the "Company") operate the ABC Television Network, eight television stations, six radio networks and 21 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. See "Licenses—Federal Regulation of Broadcasting/Ownership Matters" below for disclosure of possible required divestiture of certain radio properties acquired in connection with the acquisition of American Broadcasting Companies, Inc. ("ABC").

### Employees

At January 3, 1988, the Company had approximately 20,120 full-time employees: 10,580 in broadcasting operations, 9,270 in publishing operations and 270 in corporate activities.

### Industry Segments

Information relating to the industry segments of the Company's operations is included on page 34 of the Company's Annual Report to Shareholders and is hereby incorporated by reference. In 1987, the Company derived substantially all broadcasting revenues and approximately 70% of its publishing revenues from the sale of advertising. Virtually 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 January 3, 1988, had 222 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 2,125 affiliated stations as of January 3, 1988 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 amounts 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 is dependent on the quantitative and qualitative audience that the network can deliver to the advertiser.

### Radio and Television Stations

The Company owns eleven standard (AM) radio stations, ten 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**

<u>Station and market</u>	<u>Frequency AM-Kilohertz FM-Megahertz</u>	<u>Power AM-Watts FM-Kilowatts</u>	<u>Expiration date of FCC authorization</u>	<u>Radio market ranking (1)</u>
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
WBAP ..... Fort Worth-Dallas, Texas	820 K	50,000	Aug. 1, 1990	8
WMAL ..... Washington, D.C.	630 K	5,000	Oct. 1, 1988	9
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
KRXY-AM ..... Denver, Colorado	1600 K	5,000	Apr. 1, 1990	24
WPRO ..... Providence, Rhode Island	630 K	5,000	Apr. 1, 1991	28
WWPR(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
KSCS (FM) (2) ..... Fort Worth-Dallas, Texas	96.3 M	100	Aug. 1, 1990	8
WRQX(FM) ..... Washington, D.C.	107.3 M	36	Oct. 1, 1988	9
WKHX-FM (2) ..... Atlanta, Georgia	101.5 M	100	Apr. 1, 1989	13
KQRS-FM ..... Minneapolis-St. Paul, Minnesota	92.5 M	50	(3)	18
KRXY-FM ..... Denver, Colorado	107.5 M	100	Apr. 1, 1990	24
WPRO-FM ..... Providence, Rhode Island	92.3 M	39	Apr. 1, 1991	28

## Television stations

<u>Station and market</u>	<u>Channel</u>	<u>Expiration date of FCC authorization</u>	<u>Television market ranking (4)</u>
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, 1992	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, 1988.

(2) No network affiliation.

(3) See "Licenses—Federal Regulation of Broadcasting/Renewal Matters" below for disclosure of pending license renewal application.

(4) Based on Arbitron ADI Market Rankings, 1987-88 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, which 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 is 33½%-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, cable television systems and other advertising media such as newspapers, magazines and billboards. Such competition occurs primarily in individual market areas. Generally, a television 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. However, they generally do not gain a significant share of the advertising marketplace.

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.

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 multipoint distribution services which employ non-broadcast frequencies to transmit subscription television services to individual homes and businesses. Additional services are being provided by low power television stations and by direct satellite-to-home transmissions. Finally, the increased in-home use of video cassette recorders and players provides what is, in effect, an alternative television service.

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, television syndication and theatrical distribution, and with conventional television broadcasters. The development of these businesses could adversely affect the future of conventional television broadcasting.

Technological developments have created the possibility that one or more of the television services with which the ABC Television Network and the Company's stations compete will provide enhanced or "high definition" pictures and sound of a quality that is technically superior to that which is currently available to consumers. It is not yet clear whether and to what extent technology of this kind will be available in the various television services, whether and how television stations will be able to avail themselves of these improvements, or whether the viewing public will make choices among services on the basis of such differences. The Company and many other segments of the television industry are intensively studying enhanced and high definition television technology, and the Federal Communications Commission (the "FCC") has initiated proceedings and studies of its potential and application to television service in the United States.

#### **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 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 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 owns 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 24.43%. The Company also owns eleven AM and ten FM radio 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 Company holds radio-television combinations in New York, Los Angeles, Chicago and San Francisco pursuant to a temporary waiver of these rules by the FCC pending completion of a proceeding in which the FCC is considering relaxation of the restrictions. The Company cannot predict when the proceeding will be completed, or its 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.

With respect to publicly held companies, the FCC rules provide that an entity will have the licensee's broadcast stations or newspapers attributed to it for purposes of the multiple ownership rules 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*

The Company's television 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 and effective on November 14, 1980. The consent decree contains provisions which prohibit the acquisition of subsidiary rights and interests in television programs produced by independent suppliers and forbid the Company 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 the Company's contractual relationships with suppliers of entertainment programming and with talent performers and other creative contributors to ABC Television Network entertainment programming, and limiting the number of hours of entertainment programming produced by the Company which may be offered for broadcast by the ABC Television Network. Similar judgments have been entered against CBS Inc. and the National Broadcasting Company, Inc. with respect to their television networks.

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.

#### *Radio Proceedings*

In an action designed to increase the number of aural outlets, the FCC has initiated studies of the possible expansion of the AM band to include new frequencies. This action would require, among other matters, some modifications of international treaties governing use of the radio spectrum. The FCC has also asked for comments on a proposal to make a number of changes in the criteria used for making assignments in the AM band. One of the proposals would permit an increase in the amount of interference AM stations may cause to, or receive from, other stations. The Company is not able to predict the outcome or impact of these proceedings.

## **Cable Television and Other Competing Services**

As previously noted (see "Competition" above), cable television can provide more competition to a television station by making additional signals available to its audience. In 1987, for the second time, the United States Court of Appeals for the District of Columbia Circuit ruled unconstitutional FCC rules which required cable television systems generally to carry the signals of television stations in whose service areas they operated. Some parties have sought review by the Supreme Court of the decision to eliminate the "must-carry" rules. There may also be attempts to obtain legislation reinstating the rules in some form. Currently, cable television systems may decline to carry the signals of television stations in their service areas, including the signals of television stations owned by the Company or affiliated with its television network.

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 reinstating 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. Many of these services (including ESPN, Arts & Entertainment and Lifetime) are also being distributed directly to viewers by means of satellite transmissions to home satellite reception dishes.

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 Commission has 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.

\* \* \* \* \*

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 years (000's omitted):

	<u>1987</u>	<u>1986</u>	<u>1985</u>	<u>1984</u>	<u>1983</u>
<b>Inches of advertising</b>					
Newspapers (a) .....	17,384	17,006	18,276	18,620	16,929
Specialized publications .....	3,766	3,914	2,691	2,837	2,731
<b>Advertising revenue</b>					
Newspapers—ROP .....	\$270,905	\$255,844	\$257,244	\$249,771	\$213,330
Newspapers—inserts .....	35,997	32,849	28,093	25,825	21,609
Shopping guides .....	60,845	56,291	52,608	41,927	7,751
Specialized publications .....	312,508	311,593	179,071	165,832	135,102
<b>Circulation revenue</b>					
Newspapers .....	\$ 70,686	\$ 56,260	\$ 51,418	\$ 49,468	\$ 46,914
Specialized publications .....	62,225	62,870	31,087	24,886	20,904
<b>Other operating revenue</b>					
Newspapers .....	\$ 4,074	\$ 3,603	\$ 3,778	\$ 3,593	\$ 3,038
Shopping guides .....	5,120	7,508	11,902	9,560	224
Specialized publications					
Books/Music .....	99,504	102,413	2,314	2,448	2,222
Data base and other .....	84,733	81,524	25,068	18,306	8,416
<b>Total revenue</b>					
Newspapers .....	\$381,662	\$348,556	\$340,533	\$328,657	\$284,891
Shopping guides .....	65,965	63,799	64,510	51,487	7,975
Specialized publications .....	558,970	558,400	237,540	211,472	166,644
<b>Paid circulation at year-end</b>					
Newspapers (Mon.-Fri.) .....	941	933	935	971	976
Newspapers (Sun.) .....	900	856	830	858	838
Specialized publications .....	4,234	4,437	785	769	678

(a) Does not include inserts.

### Daily Newspapers

The Company publishes nine daily newspapers in seven communities (five of which have Sunday editions). The daily newspapers and their paid circulation at January 3, 1988 are as follows:

		<u>Daily</u>	<u>Sunday</u>
<i>The Kansas City Times</i> .....	Morning	274,000	
<i>The Kansas City Star</i> .....	Evening	213,000	412,000
<i>Fort Worth Star-Telegram</i> .....	Morning	139,000	314,000
<i>Fort Worth Star-Telegram</i> .....	Evening	122,000	
<i>The Oakland Press</i> (Pontiac, Mich.) .....	Evening	73,000	81,000
<i>Belleville News-Democrat</i> (Belleville, Ill.) .....	Morning	46,000	54,000
<i>The Times Leader</i> (Wilkes-Barre, Pa.) .....	Morning	47,000	47,000
<i>Albany Democrat-Herald</i> (Albany, Oregon) .....	Evening	21,000	
<i>The Daily Tidings</i> (Ashland, Oregon) .....	Evening	6,000	

### Weekly Newspapers

The Company publishes weekly community newspapers in five states. The location by state, number of publications and aggregate circulation at January 3, 1988 is set forth below:

<u>State</u>	<u>Number of Publications</u>	<u>Aggregate Circulation</u>
Connecticut .....	15	156,000
Illinois .....	3	41,000
Michigan .....	3	7,000
Oregon .....	6	45,000
Rhode Island .....	3	25,000

### Shopping Guides

The Company distributes shopping guides in six states. The location by state, number of publications and aggregate circulation at January 3, 1988 is set forth below:

<u>State</u>	<u>Number of Publications</u>	<u>Aggregate Circulation</u>
California .....	5	1,574,000
Connecticut .....	7	165,000
Kansas .....	2	241,000
Missouri .....	1	129,000
Oregon .....	1	181,000
Washington .....	2	295,000

### 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:

<u>Title</u>	<u>Frequency</u>	<u>Circulation</u>
<b>Fairchild Publications</b>		
<b>Newspapers</b>		
<i>Women's Wear Daily</i> .....	Daily	65,000
<i>Daily News Record</i> .....	Daily	22,000
<i>American Metal Market</i> .....	Daily	10,000
<i>HFD—Retailing Home Furnishings</i> .....	Weekly	32,000
<i>Energy User News</i> .....	Weekly	13,000
<i>Footwear News</i> .....	Weekly	22,000
<i>Supermarket News</i> .....	Weekly	55,000
<i>Electronic News</i> .....	Weekly	92,000
<i>Metalworking News</i> .....	Weekly	90,000*
<i>MIS Week</i> .....	Weekly	125,000*
<i>Multichannel News</i> .....	Weekly	13,000
<i>W</i> .....	Biweekly	226,000
<i>SportStyle</i> .....	21 times per year	26,000*
<i>Entre</i> .....	Monthly	11,000*
<i>Children's Business</i> .....	Monthly	20,000*
<i>Financial Services Week</i> .....	Biweekly	78,000*
<b>Magazines</b>		
<i>M, The Civilized Man</i> .....	Monthly	137,000
<i>Metal Center News</i> .....	Monthly	13,000*
<i>Home Fashions</i> .....	Monthly	12,000*
<i>Heat Treating</i> .....	Monthly	20,000*
<i>Travel Agent</i> .....	Twice Weekly	45,000
<i>Scene</i> .....	Bimonthly	119,000
<i>Iron Age/Metal Producers</i> .....	Monthly	22,000*
<b>International Medical News Group</b>		
<i>Family Practice News</i> .....	Semimonthly	71,000*
<i>Internal Medicine News</i> .....	Semimonthly	73,000*
<i>Ob. Gyn. News</i> .....	Semimonthly	28,000*
<i>Pediatric News</i> .....	Monthly	29,000*
<i>Clinical Psychiatry News</i> .....	Monthly	28,000*
<i>Skin &amp; Allergy News</i> .....	Monthly	38,000*
<b>Professional Press Group</b>		
<i>Optical Index</i> .....	Semimonthly	17,000*
<i>International Eyecare</i> .....	Monthly	14,000*
<b>Institutional Investor</b>		
<i>Domestic Edition</i> .....	Monthly	104,000*
<i>International Edition</i> .....	Monthly	32,000*
<b>Philatelic Publications</b>		
<i>Stamp Collector</i> .....	Weekly	21,000
<i>The Stamp Wholesaler</i> .....	Bimonthly	5,000



<u>Title</u>	<u>Frequency</u>	<u>Circulation</u>
<b>ABC Publishing</b>		
<b>Consumer and Special Interest Publications</b>		
<i>McCall's Needlework &amp; Crafts</i> .....	Bimonthly	585,000
<i>Modern Photography</i> .....	Monthly	675,000
<i>High Fidelity</i> .....	Monthly	300,000
<i>Schwann Record &amp; Tape Guide</i> .....	Quarterly	25,000
<i>Schwann CD</i> .....	Monthly	19,000
<i>Musical America</i> .....	Bimonthly	15,000
<i>Los Angeles Magazine</i> .....	Monthly	172,000
<i>COMPUTE!</i> .....	Monthly	300,000
<i>COMPUTE!'s Gazette</i> .....	Monthly	250,000
<i>COMPUTE!'s Apple Applications</i> .....	Bimonthly	50,000
<i>COMPUTE!'s PC Magazine</i> .....	Bimonthly	85,000
<b>Trade Publications</b>		
<i>Assembly Engineering</i> .....	Monthly	79,000*
<i>Automotive Industries</i> .....	Monthly	80,000*
<i>Automotive Marketing</i> .....	Monthly	27,000*
<i>Commercial Carrier Journal</i> .....	Monthly	79,000*
<i>Distribution</i> .....	Monthly	70,000*
<i>Electronic Component News</i> .....	Monthly	110,000*
<i>Food Engineering North America</i> .....	Monthly	60,000*
<i>Food Engineering International</i> .....	10 times per year	15,000*
<i>Hardware Age</i> .....	Monthly	71,000*
<i>IMPO (Industrial Maintenance &amp; Plant Operations)</i> .....	Monthly	120,000*
<i>Industrial Finishing</i> .....	Monthly	36,000*
<i>Industrial Safety &amp; Hygiene News</i> .....	Monthly	57,000*
<i>Infosystems</i> .....	Monthly	107,000*
<i>Instrument &amp; Apparatus News</i> .....	Monthly	117,000*
<i>Instrument &amp; Control Systems</i> .....	Monthly	87,000*
<i>Jewelers Circular Keystone</i> .....	Monthly	38,000
<i>Machine and Tool Blue Book</i> .....	Monthly	95,000*
<i>Manufacturing Systems</i> .....	Monthly	131,000*
<i>MITE</i> .....	Bimonthly	110,000
<i>Motor Age</i> .....	Monthly	133,000
<i>Office Products Dealer</i> .....	Monthly	32,000*
<i>Owner Operator</i> .....	Bimonthly	91,000
<i>Personal Publishing</i> .....	Monthly	50,000
<i>Product Design &amp; Development</i> .....	Monthly	160,000*
<i>Quality</i> .....	Monthly	93,000*
<i>Review of Optometry</i> .....	Monthly	28,000

<u>Title</u>	<u>Frequency</u>	<u>Circulation</u>
<b>Agricultural Publications</b>		
<i>Prairie Farmer</i> .....	16 times per year	157,000
<i>Wallaces Farmer</i> .....	16 times per year	159,000*
<i>Wisconsin Agriculturist</i> .....	16 times per year	49,000
<i>Dairy Herd Management</i> .....	Monthly	105,000*
<i>Farm Store Merchandising</i> .....	Monthly	36,000*
<i>Feedstuffs</i> .....	Weekly	19,000
<i>Garden Supply Retailer</i> .....	Monthly	41,000*
<i>Hog Farm Management</i> .....	Monthly	43,000*
<i>Tack 'n Togs</i> .....	Monthly	20,000*

\* All, or substantially all, controlled circulation.

**Data Base Services**

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, visuals, directories and newsletters; conduct meetings and seminars; provide syndication, 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 competition 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. 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 2004. All of the premises occupied by the newspapers are owned by the Company.

The Company owns the ABC Television Center on West 66th 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. 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 2034. 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 constructing a new building which will house the Company's corporate offices and the television network administrative staff, adjacent to the ABC Television Center on West 66th Street in New York City, on property that the Company owns.

**Item 3. Legal Proceedings.**

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. By orders dated June 30, 1987 and July 13, 1987, the U.S. Claims Court rejected the claim by ABC for investment tax credit with respect to certain programs produced by outside production companies for ABC. On September 4, 1987, ABC filed a notice of appeal with the U.S. Court of Appeals for the Federal Circuit as to this aspect of the case and oral argument was held before the Court on February 3, 1988. The Court has not rendered a decision. Another aspect of the case—whether ABC is entitled to investment tax credits for certain ABC-produced programs—remains pending. The Company cannot predict the outcome of these proceedings, and accordingly, the financial statements have not reflected any 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. There have been no developments in this separate action brought by the program producers.

**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

<u>Name</u>	<u>Age</u>	<u>Director since</u>	<u>Officer since</u>	<u>Title</u>
Thomas S. Murphy .....	62	1957	1958	Chairman of the Board of Directors and Chief Executive Officer.
Daniel B. Burke .....	59	1967	1962	President, Chief Operating Officer and Director.
Joseph P. Dougherty .....	63	1967	1959	Executive Vice President and Director. Prior to 1986 he was also President of Broadcast Group.
John B. Fairchild .....	61	1968	1968	Executive Vice President, Chairman and Chief Executive Officer of Fairchild Publications, and Director.
John B. Sias .....	61	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 .....	46		1977	Senior Vice President and Chief Financial Officer.
Michael P. Mallardi .....	54		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 .....	50		1975	Senior Vice President and President of Publishing Group. Prior to 1986 he was President and Publisher of the <i>Fort Worth Star-Telegram</i> .
Stephen A. Weiswasser ...	47		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 .....	45		1981	Vice President and Controller.
Gerald Dickler .....	75	1954	1954	Secretary and Director.
David J. Vondrak .....	42		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, which acts as counsel to the Company on various matters. 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 36 of the 1987 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 22 and 23 of the 1987 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 17 through 21 of the 1987 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 24 through 37 of the 1987 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 19, 1988. Information concerning the executive officers is included in Part I, on page K-14.

### **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 19, 1988.

### **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 19, 1988.

### **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 19, 1988.

## 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 1987.

**CAPITAL CITIES/ABC, INC.**

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

(Item 14(a) 1.)

	<u>Reference</u>	
	<u>Annual Report to Shareholders</u>	<u>Form 10-K</u>
Consolidated balance sheet at January 3, 1988 and December 28, 1986 .....	26	
For the years ended January 3, 1988, December 28, 1986 and December 31, 1985:		
Consolidated statement of income .....	24	
Consolidated statement of changes in financial position .....	25	
Consolidated statement of stockholders' equity .....	28	
Notes to consolidated financial statements .....	29	
Financial statement schedules for the years ended January 3, 1988, December 28, 1986 and December 31, 1985:		
V—Property, plant and equipment .....		K-20
VI—Accumulated depreciation and amortization of property, plant and equipment .....		K-21
VIII—Valuation and qualifying accounts .....		K-20
X—Supplementary income statement information .....		K-21

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 January 3, 1988, are hereby incorporated by reference. With the exception of the items referred to in Items 1, 5, 6, 7, and 8, the 1987 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 January 3, 1988 of our report dated February 29, 1988, included in the 1987 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 29, 1988 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, Form S-8 No. 33-11806 for the registration of 200,000 shares and Form S-8 No. 33-16206 for the registration of 300,000 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

New York, New York  
March 17, 1988

*Arthur Young & Company*

**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. Incorporated by reference to the Company's Annual Report on Form 10-K for 1986.

(4) 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 as of January 3, 1986, as amended and restated as of June 30, 1987, among the Company, Chemical Bank and certain other banks.

(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) 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) (e) 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 1987 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, 1987.

(28) (b) Undertakings.

**CAPITAL CITIES/ABC, INC.**

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

	<u>Balance at beginning of period</u>	<u>Operating companies acquired</u>	<u>Additions at cost</u>	<u>Retirements or sales</u>	<u>Other changes—reclassifications (a)</u>	<u>Balance at close of period</u>
<b>Year ended January 3, 1988:</b>						
Land and improvements .....	\$ 383,038	\$ 299	\$ 13,059	\$ (11,004)	\$ 9,705	\$ 395,097
Buildings and improvements .....	422,031	334	46,786	(11,665)	2,280	459,766
Broadcasting equipment .....	272,878	865	33,875	(4,488)	4,626	307,756
Printing machinery and equipment .....	168,535	419	5,896	(13,493)	(12,753)	148,604
Other, including construction-in-progress	96,897	315	16,693	(1,741)	1,161	113,325
	<u>\$1,343,379</u>	<u>\$ 2,232</u>	<u>\$116,309</u>	<u>\$ (42,391)</u>	<u>\$ 5,019</u>	<u>\$1,424,548</u>
<b>Year ended December 28, 1986:</b>						
Land and improvements .....	\$ 22,726	\$ 323,498	\$ 74,238	\$ (37,424)		\$ 383,038
Buildings and improvements .....	77,419	389,602	95,617	(140,607)		422,031
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
	<u>\$ 518,492</u>	<u>\$1,078,610</u>	<u>\$153,082</u>	<u>\$ (406,805)</u>		<u>\$1,343,379</u>
<b>Year ended December 31, 1985:</b>						
Land and improvements .....	\$ 21,941	\$ 1,080	\$ 893	\$ (1,188)		\$ 22,728
Buildings and improvements .....	74,716	1,180	2,590	(1,067)		77,419
Broadcasting equipment .....	65,346	110	6,685	(288)		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
	<u>\$ 440,407</u>	<u>\$ 9,402</u>	<u>\$ 75,384</u>	<u>\$ (6,701)</u>		<u>\$ 518,492</u>

(a) Represents in 1987, final adjustments to the purchase price allocation of the 1986 acquisition of American Broadcasting Companies, Inc.

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 QUALIFICATION ACCOUNTS—SCHEDULE VIII**  
(Thousands of Dollars)

	<u>Balance at beginning of period</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at close of period</u>		
		<u>Operating companies acquired</u>	<u>Charged to income</u>	<u>Operating companies disposed</u>	<u>Accounts written-off, net</u>	
<b>Deducted from accounts and notes receivable:</b>						
Year ended January 3, 1988 .....	\$32,764		\$58,777		\$(53,743)	\$37,798
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

**CAPITAL CITIES/ABC, INC.**

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

	<u>Balance at beginning of period</u>	<u>Charged to income</u>	<u>Retire- ments or sales</u>	<u>Other changes— reclassifi- cations (a)</u>	<u>Balance at close of period</u>
<b>Year ended January 3, 1988:</b>					
Land improvements .....	\$ 927	\$ 375		\$ (3)	\$ 1,299
Buildings and improvements .....	46,261	19,752	\$ (1,695)	(616)	63,702
Broadcasting equipment .....	71,761	52,733	(2,557)	9,443	131,380
Printing machinery and equipment .....	69,272	12,303	(12,936)	(3,157)	65,482
Other .....	18,586	7,737	(1,470)	699	25,552
	<u>\$206,807</u>	<u>\$92,900</u>	<u>\$(18,658)</u>	<u>\$6,366</u>	<u>\$287,415</u>
<b>Year ended December 28, 1986:</b>					
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
	<u>\$200,596</u>	<u>\$95,201</u>	<u>\$(88,990)</u>		<u>\$206,807</u>
<b>Year ended December 31, 1985:</b>					
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
	<u>\$166,014</u>	<u>\$37,990</u>	<u>\$(3,408)</u>		<u>\$200,596</u>

(a) Represents in 1987, final adjustments to the purchase price allocation of the 1986 acquisition of American Broadcasting Companies, Inc.

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

	<u>Royalties</u>	<u>Advertising costs</u>
Year ended January 3, 1988 .....	\$49,961	\$111,511
Year ended December 28, 1986 .....	49,707	108,655
Year ended December 31, 1985 .....	5,367	11,878

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, 1988

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, 1988

Principal Financial Officer:

*Ronald J. Doerfler*  
(Ronald J. Doerfler)

March 17, 1988

Controller:

*Allen J. Edelson*  
(Allen J. Edelson)

March 17, 1988

Directors:

\*  
\_\_\_\_\_  
(Robert P. Bauman)

March 17, 1988

\*  
\_\_\_\_\_  
(Warren E. Buffett)

March 17, 1988

\*  
\_\_\_\_\_  
(Daniel B. Burke)

March 17, 1988

\*  
\_\_\_\_\_  
(Frank T. Cary)

March 17, 1988

\*  
\_\_\_\_\_  
(Gerald Dickler)

March 17, 1988

\*  
\_\_\_\_\_  
(Joseph P. Dougherty)

March 17, 1988

\*  
\_\_\_\_\_  
(John B. Fairchild)

March 17, 1988

\*  
\_\_\_\_\_  
(Leonard H. Goldenson)

March 17, 1988

\*  
\_\_\_\_\_  
(Leon Hess)

March 17, 1988

\*  
\_\_\_\_\_  
(George P. Jenkins)

March 17, 1988

\*  
\_\_\_\_\_  
(Thomas M. Macioce)

March 17, 1988

\*  
\_\_\_\_\_  
(John H. Muller, Jr.)

March 17, 1988

*Thomas S. Murphy*  
(Thomas S. Murphy)

March 17, 1988

\*  
\_\_\_\_\_  
(Frederick S. Pierce)

March 17, 1988

\*  
\_\_\_\_\_  
(John B. Poole)

March 17, 1988

\*  
\_\_\_\_\_  
(John B. Sias)

March 17, 1988

\*  
\_\_\_\_\_  
(William I. Spencer)

March 17, 1988

\*  
\_\_\_\_\_  
(M. Cabell Woodward, Jr.)

March 17, 1988

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

FIRST AMENDMENT (the "First Amendment") dated as of June 30, 1987, to the Revolving Credit Agreement dated as of January 3, 1986 (the "Credit Agreement"), among CAPITAL CITIES/ABC, INC. (formerly Capital Cities Communications, Inc.), a New York corporation (the "Company"), BANKERS TRUST COMPANY, THE BANK OF NEW YORK, THE CHASE MANHATTAN BANK, N.A., MORGAN GUARANTY TRUST COMPANY OF NEW YORK, MORGAN GUARANTY TRUST COMPANY OF NEW YORK, Channel Islands Branch, MANUFACTURERS HANOVER TRUST COMPANY, BANK OF AMERICA NATIONAL TRUST ASSOCIATION, MARINE MIDLAND BANK, N.A., THE FIRST NATIONAL BANK OF CHICAGO, CONTINENTAL ILLINOIS NATIONAL BANK AND TRUST COMPANY OF CHICAGO, NATIONAL BANK OF DETROIT, SECURITY PACIFIC NATIONAL BANK, THE FIRST NATIONAL BANK OF BOSTON, COMMERCE BANK OF KANSAS CITY and UNITED MISSOURI BANK OF KANSAS CITY, N.A. (the "Banks"), CITIBANK, N.A. ("Citibank"), and CHEMICAL BANK, a New York banking corporation, as Agent for the Banks (in such capacity, the "Agent").

A. The Company, the Banks and the Agent have agreed, subject to the terms and conditions hereof, to (i) reduce the Banks' Commitment Fees, (ii) eliminate the ability of each Bank to extend its Commitment on an annual basis and replace it with a Commitment from each Bank which terminates three years from the date hereof, (iii) amend the provisions governing successors and assigns to allow the Banks to assign their respective obligations, including their respective Commitments, (iv) have the Company and the Borrowing Subsidiaries (collectively, the "Borrowers") provide the Banks with protection in case of increased capital adequacy requirements, (v) change the Prime Rate to an Alternative Base Rate and (vi) provide a procedure pursuant to which each Bank may bid up to the full amount of its individual Commitment on borrowings by the Borrowers on an uncommitted basis. Additionally, Citibank has agreed, subject to the terms and conditions hereof, to terminate its Commitment in full and to cease to be a party to the Credit Agreement, and several of the Banks have agreed to increase their respective Commitments in place of Citibank's terminated Commitment.

B. Capitalized terms used herein and not defined herein shall have the meanings assigned to such terms in the Credit Agreement, as amended by this First Amendment.

Accordingly, in consideration of the mutual agreements herein contained and other good and valuable consideration, receipt of which is hereby acknowledged, the Company, the Banks, Citibank and the Agent hereby agree as follows:

**SECTION 1. Amendment to the Credit Agreement.**

Upon the effectiveness of this First Amendment (the first date upon which all the conditions set forth in Section 3 hereof have been satisfied being herein called the "Effective Date"), the Credit Agreement shall be and is hereby amended and restated in the form of Annex A hereto. Except as expressly amended hereby, the Credit Agreement shall continue in full force and effect in accordance with the provisions thereof on the date hereof. As used therein, the terms "Agreement", "this Agreement", "herein", "hereinafter", "hereto", "hereof" and words of similar import shall, unless the context otherwise requires, mean the Credit Agreement as amended by this First Amendment.

**SECTION 2. Replacement Standby Notes.**

On the Effective Date, the Company will execute and deliver to the Agent, for the account of each Bank, replacement promissory Standby Notes, dated the same date as the original Notes delivered under the Credit Agreement, identical in all respects to the Standby Note set forth in Exhibit E-2 to the Amended and Restated Revolving Credit Agreement attached as Annex A hereto, one of which shall be made payable to each Bank in the amount of its total Commitment. The schedule of loans and payments attached to each such replacement Standby Note shall reflect the Loans outstanding to each Bank on the Effective Date. Each such replacement Standby Note shall for all purposes be deemed a "Note" under the Credit Agreement, as amended hereby, and the Loans represented thereby shall for all purposes be deemed "Loans" of the Bank which made the same. On the Effective Date, the old Notes shall be deemed canceled, and each Bank and Citibank shall promptly deliver to the Agent, for delivery to the Company, its old Note with an appropriate notation as to the cancelation of such Note. The Agent shall, upon receipt by it of each such Note marked canceled, release from escrow and transmit the old Notes to the Company and a replacement Standby Note to each of the Banks.

**SECTION 3. Conditions to Effectiveness.**

This First Amendment shall become effective only upon the

satisfaction in full, on or prior to the Effective Date, of the following conditions precedent:

(a) The Agent shall have received a signed copy for each Bank of a favorable written opinion of Hall, Dickler, Lawler, Kent & Friedman, counsel for the Company, addressed to the Banks, dated the Effective Date, and satisfactory in form and substance to Cravath, Swaine & Moore, special counsel for the Banks, to the effect set forth in Exhibit 1 hereto.

(b) The Agent shall have received a signed copy for each Bank of a favorable written opinion of General Counsel for the Company, addressed to the Banks, dated the Effective Date, and satisfactory in form and substance to Cravath, Swaine & Moore, special counsel for the Banks, to the effect set forth in Exhibit 2 hereto.

(c) Each Bank shall have received (x) a copy of all amendments, if any, to the Company's Certificate of Incorporation and By-laws from January 3, 1986, and January 7, 1986, respectively, to the Effective Date, each certified by the Secretary or an Assistant Secretary of the Company and (y) a certificate dated as of the Effective Date and signed by the Secretary or an Assistant Secretary of the Company, certifying (A) that neither the Certificate of Incorporation nor the By-laws of the Company, have been amended from January 3, 1986, and January 7, 1986, respectively, to the Effective Date except as disclosed pursuant to clause (x) hereof, (B) that attached thereto are true and complete copies of all resolutions adopted by the Executive Committee of the Company, authorizing the execution and delivery of this First Amendment, and (C) as to the incumbency and specimen signature of each officer of the Company executing this First Amendment and any certificates or instruments furnished pursuant hereto, such certificate to contain a certification by another officer of the Company as to the incumbency and signature of the officer signing such certificate.

(d) Each Bank shall have received a certificate dated the Effective Date and signed by the chief financial officer or chief accounting officer of the Company to the effect (x) that all the representations and warranties of the Company set forth in Article III of the Credit Agreement as amended hereby, are true and correct in all material respects on and as of such date with the same effect as though made on and as of such

date and (y) that on such date (and giving effect to this First Amendment) the Company is in compliance with all the terms and provisions set forth in the Credit Agreement, as amended hereby, on its part to be observed or performed and no Event of Default or event which upon notice or lapse of time or both would constitute an Event of Default has occurred and is continuing.

(e) The Agent shall have received counterparts of this First Amendment which, when taken together, bear the signatures of all the parties hereto.

(f) The Agent shall have received in escrow the replacement Standby Notes referred to in Section 2 hereof, duly executed by the Company.

(g) All legal matters in connection with this First Amendment shall be satisfactory to Cravath, Swaine & Moore, special counsel for the Banks.

SECTION 4. Applicable Law. This First Amendment shall be governed by and construed in accordance with the laws of the State of New York.

SECTION 5. Counterparts. This First Amendment may be executed in two or more counterparts, each of which shall constitute an original, but all of which when taken together shall constitute but one instrument.

SECTION 6. Expenses. The Company agrees to reimburse the Agent for its out-of-pocket expenses in connection with this First Amendment, including the fees and expenses of special counsel for the Banks.

IN WITNESS WHEREOF, Capital Cities/ABC, Inc., each of the Banks and the Agent have caused this First Amendment to be duly executed by their duly authorized officers, all as of the date and year first above written.

CAPITAL CITIES/ABC, INC.,

by

Ronald J. Doerfler  
Title: Senior Vice President  
and Chief Financial  
Officer



CHEMICAL BANK, individually and  
as Agent,

by

Robert C. Ruocco

Title: Vice President

CITIBANK, N.A.,

by

Gayle F. Robinson

Title: Vice President

THE BANK OF NEW YORK,

by

Joseph J. Savage

Title: Vice President

THE CHASE MANHATTAN BANK, N.A.,

by

Bruce L. Gregory

Title: Vice President

MORGAN GUARANTY TRUST COMPANY OF  
NEW YORK,

by

Bruce E. Langenkamp

Title: Vice President

MANUFACTURERS HANOVER TRUST COM-  
PANY,

by

Leslie S. Florio  
Title: Vice President

BANK OF AMERICA NATIONAL TRUST  
AND SAVINGS ASSOCIATION,

by

Raymond J. Martin  
Title: Vice President

BANKERS TRUST COMPANY,

by

Allison H. Coleman  
Title: Vice President

MARINE MIDLAND BANK, N.A.,

by

Alison E. Melick  
Title: Assistant Vice  
President

THE FIRST NATIONAL BANK OF  
CHICAGO,

by

William J. Hake  
Title: Vice President

CONTINENTAL ILLINOIS NATIONAL  
BANK AND TRUST COMPANY OF  
CHICAGO,

by

Leonard B. Sebesta  
Title: Vice President

NATIONAL BANK OF DETROIT,

by

Carolyn J. Parks

Title: Vice President

SECURITY PACIFIC NATIONAL BANK,

by

Caron C. Brandlin

Title: Vice President

THE FIRST NATIONAL BANK OF BOSTON,

by

Robert A. Bachelder

Title: Vice President

COMMERCE BANK OF KANSAS CITY,

by

Stephen P. Hall

Title: Senior Vice President

UNITED MISSOURI BANK OF KANSAS CITY, N.A.,

by

Walter Beck

Title: Vice Chairman

Substance of Opinion of  
Hall, Dickler, Lawler, Kent & Friedman,  
Counsel for the Company,  
To Be Delivered on June 30, 1987

1. The Company is duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization, has the requisite power and authority to own its property and assets and to carry on its businesses as now conducted and is qualified to do business in every jurisdiction where such qualification is required, except where the failure so to qualify would not have a material adverse effect on the condition, financial or otherwise, of the Company or the Company and the Subsidiaries taken as a whole. The Company has the corporate power to execute, deliver and perform its obligations under the Credit Agreement as amended by the First Amendment, to borrow thereunder and to execute and deliver the replacement Standby Notes and the Competitive Notes to be delivered by it.

2. The execution, delivery and performance by the Company of the Credit Agreement as amended by the First Amendment, the borrowings thereunder and the execution and delivery of the replacement Standby Notes and the Competitive Notes (a) have been duly authorized by all requisite corporate and, if required, shareholder action of the Company, and (b) will not (i) violate (A) any provision of law, statute, rule or regulation or the articles of incorporation or the By-laws of the Company, (B) to the best of our knowledge after due inquiry, any order of any court or any rule, regulation or order of any other agency of government binding upon the Company or any Subsidiary or (C) to the best of our knowledge after due inquiry, any provisions of any indenture, agreement or other instrument to which the Company or any Subsidiary, or any of their respective properties or assets are or may be bound or (ii) to the best of our knowledge after due inquiry, be in conflict with, result in a breach of or constitute (alone or with due notice or lapse of time or both) a default under any indenture, agreement or other instrument referred to in (b)(i)(C) above.

3. The Credit Agreement as amended by the First Amendment and the replacement Standby Notes being delivered by the Company have been duly executed and delivered by the Company, and constitute, and the Competitive Notes when duly

executed and delivered by the Company will constitute, legal, valid and binding obligations of the Company, enforceable in accordance with their respective terms (subject, as to the enforcement of remedies, to applicable bankruptcy, reorganization, insolvency and similar laws affecting creditors' rights generally and to moratorium laws from time to time in effect).

4. No registration with or consent or approval of, or other action by, any Federal, state or other governmental agency, authority or regulatory body is required in connection with the execution, delivery and performance by the Company of the Credit Agreement as amended by the First Amendment, the execution and delivery by the Company of the replacement Standby Notes and the Competitive Notes or its borrowings thereunder.

5. To the best of our knowledge after due inquiry, there are not any actions, suits or proceedings at law or in equity or by or before any governmental instrumentality or other agency or regulatory authority now pending or threatened against or affecting the Company or any Subsidiary, or the business, assets or rights of the Company or any Subsidiary, which involve the Credit Agreement as amended by the First Amendment or any of the transactions contemplated thereby.

Substance of Opinion of  
General Counsel for the Company,  
To Be Delivered on June 30, 1987

To the best of our knowledge after due inquiry, there are not any actions, suits or proceedings at law or in equity or by or before any governmental instrumentality or other agency or regulatory authority (other than any proceedings under the Federal Communications Act of 1934 or the rules and regulations of the Federal Communications Commission) now pending or threatened against or affecting the Company or any Subsidiary as to which there is a reasonable possibility of an adverse determination and which, if adversely determined, would be likely, in our judgment, individually or in the aggregate, materially to impair the ability of the Company or the Company and the Subsidiaries taken as a whole to conduct business substantially as now conducted, or materially and adversely to affect the business, assets, operations, prospects or condition, financial or otherwise, of the Company or the Company and the Subsidiaries taken as a whole, or to impair the validity or enforceability of or the ability of the Company to perform its obligations under the Credit Agreement as amended by the First Amendment or under the replacement Standby Notes executed and delivered, or the Competitive Notes to be executed and delivered, by the Company.

CAPITAL CITIES/ABC, INC.  
(formerly Capital Cities  
Communications, Inc.)

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REVOLVING CREDIT AGREEMENT

Dated as of January 3, 1986  
as Amended and Restated  
through June 30, 1987

with

CERTAIN BANKS

and

CHEMICAL BANK,  
as Agent

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Schedule 3.07	Description of Merger and Ownership of ABC by the Company Following the Merger

AMENDED AND RESTATED REVOLVING CREDIT AGREEMENT dated as of January 3, 1986, as amended through June 30, 1987, among CAPITAL CITIES/ABC, INC. (formerly Capital Cities Communications, Inc.), a New York corporation (the "Company"), the Banks named in paragraph 2.01 hereof (the "Banks"), and CHEMICAL BANK, a New York banking corporation, as Agent for the Banks (in such capacity, the "Agent").

The Company entered into a Credit Agreement dated as of January 3, 1986, pursuant to which the Banks, together with Citibank, N. A. ("Citibank"), have made loans to the Company on a revolving credit basis.

The Company, the Banks and the Agent have agreed, subject to the terms and conditions hereof, to amend certain terms of the Credit Agreement and restate the Credit Agreement in its entirety, and Citibank has agreed to terminate its Commitment hereunder in full and to cease to be a party to this Agreement.

Accordingly, the Company, the Banks and the Agent hereby agree that the Credit Agreement is hereby amended and restated to read in its entirety as follows:

#### I. DEFINITIONS

For purposes hereof, the terms:

"ABC" shall mean American Broadcasting Companies, Inc., a New York corporation.

"Acquisition" shall mean CCC Acquisition Corp., a New York corporation and an indirect wholly owned subsidiary of the Company.

"Adjusted CD Rate" shall mean, with respect to any Certificate of Deposit Loan for any Interest Period, an interest rate per annum (rounded upwards, if necessary, to the next higher 1/8 of 1%) equal to the sum of (a) a rate per annum equal to the product of (i) the Fixed Certificate of Deposit Rate in effect for such Interest Period and (ii) Statutory Reserves, plus (b) the Assessment Rate. For purposes hereof, the term "Fixed Certificate of Deposit

Rate" shall mean the arithmetic average (rounded to the nearest  $\frac{1}{8}$  of 1% or, if there is no nearest  $\frac{1}{8}$  of 1%, the next higher  $\frac{1}{8}$  of 1%) of the prevailing rates per annum bid on or about 10:00 a.m. (New York City time) to the Agent on the first Business Day of the Interest Period for the Certificate of Deposit Loan by three New York City negotiable certificate of deposit dealers of recognized standing selected by the Agent for the purchase at face value of negotiable certificates of deposit of major United States money center banks in an amount approximately equal to the principal amount of the Agent's portion of the Certificate of Deposit Loan and with a maturity comparable to such Interest Period.

"Adjusted LIBO Rate" shall mean, with respect to any Eurodollar Loan for any Interest Period, an interest rate per annum (rounded upwards, if necessary, to the next higher  $\frac{1}{8}$  of 1%) equal to the product of (a) the LIBO Rate and (b) Statutory Reserves. For purposes hereof, the term "LIBO Rate" shall mean the rate (rounded to the nearest  $\frac{1}{8}$  of 1% or, if there is no nearest  $\frac{1}{8}$  of 1%, the next higher  $\frac{1}{8}$  of 1%) at which dollar deposits approximately equal in principal amount to the Agent's portion of the Eurodollar Loan and for a maturity equal to the applicable Interest Period are offered by major banks to major banks in immediately available funds in the London Interbank Market for Eurodollars at approximately 11:00 a.m., London time, two Business Days prior to the commencement of such Interest Period.

"Alternate Base Loan" shall mean any Loan based on the Alternate Base Rate in accordance with the provisions of Article II.

"Alternate Base Rate" shall mean, for any day, a rate per annum (rounded upwards, if necessary, to the next  $\frac{1}{8}$  of 1%) equal to the greatest of (a) the Prime Rate (computed on the basis of the actual number of days elapsed over a year of 365 or 366 days, as the case may be) in effect on such day, (b) the Base CD Rate in effect on such day plus  $1\frac{1}{4}\%$  and (c) the Federal Funds Effective Rate in effect on such day plus  $\frac{5}{8}$  of 1%. "Prime Rate" shall mean the rate of interest publicly announced from time to time by the Agent at its principal office in New York City as its prime rate. For purposes of this Agreement, any change in the Alternate Base Rate due to a change in the Prime Rate shall be effective on the date such change in the Prime Rate is announced and has been declared effective. "Base CD Rate" shall mean the sum of (a) the product of (i) the Average Weekly Three-Month Secondary CD Rate times

(ii) Statutory Reserves and (b) the Assessment Rate. "Average Weekly Three-Month Secondary CD Rate" shall mean the secondary market rate ("Secondary CD Rate") for three-month certificates of deposit (secondary market) of major United States money market banks for the most recent weekly period ending Friday reported in the Federal Reserve Statistical release entitled "Selected Interest Rates" (currently publication H.15) or any successor publication released during the week immediately preceding the week for which the Secondary CD Rate is being determined. The Secondary CD Rate so reported shall be in effect, for the purpose of this definition, for each day of the week commencing the Monday following the release date of such publication. If such publication or a substitute containing the foregoing rate information is not published by the Federal Reserve for any week, such average rate shall be determined by the Agent on the first Business Day of the week succeeding such week for which such rate information is not published on the basis of bids quoted to the Agent by three New York City negotiable certificate of deposit dealers of recognized standing for secondary market morning offerings of negotiable certificates of deposit of major United States money market banks with maturities of three months. Any change in the Alternate Base Rate due to a change in the Average Weekly Three-Month Secondary CD Rate shall be effective on the effective date of such change in the Secondary CD Rate. "Federal Funds Effective Rate" shall mean, for any period, a fluctuating interest rate per annum equal for each day during such period to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers, as published for such day (or, if such day is not a Business Day, for the next preceding Business Day) by the Federal Reserve Bank of New York, or, if such rate is not so published for any day which is a Business Day, the average of the quotations for such day on such transactions received by the Agent from three Federal funds brokers of recognized standing selected by it. For purposes of this Agreement, any change in the Alternate Base Rate due to a change in the Federal Funds Effective Rate shall be effective on the effective date of such change in the Federal Funds Effective Rate. If for any reason the Agent shall have determined (which determination shall be conclusive absent manifest error) that it is unable to ascertain for any reason, including, without limitation, the inability or failure of the Agent to obtain sufficient bids or publications in accordance with the terms thereof, (i) the Base CD Rate, then the Alternate Base Rate shall be the greater of (x) the Federal Funds Effective Rate plus 5/8

of 1% and (y) the Prime Rate, (ii) the Federal Funds Effective Rate, then the Alternate Base Rate shall be the greater of (x) the Base CD Rate plus 1-1/4% and (y) the Prime Rate or (iii) the Base CD Rate and the Federal Funds Effective Rate, then the Alternate Base Rate shall be the Prime Rate, in each case until the circumstances giving rise to such inability no longer exist.

"Assessment Rate" shall mean for any date the annual rate (rounded upwards, if necessary, to the next higher 1/100 of 1%) most recently estimated by the Agent as the then current net annual assessment rate that will be employed for determining amounts payable by the Agent to the Federal Deposit Insurance Corporation (or any successor) for insurance by such Corporation (or such successor) of time deposits made in dollars at the Agent's domestic offices.

"Assignment and Acceptance" shall mean an assignment and acceptance entered into by a Bank and an assignee, and accepted by the Agent, precisely in the form of Exhibit F hereto.

"Attributable Debt" shall mean, as to any lease, at any date as of which the amount thereof is to be determined, the total net amount of the rental payments (discounted from the respective due dates thereof at a rate per annum equal to 3% plus the prevailing market interest rate, at the time such lease was entered into, on United States Treasury obligations having a maturity substantially the same as the term of such lease) required to be made by the lessee thereunder during the remaining term thereof. The net amount of the rental payments required to be made under any such lease shall be the total amount of the rent payable by the lessee, but excluding amounts required to be paid on account of maintenance and repairs, insurance, taxes, assessments, water rates and similar charges. In the case of any lease which is terminable by the lessee upon the payment of a penalty, such net amount shall also include the amount of such penalty, but not any rentals accruing after the first date upon which such lease may be so terminated. In the case of any lease under which the amount of the rental payments is indeterminate (e.g., where rent is based on sales or profits), the net amount of the rental payments required to be made during any fiscal year shall be the amount of the rental payments made (or which would have been required to be made had such lease been in effect) during the most recently elapsed fiscal year.

"Board" shall mean the Board of Governors of the Federal Reserve System of the United States.

"Borrowers" shall mean the Company and the Borrowing Subsidiaries, collectively.

"Borrowing Subsidiary" shall mean any Subsidiary which shall have executed and delivered to the Agent and each Bank a Borrowing Subsidiary Agreement and each Subsidiary which assumes the obligations of a Borrowing Subsidiary pursuant to Section 5.01.

"Borrowing Subsidiary Agreement" shall mean an agreement, in the form of Exhibit A hereto, duly executed by the Company and a Subsidiary.

"Business Day" shall mean any day, other than a Saturday, Sunday or legal holiday in the State of New York, on which banks are open for substantially all their banking business in New York City, except that, if any determination of a "Business Day" shall relate to a Eurodollar Loan, the term "Business Day" shall in addition exclude any day on which banks are not open for dealings in dollar deposits in the London Interbank Market.

"Certificate of Deposit Loan" shall mean a Loan based on the Adjusted CD Rate in accordance with Article II hereof.

"Closing Date" shall mean the date of the first borrowing under this Agreement.

"Commitment" shall mean, with respect to each Bank, the Commitment of such Bank hereunder as set forth in Section 2.01 as the same may be adjusted from time to time pursuant to Section 2.08. The Commitment of each Bank shall be deemed permanently terminated on the Maturity Date.

"Commitment Fee" shall have the meaning assigned such term in Section 2.07.

"Competitive Bid" shall mean an offer by a Bank to make a Competitive Loan pursuant to Section 2.02.

"Competitive Bid Request" shall mean a request made pursuant to Section 2.02 in the form of Exhibit B-1.

"Competitive Borrowing" shall mean a borrowing consisting of simultaneous Competitive Loans from each of

the Banks whose Competitive Bid as a part of such borrowing has been accepted by the Borrower under the bidding procedure described in Section 2.02.

"Competitive Loan" shall mean any Loan offered by a Bank pursuant to Section 2.02, which shall be based upon an absolute percentage rate per annum selected by such Bank, expressed as a decimal (to no more than four decimal places), which the Borrower shall have elected to accept.

"Competitive Note" shall mean a promissory note of the Borrower in the form of Exhibit E-1 hereto, executed and delivered as provided in Section 2.05 hereof.

"Consolidated Net Income" shall mean the net income of the Company and the Subsidiaries, computed and consolidated in accordance with generally accepted accounting principles consistently applied, but excluding net gains or net losses on sales of properties and assets other than in the ordinary course of business.

"Consolidated Net Worth" shall mean, at any date, the excess of (i) the net value of the assets of the Company and Subsidiaries after all appropriate deductions in accordance with generally accepted accounting principles (including, without limitation, reserves for doubtful receivables, obsolescence, depreciation and amortization), but excluding from the net value of such assets the amount of any write-up subsequent to September 30, 1985, in the book value of any asset owned on such date resulting from the revaluation thereof subsequent to such date and any write-up of any asset acquired subsequent to such date to a value in excess of the purchase price of such asset, over (ii) the consolidated liabilities (including tax and other proper accruals and including mandatorily redeemable preferred stock) of the Company and its Subsidiaries, in each case computed and consolidated in accordance with generally accepted accounting principles consistently applied.

"Eligible Assignee" shall mean (i) a commercial bank organized under the laws of the United States, or any State thereof, and having total assets in excess of \$1,000,000,000; (ii) a savings and loan association or savings bank organized under the laws of the United States, or any State thereof, and having a net worth of at least \$100,000,000, calculated in accordance with generally accepted accounting principles; (iii) a commercial bank organized under the laws of any other country which is a member of the OECD, or a political subdivision of any such



country, and having total assets in excess of \$1,000,000,000, provided that such bank is acting through a branch or agency located in the country in which it is organized or another country which is also a member of the OECD; and (iv) the central bank of any country which is a member of the OECD.

"ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended from time to time.

"Eurodollar Loan" shall mean a Loan based on the Adjusted LIBO Rate in accordance with Article II hereof.

"Event of Default" shall have the meaning assigned such term in Article VII hereof.

"Guarantee" shall mean any obligation, contingent or otherwise, of any person guaranteeing or having the economic effect of guaranteeing any Indebtedness or obligation of any other person in any manner, whether directly or indirectly, and including, without limitation, any obligation of such person, direct or indirect, (i) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or to purchase (or to advance or supply funds for the purchase of) any security for the payment of such Indebtedness, (ii) to purchase property, securities or services for the purpose of assuring the owner of such Indebtedness of the payment of such Indebtedness, or (iii) to maintain working capital, equity capital or other financial statement condition of the primary obligor so as to enable the primary obligor to pay such Indebtedness; provided, however, that the term Guarantee shall not include endorsements for collection or deposit, in either case in the ordinary course of business.

"Indebtedness" shall mean, with respect to any person, (a) all obligations of such person for borrowed money, or with respect to deposits or advances of any kind, (b) all obligations of such person evidenced by bonds, debentures, notes or similar instruments, (c) all obligations of such person upon which interest charges are customarily paid, (d) all obligations of such person under conditional sale or other title retention agreements relating to property purchased by such person, (e) all obligations of such person issued or assumed as the deferred purchase price of property or services, (f) all obligations of such person under leases required to be accounted for as capital leases

under generally accepted accounting principles and (g) all Guarantees of such person.

"Interest Payment Date" shall mean, as to any Loan, the last day of the Interest Period applicable to such Loan (and, in the case of any Interest Period having a duration equal to or greater than six months or 180 days, the dates that would be the last days of successive Interest Periods (the first of which commences on the first day of such Interest Period) of three months' (in the case of Eurodollar Loans) or 90 days' (in all other cases) duration) and the date of any refinancing of such Loan with a Loan of a different type.

"Interest Period" shall mean: (i) as to any Eurodollar Loan, the period commencing on the date of such Loan and ending on the numerically corresponding day (or, if there is no numerically corresponding day, on the last day in the calendar month that is 1, 2, 3 or 6 months thereafter, as the Borrower may elect, (ii) as to any Certificate of Deposit Loan, a period of 30, 60, 90 or 180 days' duration, as the Borrower may elect, commencing on the date of such Certificate of Deposit Loan, (iii) as to any Alternate Base Loan, the period commencing on the date of such Alternate Base Loan and ending on the next March 31, June 30, September 30 or December 31 or, if earlier, on the Maturity Date and (iv) as to any Competitive Loan, the period commencing on the date of such Loan and ending on the date specified in the Competitive Bid in which the offer to make the Competitive Loan was extended; provided, however, that (x) if any Interest Period would end on a day that shall not be a Business Day, such Interest Period shall be extended to the next succeeding Business Day unless, with respect to Eurodollar Loans only, such next succeeding Business Day would fall in the next calendar month, in which case such Interest Period shall end on the next preceding Business Day, (y) with respect to a Standby Loan comprised of a Eurodollar Loan or a Certificate of Deposit Loan, and with respect to any Competitive Loan, no Interest Period may be selected which ends later than the Maturity Date and (z) interest shall accrue from and including the first day of an Interest Period to but excluding the last day of such Interest Period.

"Loan" shall mean a Standby Loan, a Competitive Loan, a Certificate of Deposit Loan, a Eurodollar Loan or an Alternate Base Loan.

"Margin Stock" shall have the meaning assigned such term in Regulation U.

"Maturity Date" shall mean, as to any Bank, June 30, 1990.

"Merger" shall mean the merger of Acquisition with and into ABC provided for in the Merger Agreement.

"Merger Agreement" shall mean the Agreement and Plan of Merger dated as of March 18, 1985, among the Company, Acquisition and ABC, amended and restated as of May 8, 1985.

"Note" shall mean a promissory note of a Borrower, executed and delivered as provided in Section 2.05 hereof.

"OECD" shall mean the Organization for Economic Cooperation and Development.

"person" shall mean any natural person, corporation, business trust, association, company, joint venture, partnership or government or any agency or political subdivision thereof.

"Plan" shall mean any employee plan which is subject to the provisions of Title IV of ERISA and which is maintained (in whole or in part) for employees of the Company or a Subsidiary.

"Rate" shall mean the effective interest rate contained in a Competitive Bid specified by reference to an annual percentage rate per annum computed on the basis of the actual number of days elapsed in a year of 360 days.

"Register" shall have the meaning assigned such term in Section 10.04(c).

"Regulation G" shall mean Regulation G of the Board, as the same is from time to time in effect, and all official rulings and interpretations thereunder or thereof.

"Regulation U" shall mean Regulation U of the Board, as the same is from time to time in effect, and all official rulings and interpretations thereunder or thereof.

"Regulation X" shall mean Regulation X of the Board, as the same is from time to time in effect, and all official rulings and interpretations thereunder or thereof.

"Reportable Event" shall mean a Reportable Event as defined in Section 4043(b) of ERISA.

"Responsible Officer" shall mean any executive officer, or the chief financial officer or controller, of the Company.

"Required Banks" shall mean at any time Banks having Commitments representing 66-2/3% of the Total Commitment, except that for purposes of determining the Banks entitled to declare the Notes to be forthwith due and payable pursuant to Article VII, "Required Banks" shall mean Banks holding 66-2/3% of the aggregate principal amount of the Loans at the time outstanding.

"Sale and Leaseback Transaction" shall have the meaning assigned such term in Section 6.02.

"Standby Borrowing" shall mean a borrowing consisting of simultaneous Standby Loans from each of the Banks distributed ratably among the Banks in accordance with their respective unutilized Commitments.

"Standby Loan" shall have the meaning given such term in Section 2.01.

"Standby Note" shall mean a promissory note of the Borrower in the form of Exhibit E-2 hereto, executed and delivered as provided in Section 2.05 hereof.

"Statutory Reserves" shall mean a fraction (expressed as a decimal), the numerator of which is the number one and the denominator of which is the number one minus the aggregate of the maximum reserve percentages (including, without limitation, any marginal, special, emergency, or supplemental reserves) expressed as a decimal established by the Board and any other banking authority to which the Agent is subject (a) with respect to the Adjusted CD Rate or the Base CD Rate, for new negotiable time deposits in dollars of over \$100,000 with maturities approximately equal to the applicable Interest Period, and (b) with respect to the Adjusted LIBO Rate, for Eurocurrency Liabilities (as defined in Regulation D of the Board). Such reserve percentages shall include, without limitation, those imposed under such Regulation D. Eurodollar Loans shall be deemed to constitute Eurocurrency Liabilities and as such shall be deemed to be subject to such reserve requirements without benefit of or credit for proration, exceptions or offsets which may be available from time to time to any Bank

under such Regulation D. Statutory Reserves shall be adjusted automatically on and as of the effective date of any change in any reserve percentage.

"subsidiary" shall mean, with respect to any person (the "parent"), any corporation, association or other business entity of which securities or other ownership interests representing more than 50% of the ordinary voting power are, at the time as of which any determination is being made, owned or controlled by the parent or one or more subsidiaries of the parent or by the parent and one or more subsidiaries of the parent.

"Subsidiary" shall mean a subsidiary of the Company.

"Total Commitment" shall mean at any time the aggregate amount of the Banks' Commitments, as in effect at such time.

Except ~~as~~ otherwise herein specifically provided, each accounting term used herein shall have the meaning given it under generally accepted accounting principles in effect from time to time applied on a basis consistent with those used in preparing the financial statements referred to in Section 3.05; provided, however, that each reference in Article VI hereof, or in the definition of any term used in Article VI hereof, to generally accepted accounting principles shall mean generally accepted accounting principles as in effect on the date hereof and as applied by the Company in preparing the financial statements referred to in Section 3.05.

## II. THE LOANS

SECTION 2.01. Commitments. (a) Subject to the terms and conditions and relying upon the representations and warranties herein set forth, each Bank, severally and not jointly, agrees to make standby revolving credit loans ("Standby Loans") to the Borrowers, at any time and from time to time from the date hereof to the Maturity Date, or until the earlier termination of the Commitment of such Bank in accordance with the terms hereof, subject, however, to the condition that at no time shall (A) the sum of (x) the outstanding aggregate principal amount of all Standby Loans made by a Bank and (y) the outstanding aggregate principal amount of all Competitive Loans made by a Bank exceed (B) the Commitment of such Bank as set forth opposite its name

below, as such Commitment may be adjusted from time to time pursuant to Section 2.08:

	<u>Commitment</u>	<u>Percent of Commitments</u>
Chemical Bank 277 Park Avenue New York, New York 10172  Attention: Thomas L. James Vice President	\$ 146,000,000	14.6%
The Bank of New York 530 Fifth Avenue New York, New York 10036  Attention: Gerald L. Hassell Senior Vice President	93,000,000	9.3%
The Chase Manhattan Bank, N.A. One Chase Manhattan Plaza New York, New York 10081  Attention: Bruce L. Gregory Vice President	93,000,000	9.3%
Morgan Guaranty Trust Company of New York 23 Wall Street New York, New York 10015  Attention: Bruce Langenkamp Vice President	93,000,000	9.3%
Manufacturers Hanover Trust Company 270 Park Avenue New York, New York 10017  Attention: Leslie S. Florio Vice President	93,000,000	9.3%

Bank of America National Trust and Savings Association N.A.D. Corporate Service Center 1850 Gateway Boulevard Concord, California 94520	93,000,000	9.3%
Attention: Wendy Frear		
with a copy to Bank of America National Trust and Savings Association 335 Madison Avenue New York, New York 10017		
Attention: Raymond Martin Vice President		
Bankers Trust Company 280 Park Avenue, 5 East New York, New York 10015	75,000,000	7.5%
Attention: Alexander T. Mason Managing Director Media Division		
Marine Midland Bank, N.A. 140 Broadway New York, New York 10015	52,000,000	5.2%
Attention: Alison E. Melick Assistant Vice President		
The First National Bank of Chicago 153 W. 51st Street 8th Floor New York, New York 10019	52,000,000	5.2%
Attention: William J. Hake Vice President		
Continental Illinois National Bank and Trust Company of Chicago 520 Madison Avenue New York, New York 10022	47,000,000	4.7%
Attention: Donald E. Pollard Banking Associate		

National Bank of Detroit 611 Woodward Avenue Detroit, Michigan 48226	47,000,000	4.7%
Attention: Carolyn Parks Vice President		
Security Pacific National Bank Security Pacific Plaza 333 South Hope Street Los Angeles, California 90071	47,000,000	4.7%
Attention: Caron C. Brandlin Vice President		
The First National Bank of Boston 100 Federal Street Boston, Massachusetts 02106	47,000,000	4.7%
Attention: John S. Rudberg, Jr. Assistant Vice President		
Commerce Bank of Kansas City 922 Walnut Street Kansas City, Missouri 64106	11,000,000	1.1%
Attention: David H. Lindsey Senior Vice President		
United Missouri Bank of Kansas City, N.A. 1010 Grand Avenue Kansas City, Missouri 64105	11,000,000	1.1%
Attention: Walter Beck		
Total Commitment:	<u>\$1,000,000,000</u>	<u>100.0%</u>

Within the foregoing limits, the Borrowers may borrow, repay and reborrow, on or after the date hereof and prior to the Maturity Date, all or any portion of the Commitments hereunder, subject to the terms, provisions and limitations set forth herein, including, without limitation, the requirement that no borrowing shall be made hereunder if after giving effect thereto the principal amount of the Loans of any Bank outstanding hereunder would exceed the Commitment of such Bank or the aggregate principal amount of



all the Loans outstanding hereunder would exceed the Total Commitment.

SECTION 2.02. Competitive Bid Procedure. (a) In order to request Competitive Bids, the appropriate Borrower shall hand deliver or telex to the Agent a duly completed Competitive Bid Request in the form of Exhibit B-1 hereto, to be received by the Agent not later than 10:00 a.m. New York time, two Business Days before a proposed Competitive Borrowing. Competitive Bid Requests that do not conform substantially to the format of Exhibit B-1 shall be rejected and the Agent shall notify the appropriate Borrower of such rejection by telex or telecopier not later than 10:30 a.m. New York time on the date of receipt. Such request shall in each case refer to this Agreement and specify (x) the date of such Loans (which shall be a Business Day) and the aggregate principal amount thereof (which shall be an integral multiple of \$50,000,000), and (y) the Interest Period with respect thereto (which may not end after the Maturity Date). Not later than 11:00 a.m. New York time on the date of receipt by the Agent of a Competitive Bid Request, the Agent shall invite by telex or telecopier (in the form set forth in Exhibit C hereto) the Banks to bid, on the terms and conditions of this Agreement, to make Competitive Loans pursuant to the Competitive Bid Request. Each Borrower shall pay to the Agent a transaction fee in the amount agreed upon in the Letter Agreement dated as of June 30, 1987, between the Company and the Agent, for each Competitive Bid Request it makes that is not rejected by the Agent, irrespective of whether such Borrower receives, accepts or rejects any responding Competitive Bids.

(b) Each Bank may, in its sole discretion, make one or more Competitive Bids to the appropriate Borrower responsive to the Competitive Bid Request. Each Competitive Bid by a Bank must be received by the Agent via telex or telecopier, in the form of Exhibit D hereto (each of which form may accommodate a number of Competitive Bids of each Bank), not later than 9:30 a.m. New York time, one Business Day before a proposed Competitive Borrowing. Competitive Bids that do not conform precisely to the format of Exhibit D may be rejected by such Borrower upon notice to the Agent and the Agent shall notify the Bank of such rejection by telex or telecopier as soon as practicable after receipt from the Company of a notification of rejection. Each Competitive Bid shall refer to this Agreement and specify (x) the principal amount of the Competitive Loan that the Bank is willing to make to such Borrower with respect to each of such Bank's Competitive Bids (each such Competitive Bid to be in a minimum principal amount of

\$5,000,000 and in integral multiples of \$1,000,000, and the aggregate of such Competitive Bids of such Bank not to exceed such Bank's available Commitment) and (y) the Rate at which the Bank is prepared to make each such Competitive Loan. If any Bank shall elect not to make a Competitive Bid, such Bank shall so notify the Agent via telex or telecopier not later than 9:30 a.m. New York time, one Business Day before a proposed Competitive Borrowing; provided, however, that failure by any Bank to give such notice shall not cause such Bank to be obligated to make any Competitive Loan as part of such Competitive Borrowing. A Competitive Bid submitted by a Bank pursuant to this paragraph (b) shall be irrevocable.

(c) The Agent shall notify the appropriate Borrower by telex or telecopier not later than 10:00 a.m. New York time, one Business Day before a proposed Competitive Borrowing of the number of Competitive Bids made, the Rate and the principal amounts of each Competitive Loan in respect of which a Competitive Bid was made and the identity of the Bank making each bid. The Agent shall send a copy of all Competitive Bids to such Borrower and, if such Borrower is not the Company, to the Company on behalf of such Borrower, as soon as practicable after receipt by telecopier as provided in Section 10.01.

(d) The appropriate Borrower may in its sole and absolute discretion, subject only to the provisions of this paragraph, accept or reject any Competitive Bid referred to in paragraph (c) above. Such Borrower shall notify the Agent by telex or telecopier whether and to what extent it has decided to accept or reject any of or all the bids referred to in paragraph (c) above, and whether and to what extent it has decided to make an Alternate Base Loan in place of all or a part of the Competitive Borrowing it shall have proposed (for which Alternate Base Loan it shall provide the Agent with written or telex notice of its request in the form of Exhibit B-2 hereto) not later than 11:00 a.m. New York time, one Business Day before a proposed Competitive Borrowing; provided, however, that (x) such Borrower shall not accept a bid made at any Rate if such Borrower has decided to reject a bid made at a lower Rate, (y) if such Borrower declines to borrow, or if it is restricted by other conditions hereof from borrowing, the aggregate principal amount of Competitive Loans in respect of which bids at a particular Rate have been made, then such Borrower shall accept a pro rata portion of each bid made at the same Rate, based as nearly as possible on the ratio of the aggregate principal amounts of Competitive Loans for which each such bid at such Rate was made, as is necessary

in order to satisfy the amount of Competitive Loans it shall have decided to make and (z) no bid shall be accepted for a Competitive Loan unless such Competitive Loan is part of a Competitive Borrowing in a minimum principal amount of \$50,000,000, unless such Borrower shall have requested an Alternate Base Loan to replace a portion (but not all) of the proposed Competitive Borrowing, in which case such Competitive Borrowing together with any such requested Alternate Base Loan shall be in a minimum aggregate principal amount of \$50,000,000. A notice given by the appropriate Borrower pursuant to this paragraph (d) shall be irrevocable.

(e) The Agent shall notify the Banks whether or not any of their Competitive Bids have been accepted (and if so, in what amount or amounts and at what Rate or Rates) and whether any Alternate Base Loan shall have been requested (and each Bank's portion of any such requested Alternate Base Loan) by telex or telecopier sent by the Agent not later than 12:00 noon New York time, one day before the Competitive Borrowing, and each successful bidder will thereupon become bound, subject to the other applicable conditions hereof, to make the Competitive Loan or Competitive Loans in respect of which its offer has been accepted (and if an Alternate Base Loan shall have been requested, then each Bank shall thereupon become bound to make a portion of such Alternate Base Loan in proportion to its respective unutilized Commitment).

(f) A Competitive Borrowing shall not be made within seven Business Days of the date of any other Competitive Borrowing.

(g) If the Agent shall elect to submit a Competitive Bid or Competitive Bids, it shall submit such bid or bids to the appropriate Borrower 30 minutes earlier than the latest time at which the other Banks are required to submit their bids to the Agent pursuant to Section 2.02(b).

(h) All notices required by this Section 2.02 shall be made in accordance with Section 10.01.

**SECTION 2.03. Standby Borrowing Procedure.** In order to effect a Standby Borrowing, the appropriate Borrower shall give the Agent written or telex notice, in the form of Exhibit B-2 hereto, (i) in the case of Eurodollar Loans, not later than 10:00 a.m. New York time, three Business Days before a Standby Borrowing, (ii) in the case of Certificate of Deposit Loans, not later than 10:00 a.m.

New York time, two Business Days before a Standby Borrowing and (iii) in the case of Alternate Base Loans, not later than 11:00 a.m. New York time, one Business Day before a Standby Borrowing. Such notice shall be irrevocable and shall in each case refer to this Agreement and specify (v) whether the Loans then being requested are to be Certificate of Deposit Loans, Eurodollar Loans or Alternate Base Loans, (w) the date of such Loans (which shall be a Business Day) and the aggregate amount thereof (which shall be an integral multiple of \$50,000,000 (except in the case of Alternate Base Loans replacing a portion of a proposed Competitive Borrowing, as provided in paragraph (d) of Section 2.02)) and (x) the Interest Period with respect thereto (which shall not end later than the Maturity Date). If no Interest Period with respect to any Certificate of Deposit Loan or Eurodollar Loan is specified in any such notice, then (y) in the case of a Certificate of Deposit Loan, such Borrower shall be deemed to have selected an Interest Period of 30 days' duration and (z) in the case of a Eurodollar Loan, such Borrower shall be deemed to have selected an Interest Period of one month's duration. The Agent shall promptly advise the other Banks of any notice given pursuant to this Section 2.03 and of each Bank's portion of the requested Standby Borrowing by telex or telecopier.

**SECTION 2.04. Loans.** (a) Competitive Loans shall be made to the extent accepted by the appropriate Borrower in accordance with Section 2.02(d) and Standby Loans shall be made ratably by the Banks in accordance with their respective unutilized Commitments on the date of the Standby Borrowing (which respective unutilized Commitments on the date of such Standby Borrowing may be in a different proportion than their respective Commitments if Competitive Loans, which are not made on a pro rata basis, are outstanding on the date of such Standby Borrowing); provided, however, that the failure of any Bank to make any Loan shall not in itself relieve any other Bank of its obligation to lend hereunder. The initial Competitive Loan and the initial Standby Loan by each Bank to each Borrower shall be made against delivery to such Bank of an appropriate Competitive Note or Standby Note, payable to the order of such Bank, as referred to in Section 2.05.

(b) Each Loan shall be either a Standby Loan, which shall be comprised of a Certificate of Deposit Loan, a Eurodollar Loan or an Alternate Base Loan, or shall be a Competitive Loan, as the Borrower to which such Loan is to be made may request subject to and in accordance with

Section 2.02, Section 2.03 or Section 2.09, as applicable. Each Bank may at its option make any Eurodollar Loan by causing a foreign branch or affiliate of such Bank to make such Loan; provided, however, that any exercise of such option shall not affect the obligation of the appropriate Borrower to repay such Loan in accordance with the terms of the applicable Note. Loans of more than one interest rate option may be outstanding at the same time; provided further, however, that no Borrower shall be entitled to request any Loan which, if made, would result in an aggregate of more than ten separate Loans of any Bank being outstanding hereunder at any one time. For purposes of the foregoing, Loans having different Interest Periods, regardless of whether they commence on the same date, shall be considered separate Loans.

(c) Subject to Section 2.11, each Bank shall make its portion of each Competitive Borrowing and each Standby Borrowing on the proposed date thereof by paying the amount required to the Agent in New York, New York in immediately available funds not later than 12:00 noon New York time, and the Agent shall by 3:00 p.m. New York time credit the amounts so received to the general deposit account of the appropriate Borrower with the Agent or, if Loans are not made on such date because any condition precedent to a borrowing herein specified shall not have been met, return the amounts so received to the respective Banks.

**SECTION 2.05. Notes.** The Competitive Loans and Standby Loans made by each Bank to each Borrower shall be evidenced by a Competitive Note or Standby Note, as the case may be, duly executed on behalf of such Borrower, dated the date of the first such Loan, in substantially the forms attached hereto as Exhibits E-1 and E-2, respectively, with the blanks appropriately filled, payable to the order of such Bank in a principal amount equal to the Commitment of such Bank. The outstanding principal balance of each Competitive Loan and Standby Loan, as evidenced by a Note, shall be payable on the last day of the Interest Period applicable to such Loan. Each Note shall bear interest from the date of the first borrowing evidenced by such Note on the outstanding principal balance thereof as set forth in Section 2.06. Each Bank shall, and is hereby authorized by each Borrower to, endorse on the schedule attached to each Note of such Bank (or on a continuation of such schedule attached to each such Note and made a part thereof) an appropriate notation evidencing the date and amount of each Loan of such Bank, each payment or prepayment of principal of any Loan and the other information provided for on such

schedule; provided, however, that the failure of any Bank to make such a notation or any error therein shall not in any manner affect the obligation of the appropriate Borrower to repay the Loans made by such Bank in accordance with the terms of such Note. As soon as practicable after the Maturity Date or the earlier termination of Loans or Commitments under this Agreement, as applicable, and upon payment by the Borrower in full of all amounts due and owing on any Note, the Banks shall return the canceled Competitive Note and Standby Note to the appropriate Borrower.

**SECTION 2.06. Interest on Loans.** (a) Subject to the provisions of Section 2.09, each Competitive Loan shall bear interest at a rate per annum (computed on the basis of the actual number of days elapsed over a year of 360 days) equal to the absolute percentage rate per annum, expressed as a decimal (to no more than four decimal places) offered by the Bank making such Loan and accepted by the appropriate Borrower pursuant to Section 2.02. Interest on each Competitive Loan shall be payable on each applicable Interest Payment Date.

(b) Subject to the provisions of Section 2.09, each Certificate of Deposit Loan shall bear interest at a rate per annum (computed on the basis of the actual number of days elapsed over a year of 360 days) equal to the Adjusted CD Rate for the Interest Period in effect for such Loan plus  $1/2$  of 1%. Interest on each Certificate of Deposit Loan shall be payable on each applicable Interest Payment Date. The applicable Adjusted CD Rate shall be determined by the Agent, and such determination shall be conclusive absent manifest error. The Agent shall promptly advise the Company and each Bank of such determination.

(c) Subject to the provisions of Section 2.09, each Eurodollar Loan shall bear interest at a rate per annum (computed on the basis of the actual number of days elapsed over a year of 360 days) equal to the Adjusted LIBO Rate for the Interest Period in effect for such Loan plus  $3/8$  of 1%. Interest on each Eurodollar Loan shall be payable on each applicable Interest Payment Date. The Adjusted LIBO Rate shall be determined by the Agent, and such determination shall be conclusive absent manifest error. The Agent shall promptly advise the Company and each Bank of such determination.

(d) Subject to the provisions of Section 2.09, each Alternate Base Loan shall bear interest on each day at a rate per annum (computed on the basis of the actual number

of days elapsed over a year of 360 days, except where the applicable interest rate for such Loan is the Prime Rate, in which case the rate per annum shall be computed on the basis of the actual number of days elapsed over a year of 365 or 366 days, as the case may be) equal to the Alternate Base Rate in effect for such day. Interest on each Alternate Base Loan shall be payable on each applicable Interest Payment Date. The applicable Alternate Base Rate for each day shall be determined by the Agent, and such determination shall be conclusive absent manifest error.

**SECTION 2.07. Commitment Fee.** The Company shall pay each Bank, through the Agent, on the last day of each March, June, September and December, and on the Maturity Date, in immediately available funds, a commitment fee (a "Commitment Fee") of (a) 1/4 of 1% per annum from December 20, 1985, through March 20, 1986, (b) 3/16 of 1% per annum from and including March 21, 1986, up to but excluding June 30, 1987, and (c) 1/8 of 1% per annum from and after June 30, 1987, on the average daily unutilized amount of the Commitment of such Bank during the quarter (or shorter period ending with any date on which the Commitment of such Bank shall be terminated or with the Maturity Date) ending on such date. All Commitment Fees under this Section 2.07 shall be computed on the basis of the actual number of days elapsed in a year of 360 days. The Commitment Fees due to each Bank shall cease to accrue on the earlier of the Maturity Date and the termination of the Commitment of such Bank as provided herein.

**SECTION 2.08. Termination and Reduction of Commitments.** (a) Upon at least 30 days' prior written or telex notice to the Agent, the Company may at any time in whole permanently terminate, or from time to time permanently reduce, the Total Commitment, ratably among the Banks in accordance with their respective Commitments; provided, however, that each partial reduction of the Total Commitment shall be in an integral multiple of \$50,000,000. On the date of any termination or reduction of the Commitment pursuant to this paragraph, the Company shall pay or repay so much of the Loans of such Bank as may be required under Section 2.10(b).

(b) In the event the Company and the Subsidiaries shall incur any Indebtedness for borrowed money (other than Indebtedness existing on the date hereof, Indebtedness incurred pursuant to short-term borrowing arrangements with banks and commercial paper maturing not more than 270 days after the date of its issuance) maturing prior to the

Maturity Date, then the Required Banks may, on one or more occasions, upon at least 30 days' prior written or telex notice to the Company and the other Banks, permanently reduce the Total Commitment, ratably among the Banks in accordance with their respective Commitments, by an aggregate amount not greater than the maximum amount of such Indebtedness at any time outstanding.

(c) In the event that the Commitment of any Bank is terminated pursuant to paragraph (e) of Section 2.12, the Company shall have the right, subject to the prior written consent of the Agent which consent shall not be unreasonably withheld, to replace such Bank with such successor bank or banks qualified to be an Eligible Assignee or Eligible Assignees, as the case may be; provided that any such bank shall, pursuant to a written instrument in form and substance satisfactory to the Agent, effectively agree to become a party hereto and a "Bank" hereunder and be bound by the terms hereof. The Agent shall promptly notify the remaining Banks of any such replacement. In the event that the Commitment of any Bank is so terminated, the Company may, through the Agent, request one or more of the remaining Banks to assume any part of the Commitment of such terminated Bank; provided, however, that none of the Banks shall have any obligation to assume any part of such Commitment, and provided further that, other than pursuant to the next succeeding sentence, none of the remaining Banks shall be entitled to assume any part of the Commitment of such terminated Bank without the prior written consent of the Required Banks and the Agent. Notwithstanding anything herein to the contrary, with respect to a terminated Bank that became a Bank hereunder pursuant to the provisions of Section 10.04, the Company must first offer to the original assignor Bank or assignor Banks, as the case may be, the portion of the Commitment of any such terminated assignee Bank attributable to assignment by such original assignor Bank or Banks before the Company may replace such terminated assignee Bank with any other bank or request any other Bank to assume any part of the Commitment of such terminated assignee Bank.

(d) Simultaneously with any termination or reduction of Commitments pursuant to paragraph (a), (b) or (c) of this Section 2.08, the Company shall pay to the Agent for the account of the Banks whose Commitments are being terminated or reduced the Commitment Fees on the amount of the Commitments so terminated or reduced owed through the date of such termination or reduction.



**SECTION 2.09. Interest on Overdue Amounts; Alternative Rate of Interest.** (a) If any Borrower shall default in the payment of the principal of or interest on any Loan or any other amount becoming due hereunder, by acceleration or otherwise, such Borrower shall on demand from time to time pay interest, to the extent permitted by law, on such defaulted amount up to the date of actual payment (after as well as before judgment):

(i) in the case of the payment of principal of or interest on a Certificate of Deposit Loan or Eurodollar Loan, at a rate 2% above the rate which would otherwise be payable under Section 2.06(b) or (c), as the case may be;

(ii) in the case of the payment of principal of or interest on a Competitive Loan, at a rate 2% above the greater of (x) the interest rate designated for such Competitive Loan and (y) the Alternate Base Rate; and

(iii) in the case of the payment of principal of or interest on an Alternate Base Loan or any other amount payable hereunder (other than principal of or interest on any Loan referred to in clause (i) or (ii) above), at a rate 2% above the Alternate Base Rate.

(b) In the event, and on each occasion, that on the day two Business Days prior to the commencement of any Interest Period for a Eurodollar Loan, the Agent or the Required Banks shall have determined (which determination shall be conclusive and binding upon the Borrowers) that dollar deposits in the amount of the requested principal amount of such Eurodollar Loan are not generally available in the London Interbank Market, or that the rate at which dollar deposits are being offered will not adequately and fairly reflect the cost to any Bank of making or maintaining the principal amount of such Eurodollar Loan during such Interest Period, or reasonable means do not exist for ascertaining the Adjusted LIBO Rate, the Agent shall as soon as practicable thereafter give written or telex notice of such determination to the Company and the other Banks, and any request by a Borrower for the making or refinancing of a Eurodollar Loan pursuant to Section 2.03 or 2.11 shall, until the circumstances giving rise to such notice no longer exist, be deemed to be a request for an Alternate Base Loan. Each determination of the Agent hereunder shall be conclusive absent manifest error.

(c) In the event, and on each occasion, that on or before the day on which the Adjusted CD Rate for a

Certificate of Deposit Loan is to be determined, the Agent shall have determined (which determination shall be conclusive and binding upon the Borrowers) that the Adjusted CD Rate for such Loan cannot be ascertained for any reason, including, without limitation, the inability or failure of the Agent to obtain sufficient bids in accordance with the terms of the definition of Fixed Certificate of Deposit Rate, or the Agent shall determine that the Adjusted CD Rate for such Certificate of Deposit Loan will not adequately and fairly reflect the cost to any Bank of making or maintaining the principal amount of such Certificate of Deposit Loan during such Interest Period, the Agent shall, as soon as practicable thereafter, give written or telex notice of such determination to the Company and the other Banks, and any request by a Borrower for the making or refinancing of a Certificate of Deposit Loan pursuant to Section 2.03 or 2.11 shall, until the circumstances giving rise to such notice no longer exist, be deemed to be a request for an Alternate Base Loan. Each Determination by the Agent hereunder shall be conclusive absent manifest error.

SECTION 2.10. Prepayment of Loans. (a) Each Borrower shall have the right at any time and from time to time to prepay any Loan, in whole or in part, subject to the requirements of Section 2.14 but otherwise without premium or penalty, upon at least three Business Days' prior written or telex notice to the Agent; provided, however, that each such partial prepayment shall be in an integral multiple of \$50,000,000.

(b) On the date of any termination or reduction of the Commitment of any Bank pursuant to Section 2.08(a), the Company shall pay or prepay so much of the Loans of such Bank (up to the amount by which such Commitment is as terminated or reduced) as shall be necessary in order that the aggregate principal amount of the Loans of such Bank outstanding will not exceed the Commitment of such Bank following such termination or reduction. All prepayments under this paragraph shall be subject to Section 2.14.

(c) Each notice of prepayment shall specify the prepayment date and the principal amount of each Loan (or portion thereof) to be prepaid, shall be irrevocable and shall commit the Borrower giving such notice to prepay such Loan by the amount stated therein on the date stated therein. All prepayments shall be accompanied by accrued interest on the principal amount being prepaid to the date of prepayment.

SECTION 2.11. Refinancing of Loans. Any Borrower may refinance all or any part of any of its Loans with a Loan of the same or a different type made pursuant to Section 2.02 or Section 2.03, subject to the conditions and limitations set forth herein and elsewhere in this Agreement, including, without limitation, refinancings of Competitive Loans with Standby Loans and Standby Loans with Competitive Loans. Any Loan or part thereof so refinanced shall be deemed to be repaid in accordance with Section 2.05 with the proceeds of a new borrowing hereunder and the proceeds of the new Loan, to the extent they do not exceed the principal amount of the Loan being refinanced, shall not be paid by the Banks to the Agent or by the Agent to the Borrower pursuant to Section 2.04(c); provided, however, that (i) if the principal amount extended by a Bank in a refinancing is greater than the principal amount extended by such Bank in the borrowing being refinanced, then the Bank shall pay such difference to the Agent for distribution to the Banks described in (ii) below, (ii) if the principal amount extended by a Bank in the borrowing being refinanced is greater than the principal amount being extended by such Bank in the refinancing, the Agent shall return the difference to such Bank out of amounts received pursuant to (i) above, (iii) to the extent any Bank fails to pay the Agent amounts due from it pursuant to (i) above, any Loan or portion thereof being refinanced shall not be deemed repaid in accordance with Section 2.05 to the extent of such failure and the appropriate Borrower shall pay such amount to the Agent pursuant to Section 2.05, (iv) in the case of a refinancing of less than all Loans of any Borrower, the Loans refinanced shall be in an integral multiple of \$50,000,000, (v) the Interest Period with respect to any new Loan made in respect of a refinancing shall commence on the date of refinancing, (vi) any portion of a Loan maturing or required to be prepaid in less than 30 days may not be refinanced with a Certificate of Deposit Loan and any portion of a Loan maturing or required to be prepaid in less than one month may not be refinanced with a Eurodollar Loan, (vii) a Loan may be refinanced only on the last day of the applicable Interest Period, (viii) no Loan (or portion thereof) may be refinanced with a Certificate of Deposit Loan or Eurodollar Loan if, after such refinancing, an aggregate of more than ten separate Certificate of Deposit Loans and Eurodollar Loans of any Bank would be outstanding hereunder (determined as set forth in Section 2.04(b)) and (ix) no Loan shall be refinanced if the new Loan by any Bank would be greater than the amount by which its Commitment exceeds the amount of its other Loans at the time outstanding. The Agent shall communicate the information contained

in each irrevocable notice delivered by a Borrower pursuant to this Section 2.11 to the appropriate Banks promptly after its receipt of the same.

The Interest Period applicable to any Certificate of Deposit Loan or Eurodollar Loan resulting from a refinancing shall be specified by the applicable Borrower in the irrevocable notice of refinancing delivered pursuant to this Section; provided, however, that if no such Interest Period shall be specified, such Borrower shall be deemed to have selected an Interest Period in the case of a Certificate of Deposit Loan of 30 days' duration, and in the case of a Eurodollar Loan of one month's duration.

For purposes of this Section 2.11, notice received by the Agent from the applicable Borrower after 10:00 a.m. New York time, in the case of a request for a Eurodollar Loan or a Certificate of Deposit Loan, or 2:00 p.m. New York time, in the case of a request for an Alternate Base Loan, on a Business Day shall be deemed to be received on the immediately succeeding Business Day.

**SECTION 2.12. Change in Circumstances.** (a) Notwithstanding any other provision herein, if after the date of this Agreement any change in applicable law or regulation or in the interpretation or administration thereof by any governmental authority charged with the interpretation or administration thereof (whether or not having the force of law) shall change the basis of taxation of payments to any Bank of the principal of or interest on any Certificate of Deposit Loan or Eurodollar Loan made by such Bank or any other fees or amounts payable hereunder (other than taxes imposed on the overall net income of such Bank by the jurisdiction in which such Bank has its principal office or by any political subdivision or taxing authority therein), or shall impose, modify or deem applicable any reserve, special deposit or similar requirement against assets of, deposits with or for the account of, or credit extended by, such Bank (except any such reserve requirement which is reflected in the Adjusted LIBO Rate or the Adjusted CD Rate) or shall impose on such Bank or the London Interbank Market any other condition affecting this Agreement or the Certificate of Deposit Loans or Eurodollar Loans made by such Bank and the result of any of the foregoing shall be to increase the cost to such Bank of making or maintaining any Certificate of Deposit Loan or Eurodollar Loan or to reduce the amount of any sum received or receivable by such Bank hereunder (whether of principal, interest or otherwise) in respect thereof, by an amount deemed by such Bank to be material, then such additional amount or amounts as will

compensate such Bank for such additional costs or reduction will be paid to such Bank upon demand (i) if such additional costs or reduction shall relate to a particular Loan, by the Borrower to which such Loan was made and (ii) otherwise, by the Company.

(b) If, after the date of this Agreement, any Bank shall have determined that the adoption of any applicable law, rule, regulation or guideline regarding capital adequacy or capital maintenance, or any change therein, or any change in the interpretation or administration thereof by any governmental authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by any Bank (or any lending office of such Bank) with any request or directive regarding capital adequacy or capital maintenance (whether or not having the force of law) of any such authority, central bank or comparable agency, has or would have the effect of reducing the rate of return on such Bank's capital as a consequence of its obligations hereunder to a level below that which such Bank could have achieved but for such adoption, change or compliance (taking into consideration such Bank's policies with respect to capital adequacy or capital maintenance, as the case may be) by an amount deemed by such Bank to be material, then from time to time such additional amount or amounts as will compensate such Bank for such reduction will be paid to such Bank (i) if such additional costs or reduction shall relate to a particular Loan, by the Borrower to which such Loan was made and (ii) otherwise, by the Company.

(c) A certificate of each Bank setting forth such amount or amounts as shall be necessary to compensate such Bank as specified in paragraph (a) or (b) above, as the case may be, shall be delivered to the applicable Borrower or to the Company and shall be conclusive absent manifest error. The applicable Borrower or the Company, as the case may be, shall pay each Bank the amount shown as due on any such certificate within 10 days after its receipt of the same.

(d) Each Bank shall endeavor in good faith to notify the Company (x) of any official notice it shall have received from the Board or any governmental or other authority described in paragraph (a) or (b) above informing such Bank of the effectiveness of any reserve requirement, change, adoption or compliance described in paragraph (a) or (b) above (a "Change"), as soon as is practicable after it shall have received such notice and shall have determined in its reasonable judgment that such Change might result in its

requesting from the Company or the applicable Borrower, as the case may be, compensation under this Section 2.12, and (y) of increased costs or reductions for which it has determined that compensation is due to it under this Section 2.12 as soon as practicable after it has determined that it will request such compensation. If such increased costs or reduction relate (or are reasonably expected to relate) to an outstanding Loan, then such notice should specify the last day of the Interest Period of such Loan. If such increased costs or reduction will not relate (or are not reasonably expected to relate) to any outstanding Loan, or, due to retroactive application of such Change, will relate (or are reasonably expected to relate) to a Loan or Loans with Interest Periods ended prior to the effective date of such Change, then such notice should specify the later of the date of public announcement and effective date of such Change. Failure on the part of any Bank to demand compensation for any increased costs or reduction in amounts received or receivable with respect to any Interest Period shall not constitute a waiver of such Bank's rights to demand compensation for any increased costs or reduction in amounts received or receivable in such Interest Period or in any other Interest Period; provided, however, that no Bank shall be entitled to compensation for any increased costs or reduction unless it shall have submitted a certificate under paragraph (c) above with respect thereto (i) if such increased costs or reduction relate to an outstanding Loan, not more than 60 days after the end of the Interest Period of such Loan during which such increased costs shall have been incurred or such reduction suffered or (ii) if such increased costs or reduction do not relate to any outstanding Loan, or if due to retroactive application of any Change such increased costs or reduction correspond to Loans with Interest Periods ended prior to the effective date of such Change, not more than 60 days from the later of (x) the date of public announcement and (y) the effective date of such Change; provided further that no Bank shall be entitled to compensation under paragraph (b) above for any increased costs incurred or reduction suffered prior to June 30, 1987. The protection of this Section 2.12 shall be available to each Bank regardless of any possible contention of the invalidity or inapplicability of any law, regulation or other condition which shall give rise to any demand by such Bank for compensation.

(e) In the event any Bank shall have notified the Company of increased costs or reduction pursuant to clause (x) or (y) of paragraph (d) above and the Company shall not have received similar notice from the Required

Banks (including such Bank), if such incurred costs or reduction relate to an outstanding Loan, within 63 days after the end of the Interest Period of such Loan during which such increased costs shall have been increased or such reduction suffered, or, if such increased costs or reduction do not relate to any outstanding Loan, or if due to retroactive application of any Change, such increased costs or reduction correspond to Loans with Interest Periods ended prior to the effective date of such Change, within 63 days from the later of (x) the date of public announcement and (y) the effective date of any such Change, the Company, notwithstanding the provisions of Section 2.08(a), shall have the right to cancel the Commitment of such Bank hereunder in full by (i) giving 7 days' prior written notice of such election to the relevant Bank and the Agent, specifying an effective date for such cancellation and (ii) on such effective date for such cancellation repaying, or causing each applicable Borrower to repay, as the case may be, in full all Loans made to it, together with all accrued interest, Commitment Fees and all other amounts (including without limitation all amounts payable under this Section or under Section 2.14) owing hereunder to any such Bank as at such effective date; provided, however, that no such cancellation shall be effective if, at or prior to the effective date for such cancellation, there shall exist any Event of Default or event or condition which, upon notice or lapse of time or both, would constitute an Event of Default. Upon any such cancellation, the Company may replace such Bank or allocate its canceled Commitment pursuant to and subject to the provisions of Section 2.08(c).

SECTION 2.13. Change in Legality. (a) Notwithstanding anything to the contrary herein contained, if any change in any law or regulation or in the interpretation thereof by any governmental authority charged with the administration or interpretation thereof shall make it unlawful for any Bank to make or maintain any Eurodollar Loan or to give effect to its obligations as contemplated hereby, then, by written notice to the Company and to the Agent, such Bank may:

(i) declare that Eurodollar Loans will not thereafter be made by such Bank hereunder, whereupon the

Borrowers shall be prohibited from requesting Eurodollar Loans from such Bank hereunder unless such declaration is subsequently withdrawn; and

(ii) require that all outstanding Eurodollar Loans made by it be repaid or prepaid, as necessary, and refinanced with Alternate Base Loans, in which event (A) all such Eurodollar Loans shall be automatically deemed to be repaid or prepaid, as necessary, with Alternate Base Loans as of the effective date of such notice as provided in paragraph (b) below (notwithstanding the provisions of Section 2.11), (B) all payments and prepayments of principal which would otherwise have been applied to repay the repaid or prepaid (as the case may be) Eurodollar Loans shall instead be applied to repay the Alternate Base Loans resulting from the repayment or prepayment (as the case may be) of such Eurodollar Loans and (C) the Alternate Base Loans resulting from the repayment or prepayment (as the case may be) of such Eurodollar Loans shall be prepayable only at the times the repaid or prepaid (as the case may be) Eurodollar Loans would have been prepayable, notwithstanding the provisions of Section 2.10.

(b) For purposes of Section 2.13(a), a notice to the Company by any Bank shall be effective, if lawful, on the last day of the then current Interest Period or, if there are then two or more current Interest Periods, on the last day of each such Interest Period, respectively; otherwise, such notice shall be effective on the date of receipt by the Company.

**SECTION 2.14. Indemnity.** Each Borrower shall indemnify each Bank against any loss or expense which such Bank may sustain or incur as a consequence of any failure by such Borrower to fulfill on the date of any borrowing hereunder the applicable conditions set forth in Article IV, any failure by such Borrower to borrow hereunder or to refinance any Loan hereunder after irrevocable notice of borrowing pursuant to Section 2.02 or Section 2.03 or irrevocable notice of refinancing pursuant to Section 2.11 has been given, any payment or prepayment of a Certificate of Deposit Loan, Eurodollar Loan or Competitive Loan to such Borrower required by any other provision of this Agreement or otherwise made on a date other than the last day of the applicable Interest Period, any default in payment or prepayment of the principal amount of any Loan to such Borrower or any part thereof or interest accrued thereon, as and when due and payable (at the due date thereof, by irrevocable notice of prepayment or otherwise), or the occurrence of any Event of Default, including, but not limited to, any loss or reasonable expense sustained or



incurred or to be sustained or incurred in liquidating or employing deposits from third parties acquired to effect or maintain such Loan or any part thereof as a Certificate of Deposit Loan or Eurodollar Loan. Such loss or reasonable expense shall include, without limitation, an amount equal to the excess, if any, as reasonably determined by each Bank of (i) its cost of obtaining the funds for the Loan being paid, prepaid or not borrowed or refinanced (based on the Adjusted CD Rate or the Adjusted LIBO Rate applicable thereto) for the period from the date of such payment, prepayment or failure to borrow or refinance to the last day of the Interest Period for such Loan (or, in the case of a failure to borrow or refinance, the Interest Period for such Loan which would have commenced on the date of such failure to borrow or refinance) over (ii) the amount of interest (as reasonably determined by such Bank) that would be realized by such Bank in reemploying the funds so paid, prepaid or not borrowed or refinanced by making a Loan of the same type in such principal amount and with a maturity comparable to such period.

**SECTION 2.15. Pro Rata Treatment.** Except as permitted under Section 2.12(e), (i) each payment or prepayment of principal, each payment of interest and each other reduction of the principal or interest outstanding under the Notes with respect to a Competitive Borrowing or a Standby Borrowing shall be made pro rata among the Banks in accordance with the respective total amount of principal and interest outstanding for the Loans extended by each Bank, if any, with respect to such Competitive Borrowing or Standby Borrowing; provided, however, that in the event the Agent shall have declared the outstanding Notes due and payable pursuant to Article VII herein, then all such payments, prepayments and reductions of the principal or interest outstanding under the Notes (irrespective of whether such payment, prepayment or reduction relates to a Standby Borrowing or Competitive Borrowing) shall be made pro rata among the Banks in accordance with the respective total amount of principal and interest outstanding for all Loans extended by each Bank, (ii) refinancings of Standby Loans with Standby Loans of any type shall be made pro rata among the Banks in accordance with their respective unutilized Commitments, (iii) refinancings of Competitive Loans with Standby Loans and Standby Loans which are not refinancings of other Loans shall be made pro rata among the Banks in accordance with their respective unutilized Commitments, (iv) each reduction of the Commitments shall be made pro rata among the Banks in accordance with their respective Commitments and (v) each payment of the Commitment Fees

shall be made pro rata among the Banks in accordance with their respective unutilized Commitments.

SECTION 2.16. Sharing of Setoffs. (a) Each Bank agrees that in the event the Agent shall have declared the outstanding Notes due and payable pursuant to Article VII herein, and any Bank shall thereafter in any way obtain payment (voluntary or involuntary) in respect of any Note of any Borrower held by it, including, but not limited to, through the exercise of a right of banker's lien, setoff or counterclaim against any Borrower or against the Company, as guarantor of the obligations of the Borrowing Subsidiaries under Article IX, including, but not limited to, a secured claim under Section 506 of Title 11 of the United States Code or other security or interest arising from, or in lieu of, such secured claim, received by such Bank under any applicable bankruptcy, insolvency or other similar law or otherwise, as a result of which the ratio of (w) the aggregate unpaid principal amount of the Note or Notes of such Borrower and participations in Notes of such Borrower held by it subsequent to its having obtained such payment to (x) the aggregate unpaid principal amount of all Notes of such Borrower outstanding subsequent to its having obtained such payment shall be less than the ratio of (y) the aggregate unpaid principal amount of the Note or Notes of such Borrower and participations in Notes of such Borrower held by it prior to its having obtained such payment to (z) the aggregate unpaid principal amount of all Notes of such Borrower outstanding prior to its having obtained such payment, then it shall be deemed to have simultaneously purchased from each other Bank a participation in the Note or Notes of such Borrower held by each other Bank, so that the ratio of (w) above to (x) above is equal to the ratio of (y) above to (z) above.

(b) Each Bank further agrees that in the event it shall in any way, (including, but not limited to, any way described in the preceding sentence) obtain payment at any time other than subsequent to a declaration by the Agent that the outstanding Notes are due and payable pursuant to Article VII, as a result of which the ratio of (w) the aggregate unpaid principal amount of Standby Loans made by it with respect to a particular Standby Borrowing and participations held by it in Standby Loans made with respect to such Standby Borrowing, outstanding subsequent to its having obtained such payment to (x) the aggregate unpaid principal amount of all Standby Loans made with respect to such Standby Borrowing, outstanding subsequent to its having obtained such payment shall be less than the ratio of

(y) the aggregate unpaid principal amount of Standby Loans made by it with respect to such Standby Borrowing and participations held by it in Standby Loans made with respect to such Borrowing, outstanding prior to its having obtained such payment to (z) the aggregate unpaid principal amount of all Standby Loans made with respect to such Standby Borrowing, outstanding prior to its having obtained such payment, then it shall be deemed to have simultaneously purchased from each other Bank a participation in the Standby Note held by each other Bank, so that the ratio of (w) above to (x) above is equal to the ratio of (y) above to (z) above.

(c) Notwithstanding anything in this Section 2.16 to the contrary, if any such purchase or purchases or adjustments shall be made pursuant to this Section 2.16 and the payment giving rise thereto shall thereafter be recovered, such purchase or purchases or adjustments shall be rescinded to the extent of such recovery and the purchase price or prices or adjustment restored without interest. Each Borrower, and the Company, as guarantor of the obligations of the Borrowing Subsidiaries under Article IX, expressly consents to the foregoing arrangements and agrees that any Bank holding a participation in a Note of any Borrower deemed to have been so purchased may exercise any and all rights of banker's lien, setoff or counterclaim with respect to any and all moneys owing by such Borrower, or by the Company, as guarantor of the obligations of such Borrower, to such Bank as fully as if such Bank had made a Loan directly to such Borrower in the amount of such participation.

(d) Participations deemed to be purchased from each other Bank under paragraph (a) of this Section 2.16 shall be deemed to be purchased in the following order until the requirements of paragraph (a) above shall have been satisfied: first, participations shall be purchased in Standby Notes, if any, held by such other Bank; then, participations shall be purchased in the Competitive Notes of such other Bank.

### III. REPRESENTATIONS AND WARRANTIES

The Company represents and warrants to each of the Banks that:

#### SECTION 3.01. Organization, Corporate Powers.

The Company and each of the Subsidiaries is duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization, has the requisite power and authority to own its property and assets and to carry on its business as now conducted and is qualified to do business in every jurisdiction where such qualification is required, except where the failure so to qualify would not have a material adverse effect on the condition, financial or otherwise, of the Company or of the Company and the Subsidiaries taken as a whole. The Company has the corporate power to execute, deliver and perform its obligations under this Agreement, to borrow hereunder and to execute and deliver the Notes to be delivered by it. Each Borrowing Subsidiary, at the time it becomes a Borrowing Subsidiary and at all times thereafter, will have the corporate power to execute and deliver the Borrowing Subsidiary Agreement delivered by it and to perform its obligations thereunder and under this Agreement, to borrow hereunder and to execute and deliver the Notes to be delivered by it. Each Borrowing Subsidiary will be incorporated under the laws of a state of the United States or the District of Columbia.

SECTION 3.02. Authorization. The execution, delivery and performance of this Agreement and each Borrowing Subsidiary Agreement, the borrowings hereunder, the execution and delivery of the Notes and the consummation of the Merger (a) have been (or, in the case of any Borrowing Subsidiary Agreement and the Notes delivered by any Borrowing Subsidiary, will at the time they are delivered have been) duly authorized by all requisite corporate and, if required, stockholder action on the part of the Company or the applicable Borrowing Subsidiary, as the case may be, and (b) will not (i) violate (A) any provision of law, statute, rule or regulation or the certificate or articles of incorporation or other constitutive documents or the By-laws or regulations of the Company or any Subsidiary, (B) any order of any court, or any rule, regulation or order of any other agency of government binding upon the Company or any Subsidiary or (C) any provisions of any indenture, agreement or other instrument to which the Company or any Subsidiary is a party, or by which the Company or any Subsidiary or any of their respective properties or assets are or may be bound, (ii) be in conflict with, result in a breach of or

constitute (alone or with notice or lapse of time or both) a default under any indenture, agreement or other instrument referred to in (b)(i)(C) above or (iii) result in the creation or imposition of any lien, charge or encumbrance of any nature whatsoever upon any property or assets of the Company or any Subsidiary.

**SECTION 3.03. Governmental Approval.** No registration with or consent or approval of, or other action by, any Federal, state or other governmental agency, authority or regulatory body is or will be required in connection with the execution, delivery and performance of this Agreement or any Borrowing Subsidiary Agreement by the Company or any Borrowing Subsidiary, the execution and delivery of the Notes by the Company or any Borrowing Subsidiary or the borrowings hereunder by the Company or any Borrowing Subsidiary.

**SECTION 3.04. Enforceability.** This Agreement constitutes a legal, valid and binding obligation of the Company and will, upon the execution and delivery of a Borrowing Subsidiary Agreement by any Borrowing Subsidiary, constitute a legal, valid and binding obligation of such Borrowing Subsidiary, and the Notes, when duly executed and delivered by the Borrowers, will constitute legal, valid and binding obligations of the Borrowers, in each case enforceable in accordance with their respective terms (subject, as to the enforcement of remedies, to applicable bankruptcy, reorganization, insolvency, moratorium and similar laws affecting creditors' rights generally).

**SECTION 3.05. Financial Statements.** The Company has heretofore furnished to each of the Banks (i) consolidated balance sheets and statements of income and changes in financial position as of and for the fiscal years ended December 28, 1986 and December 31, 1985, all audited and certified by Arthur Young & Company, independent public accountants, and (ii) consolidated balance sheets and statements of income and changes in financial position for the fiscal quarter ended March 28, 1987, certified by the chief financial officer of the Company. Such balance sheets and statements of income and changes in financial position present fairly the financial condition and results of operations of the Company and the Subsidiaries as of the dates and for the periods indicated (subject to year-end audit adjustments in the case of the statements referred to in clause (ii) of the preceding sentence). Such balance sheets and the notes thereto disclose all material

liabilities, direct or contingent, of the Company and the Subsidiaries as of the dates thereof. The financial statements referred to in this Section 3.05 have been prepared in accordance with generally accepted accounting principles applied on a consistent basis. There has been no material adverse change in the businesses, assets, operations or condition, financial or otherwise, of the Company or the Company and the Subsidiaries taken as a whole since March 28, 1987.

**SECTION 3.06. Litigation; Compliance with Laws; etc.** (a) There are not any actions, suits or proceedings at law or in equity or by or before any governmental instrumentality or other agency or regulatory authority now pending or, to the knowledge of the Company, threatened against or affecting the Company or any Subsidiary or the businesses, assets or rights of the Company or any Subsidiary (i) which involve this Agreement, the Merger Agreement or any of the transactions contemplated hereby or thereby or (ii) as to which there is a reasonable possibility of an adverse determination and which, if adversely determined, could, individually or in the aggregate, materially impair the ability of the Company or the Company and the Subsidiaries taken as a whole to conduct business substantially as now conducted, or materially and adversely affect the businesses, assets, operations, prospects or condition, financial or otherwise, of the Company or the Company and the Subsidiaries taken as a whole, or impair the validity or enforceability of or the ability of the Company or any Borrowing Subsidiary to perform its obligations under this Agreement, any Borrowing Subsidiary Agreement or any of the Notes.

(b) Neither the Company nor any Subsidiary is in violation of any law, or in default with respect to any judgment, writ, injunction, decree, rule or regulation of any court or governmental agency or instrumentality, where such violation or default could have a materially adverse effect on the businesses, assets, operations or condition, financial or otherwise, of the Company or the Company and the Subsidiaries taken as a whole.

**SECTION 3.07. Merger.** (a) All consents and approvals of, filings and registrations with and other actions in respect of all governmental agencies, authorities or instrumentalities required in order to consummate the Merger have been or, prior to the time when required, will have been, obtained, given, filed or taken and are or will at such time be in full force and effect. At the time of

the first borrowing hereunder, the Merger will have been duly consummated in accordance with all laws, rules and regulations applicable thereto, and ABC will be owned by the Company and the Subsidiaries, in each case as described in Schedule 3.07 hereto.

(b) The Joint Proxy Statement dated May 10, 1985, mailed by the Company and ABC to their respective shareholders pursuant to the Merger Agreement does not contain any untrue statement of a material fact or omit to state any material fact necessary in order to make statements therein, in the light of the circumstances under which they are made, not misleading.

**SECTION 3.08. Federal Reserve Regulations.**

(a) Neither the Company nor any Subsidiary is engaged principally, or as one of its important activities, in the business of extending credit for the purpose of purchasing or carrying Margin Stock.

(b) No part of the proceeds of the Loans will be used, whether directly or indirectly, and whether immediately, incidentally or ultimately, (i) to purchase or carry Margin Stock or to extend credit to others for the purpose of purchasing or carrying Margin Stock (except, in each case, common stock of ABC acquired through the consummation of the Merger) or to refund indebtedness originally incurred for such purpose, or (ii) for any purpose which entails a violation of, or which is inconsistent with, the provisions of the Regulations of the Board of Governors of the Federal Reserve System of the United States, including, without limitation, Regulations G, U or X thereof.

(c) On the date of, and after giving effect to, any borrowing which results in an increase in the aggregate principal amount of the Loans outstanding hereunder, not more than 25% of the value (as determined by the Banks in accordance with the provisions of Regulation U) of (i) the assets of the Borrower making such borrowing or (ii) the assets of the Company and the Subsidiaries taken as a whole which in either case shall be subject to the negative pledge of Section 6.01 or to any negative pledge contained in any other agreement with a Bank evidencing Indebtedness will be represented by Margin Stock.

**SECTION 3.09. Taxes.** The Company and the Subsidiaries have filed or caused to be filed all Federal, state and local tax returns which are required to be filed by them, and have paid or caused to be paid all taxes shown to

be due and payable on such returns or on any assessments received by any of them, other than any taxes or assessments the validity of which the Company or any Subsidiary is contesting in good faith by appropriate proceedings, and with respect to which the Company or such Subsidiary shall, to the extent required by generally accepted accounting principles applied on a consistent basis, have set aside on its books adequate reserves.

**SECTION 3.10. Employee Benefit Plans.** Each of the Company and the Subsidiaries is in compliance in all material respects with those provisions of ERISA and the regulations and public interpretations thereunder which are applicable to the Company and the Subsidiaries. As of the date hereof, no Reportable Event has occurred with respect to any Plan as to which the Company was required to file a report with the Pension Benefit Guaranty Corporation, and no material unfunded vested liabilities exist under any Plan.

**SECTION 3.11. No Material Misstatements.** No information, report, financial statement, exhibit or schedule prepared or furnished by any Borrower to any Bank in connection with this Agreement or the Notes or included therein contained or contains any material misstatement of fact or omitted or omits to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

**SECTION 3.12. Investment Company Act.** Neither the Company nor any Subsidiary is an "investment company" as defined in, or subject to regulation under, the Investment Company Act of 1940.

#### IV. CONDITIONS OF LENDING

The obligations of the Banks to make Loans hereunder shall be subject to the following conditions precedent:

**SECTION 4.01. All Borrowings.** On the date of each borrowing hereunder, including each refinancing pursuant to Section 2.11:

(a) The Agent shall have received a notice of such borrowing as required by Section 2.02, 2.03 or 2.11.

(b) The representations and warranties set forth in Article III hereof (except, in the case of any



refinancing pursuant to Section 2.11, where the proceeds of a new borrowing do not exceed the principal amount of the Loan being refinanced, the representations and warranties contained in the last sentence of Section 3.05, in Section 3.06 and in Section 3.10) shall be true and correct in all material respects with the same effect as though made on and as of such date.

(c) Each Borrower shall be in compliance with all the terms and provisions contained herein on its part to be observed or performed, and at the time of and immediately after such borrowing no Event of Default or event which with notice or lapse of time or both would constitute an Event of Default shall have occurred and be continuing.

(d) In the case of any borrowing the proceeds of which are to be used to pay for shares of ABC common stock in connection with the consummation of the Merger, all governmental consents and approvals required in order that the proceeds of such borrowing may be so used shall have been obtained, there shall not exist any order, injunction or other restraint which prohibits or has the effect of prohibiting the consummation of the Merger, the conditions to the Merger set forth in Section 7.1 of the Merger Agreement shall have been satisfied (or, in the case of the conditions set forth in clauses (c)(ii) and (c)(iii) of such Section 7.1, waived) and the Merger shall have been duly and validly consummated and the Company shall own, directly or indirectly, all the outstanding capital stock of ABC, in each case as set forth in Schedule 3.07 hereto.

(e) In the case of any borrowing which results in an increase in the aggregate principal amount of the Loans outstanding hereunder, the Borrower making such borrowing shall have delivered for each Bank a statement on Federal Reserve Form U-1 in conformity with the requirements of Regulation U.

(f) Each Bank shall have received a Competitive Note or Standby Note, as applicable, duly executed by the Company or a Borrowing Subsidiary, as applicable, payable to its order and otherwise complying with the provisions of Section 2.05.

Each borrowing hereunder shall be deemed to be a representation and warranty by each Borrower on the date of such

borrowing as to the matters specified in paragraphs (b), (c), and, if applicable, (d) of this Section 4.01.

**SECTION 4.02. First Borrowing by Each Borrowing Subsidiary.** The obligations of the Banks to make Loans to each Borrowing Subsidiary hereunder on the first date on which Loans are made to such Borrowing Subsidiary are subject to the following additional conditions precedent:

(a) The Banks shall have received the favorable written opinion of Hall, Dickler, Lawler, Kent & Friedman or other counsel satisfactory to the Banks, dated the date of such Loans, addressed to the Banks and satisfactory to Cravath, Swaine & Moore, special counsel for the Banks, to the effect set forth in Exhibit G hereto.

(b) All legal matters incident to this Agreement, the Notes and the borrowings hereunder shall be satisfactory to Cravath, Swaine & Moore, special counsel for the Banks.

(c) The Banks shall have received (i) a certificate of the Secretary or an Assistant Secretary of such Borrowing Subsidiary dated the date on which such Loans are to be made and certifying (A) that attached thereto are true and complete copies of the certificate of incorporation and the by-laws of such Borrowing Subsidiary as in effect on the date of such certificate and at all times since a date prior to the date of the resolution of such Borrowing Subsidiary described in item (B) below, (B) that attached thereto is a true and complete copy of a resolution adopted by the Board of Directors of such Borrowing Subsidiary authorizing the execution, delivery and performance of the Borrowing Subsidiary Agreement and the Notes delivered by such Borrowing Subsidiary and the borrowings hereunder by such Borrowing Subsidiary, and that such resolution has not been modified, rescinded or amended and is in full force and effect, and (C) as to the incumbency and specimen signature of each officer of such Borrowing Subsidiary executing the Borrowing Subsidiary Agreement and the Notes delivered by such Borrowing Subsidiary or any other document delivered in connection herewith or therewith; (ii) a certificate of another officer of such Borrowing Subsidiary as to the incumbency and signature of the Secretary or such Assistant Secretary of such Borrowing Subsidiary; and (iii) such other

documents as any Bank or Cravath, Swaine & Moore, special counsel for the Banks, may reasonably request.

(d) Each Bank shall have received a copy of the Borrowing Subsidiary Agreement executed by such Borrowing Subsidiary.

(e) The Banks shall have received a certificate, dated such date and signed by the chief financial officer of the Company, confirming compliance with the conditions precedent set forth in paragraphs (b) and (c) of Section 4.01.

#### V. AFFIRMATIVE COVENANTS

The Company covenants and agrees with each Bank that, so long as this Agreement shall remain in effect or the principal of or interest on any Note, any Commitment Fee or any other expense or amount payable hereunder shall be unpaid, unless the Required Banks shall otherwise consent in writing, it will, and will cause each of the Subsidiaries to:

**SECTION 5.01. Corporate Existence.** Do or cause to be done all things necessary to preserve, renew and keep in full force and effect its legal existence, except as otherwise permitted by Section 6.03, and except that any Subsidiary may be merged or liquidated into the Company or another Subsidiary; provided, in the case of a Borrowing Subsidiary, that the corporation into which it is merged or liquidated first assumes all the obligations of such Borrowing Subsidiary under this Agreement and the Notes delivered by it by a written instrument satisfactory in form and substance to the Agent.

**SECTION 5.02. Businesses and Properties.** At all times do or cause to be done all things necessary to preserve, renew and keep in full force and effect the rights, licenses, permits, franchises, patents, copyrights, trademarks and trade names material to the conduct of its businesses; maintain and operate such businesses in substantially the manner in which they are presently conducted and operated (subject to changes in the ordinary course of business); comply in all material respects with all laws and regulations applicable to the operation of such businesses whether now in effect or hereafter enacted and with all other applicable laws and regulations; take all action which may be required to obtain, preserve, renew and extend all

licenses, permits and other authorizations which may be material to the operation of such businesses; and at all times maintain, preserve and protect all property material to the conduct of such businesses and keep such property in good repair, working order and condition and from time to time make, or cause to be made, all needful and proper repairs, renewals, additions, improvements and replacements thereto.

**SECTION 5.03. Insurance.** (a) Keep its insurable properties adequately insured at all times by financially sound and reputable insurers, (b) maintain such other insurance, to such extent and against such risks, including fire and other risks insured against by extended coverage, as is customary with companies similarly situated and in the same or similar businesses, (c) maintain in full force and effect public liability insurance against claims for personal injury or death or property damage occurring upon, in, about or in connection with the use of any properties owned, occupied or controlled by the Company or any Subsidiary, in such amount as the Company or such Subsidiary shall reasonably deem necessary, and (d) maintain such other insurance as may be required by law.

**SECTION 5.04. Obligations and Taxes.** Pay all indebtedness and obligations promptly when due in accordance with their terms, and pay and discharge promptly when due all taxes, assessments and governmental charges or levies imposed upon it or upon its income or profits or in respect of its property before the same shall become delinquent or in default, as well as all lawful claims for labor, materials and supplies or otherwise, which, if unpaid, might give rise to liens or charges upon such properties or any part thereof; provided, however, that neither the Company nor any Subsidiary shall be required to pay and discharge or to cause to be paid and discharged any such tax, assessment, charge, levy or claim so long as the validity or amount thereof shall be contested in good faith by appropriate proceedings and the Company or such Subsidiary shall, to the extent required by generally accepted accounting principles applied on a consistent basis, have set aside on its books adequate reserves with respect thereto.

**SECTION 5.05. Financial Statements; Reports.** In the case of the Company, furnish to each Bank:

(a) within 120 days after the end of each fiscal year of the Company, a consolidated balance sheet of

the Company and related statements of income and changes in financial position showing the financial condition of the Company and the Subsidiaries as of the close of such fiscal year and their results of their operations during such year, all audited by Arthur Young & Company or other independent certified public accountants of recognized national standing and accompanied by an opinion of such accountants (which shall not be qualified in any material respect) to the effect that such financial statements fairly present the financial condition and results of operations of the Company and the Subsidiaries in accordance with generally accepted accounting principles consistently applied;

(b) within 60 days after the end of each of the first three quarters in each fiscal year of the Company, a consolidated balance sheet and related statements of income and changes in financial position showing the financial condition of the Company and the Subsidiaries as of the close of such quarter and their results of operations for such quarter and the then elapsed portion of the fiscal year, all certified by the chief financial officer or the chief accounting officer of the Company as fairly presenting the financial condition and results of operations of the Company and the Subsidiaries in accordance with generally accepted accounting principles applied consistently with those used in preparing the statements delivered pursuant to (a) above;

(c) concurrently with any delivery under (a) or (b) above, a certificate of the chief financial officer or the chief accounting officer of the Company certifying (i) that no Event of Default, or event or condition which with notice or lapse of time or both would constitute an Event of Default, has occurred or, if such an Event of Default or event or condition has occurred, specifying the nature and extent thereof and (ii) setting forth computations evidencing compliance with the provisions of Section 6.04 and demonstrating that the sum of (i) the obligations secured by liens permitted under Section 6.01(k) and (ii) the Attributable Debt in respect of Sale and Leaseback Transactions entered into by the Company and the Subsidiaries does not exceed 10% of Consolidated Net Worth;

(d) promptly upon their becoming available, copies of all regular and periodic reports, proxy statements

and other materials filed by the Company or any Subsidiary with the Securities and Exchange Commission, or any governmental authority succeeding to any of or all the functions of said Commission, or with any national securities exchange, or distributed to the shareholders of the Company; and

(e) promptly, from time to time, such other information regarding the Merger or the Operations, business affairs and financial condition of the Company and the Subsidiaries as the Agent may reasonably request.

**SECTION 5.06. Litigation and Other Notices.** Give each Bank prompt written notice of the following:

(a) the issuance by any court or governmental agency or authority of any injunction, order or other restraint prohibiting, or having the effect of prohibiting, the making of the Loans or the consummation of the Merger, or the initiation of any litigation seeking any such injunction, order or other restraint;

(b) the filing or commencement of any action, suit or proceeding, whether at law or in equity or by or before any court or any Federal, state, municipal or other governmental agency or authority as to which there is a reasonable possibility of an adverse determination and which, if adversely determined, could materially impair the right of the Company and the Subsidiaries taken as a whole to carry on business substantially as then conducted or materially and adversely affect the business, assets, operations, prospects or condition (financial or otherwise) of the Company and the Subsidiaries taken as a whole;

(c) any Event of Default or event or condition which, upon notice or lapse of time or both, would constitute an Event of Default, specifying the nature and extent thereof and the action (if any) which is proposed to be taken with respect thereto; and

(d) any development in the business or affairs of the Company or any Subsidiary which has resulted in or which is likely, in the reasonable judgment of the Company, to result in a material adverse change in the business, assets, operations or condition (financial or otherwise) of the Company and the Subsidiaries taken as a whole.

SECTION 5.07. ERISA. (a) Comply in all material respects with the applicable provisions of ERISA and (b) furnish to each Bank, (i) as soon as possible, and in any event within 30 days after any Responsible Officer of the Company knows or has reason to know that there has occurred any Reportable Event with respect to any Plan that, alone or together with any other Reportable Event with respect to the same or another Plan, has a reasonable possibility of resulting in liability of the Company or any Subsidiary to the Pension Benefit Guaranty Corporation in an aggregate amount exceeding \$5,000,000, a statement of the chief financial officer or the chief accounting officer of the Company setting forth details as to such Reportable Event and the action which the Company proposes to take with respect thereto, together with a copy of the notice of such Reportable Event given to the Pension Benefit Guaranty Corporation if any notice is required to be given to said Corporation, and (ii) promptly after receipt thereof, a copy of any notice the Company or any Subsidiary may receive from the Pension Benefit Guaranty Corporation relating to the intention of said Corporation to terminate any Plan or Plans, or to appoint a trustee to administer any Plan or Plans.

SECTION 5.08. Maintaining Records; Access to Properties and Inspections. Maintain financial records in accordance with generally accepted accounting principles and, upon reasonable notice, at all reasonable times, permit any authorized representative designated by the Agent to visit and inspect the properties of the Company and of any Subsidiary and permit any authorized representative designated by any Bank to discuss the affairs, finances and condition of the Company and the Subsidiaries with the Company's chief financial officer and chief accounting officer and such other officers as the Company shall deem appropriate.

#### VI. NEGATIVE COVENANTS

The Company covenants and agrees with each Bank that, so long as this Agreement shall remain in effect or the principal of or interest on any Note, any Commitment Fee or any other expense or amount payable hereunder shall be

unpaid, unless the Required Banks shall otherwise consent in writing, it will not, and it will not cause or permit any Subsidiary to, either directly or indirectly:

**SECTION 6.01. Liens.** Incur, create, assume or permit to exist any mortgage, pledge, security interest, lien, charge or other encumbrance of any nature whatsoever, including conditional sale or other title retention agreements (collectively, "liens") on any of its property or assets, whether owned at the date hereof or hereafter acquired, or assign or convey any rights to or security interests in any future revenues, except:

(a) liens incurred and pledges and deposits made in the ordinary course of business in connection with workmen's compensation, unemployment insurance, old-age pensions and other social security benefits;

(b) liens securing the performance of bids, tenders, leases, contracts (other than for the repayment of borrowed money), statutory obligations, surety, customs and appeal bonds and other obligations of like nature, incurred as an incident to and in the ordinary course of business;

(c) liens imposed by law, such as carriers', warehousemen's, mechanics', materialmen's and vendors' liens, incurred in good faith in the ordinary course of business and securing obligations which are not yet due or which are being contested in good faith by appropriate proceedings;

(d) liens securing the payment of taxes, assessments and governmental charges or levies, either (i) not delinquent or (ii) being contested in good faith by appropriate legal or administrative proceedings and as to which the Company or a Subsidiary, as the case may be, shall have set aside on its books adequate reserves;

(e) zoning restrictions, easements, licenses, reservations, provisions, covenants, conditions, waivers, restrictions on the use of property or minor irregularities of title (and with respect to leasehold interests, mortgages, obligations, liens and other encumbrances incurred, created, assumed or permitted to exist and arising by, through or under or asserted by a landlord or owner of the leased property, with or without consent of the lessee), none of which



materially impairs the use of any parcel of property material to the operation of the business of the Company or any Subsidiary or the value of such property for the purpose of such business;

(f) liens upon any property acquired, constructed or improved by the Company or any Subsidiary which are created or incurred contemporaneously with or within 90 days after such acquisition, construction or improvement to secure or provide for the payment of any part of the purchase price of such property or the cost of such construction or improvement (but no other amounts); provided that any such mortgage, lien or security interest shall not apply to any other property of the Company or any Subsidiary;

(g) liens on property existing at the time such property is acquired by the Company or a Subsidiary, and liens on property of a Subsidiary existing at the time it becomes a Subsidiary; provided, in each case, that such liens were not created in contemplation of the acquisition by the Company or such Subsidiary of such property or the acquisition by the Company of such Subsidiary;

(h) liens on the property or assets of any Subsidiary in favor of the Company or another Subsidiary;

(i) liens existing on the date of this Agreement and disclosed in the financial statements referred to in Section 3.05 or the notes thereto;

(j) extensions, renewals and replacements of liens referred to in paragraphs (a) through (i) of this Section 6.01; provided that any such extension, renewal or replacement lien shall be limited to the property or assets covered by the lien extended, renewed or replaced and that the obligations secured by any such extension, renewal or replacement lien shall be in an amount not greater than the amount of the obligations secured by the lien extended, renewed or replaced; and

(k) other liens securing obligations the aggregate amount of which, together with the amount of all Attributable Debt of the Company and the Subsidiaries in respect of Sale and Leaseback Transactions, does not at any time exceed 10% of Consolidated Net Worth.

**SECTION 6.02. Sale and Leaseback Transactions.**

Enter into any arrangement, directly or indirectly, with any person whereby the Company or any Subsidiary shall sell or transfer any property, real or personal, and used or useful in its business, whether now owned or hereafter acquired, and thereafter rent or lease such property or other property which the Company or such Subsidiary intends to use for substantially the same purpose or purposes as the property being sold or transferred (any such arrangement being called a "Sale and Leaseback Transaction"), without the prior written consent of the Required Banks'; provided that the Company and the Subsidiaries may enter into Sale and Leaseback Transactions the Attributable Debt with respect to which does not in the aggregate at any time exceed 10% of Consolidated Net Worth.

**SECTION 6.03. Consolidations, Mergers and Sales of Assets.** Merge with or into or consolidate with any other person or sell, lease, transfer or assign to any person or otherwise dispose of (whether in one transaction or a series of transactions) all or substantially all its assets (whether now owned or hereafter acquired), except that so long as immediately thereafter and after giving effect thereto no Event of Default, and no event or condition which with the giving of notice or lapse of time or both would constitute an Event of Default, has occurred and is continuing (a) the Company and the Subsidiaries may dispose of any properties and assets required to be disposed of under the Memorandum Opinion and Order dated November 25, 1985, of the Federal Communications Commission approving the acquisition by the Company of control of ABC and (b) any Subsidiary may merge into, or sell, lease, transfer or assign all or substantially all its assets to, the Company or a direct or indirect wholly owned Subsidiary, and may merge with or into or consolidate with any other person if the surviving corporation in such merger or consolidation shall be a direct or indirect wholly owned Subsidiary; provided, however, that no Borrowing Subsidiary may merge into or consolidate with, or sell, lease, transfer or assign all or substantially all its assets, other than pursuant to clause (a) above, to, any person unless such person, or, in the event of a merger or consolidation, the surviving entity, shall assume all the obligations of such Borrowing Subsidiary under this Agreement and the Notes delivered by it by an instrument in writing satisfactory to the Agent.

**SECTION 6.04. Consolidated Net Worth.** Permit Consolidated Net Worth to be less at any time than (a) during the fiscal year ending December 31, 1986, \$1,400,000,000

and (b) during each subsequent fiscal year, an amount equal to (i) the Consolidated Net Worth required to be maintained under this Section during the immediately preceding fiscal year plus (ii) 33% of Consolidated Net Income, if positive, for such immediately preceding fiscal year.

**SECTION 6.05. Fiscal Year.** Change its fiscal year to end on any date other than the Sunday closest to December 31.

## VII. EVENTS OF DEFAULT

In case of the happening of any of the following events (herein called Events of Default):

(a) any representation or warranty made or deemed made in or in connection with this Agreement or the Notes or the borrowings hereunder or in any report, certificate, financial statement or other instrument furnished in connection with this Agreement or the execution and delivery of the Notes or the borrowings hereunder shall prove to have been false or misleading in any material respect when made;

(b) default shall be made in the payment of any principal of any Note when and as the same shall become due and payable, whether at the due date thereof or at a date fixed for prepayment thereof or by acceleration thereof or otherwise;

(c) default shall be made in the payment of any interest on any Note or any Commitment Fee or any other amount (other than an amount referred to in (b) above) due under this Agreement, when and as the same shall become due and payable, and such default shall continue for a period of 10 days;

(d) default shall be made in the due observance or performance of any other covenant, condition or agreement to be observed or performed on the part of the Company or any Borrowing Subsidiary pursuant to the terms of this Agreement and, in the case of any covenant, condition or agreement contained in Article V (other than Section 5.01 or 5.06), such default shall continue for a period of 10 days after written or telegraphic notice thereof from any Bank to the Company;

(e) the Company or any Subsidiary shall (i) voluntarily commence any proceeding or file any petition seeking relief under Title 11 of the United States Code or any other Federal or state bankruptcy, insolvency, liquidation or similar law, (ii) consent to the institution of, or fail to contravene in a timely and appropriate manner, any such proceeding or the filing of any such petition, (iii) apply for or consent to the appointment of a receiver, trustee, custodian, sequestrator or similar official for the Company or such Subsidiary or for a substantial part of its property or assets, (iv) file an answer admitting the material allegations of a petition filed against it in any such proceeding, (v) make a general assignment for the benefit of creditors, (vi) become unable, admit in writing its inability or fail generally to pay its debts as they become due or (vii) take corporate action for the purpose of effecting any of the foregoing;

(f) an involuntary proceeding shall be commenced or an involuntary petition shall be filed in a court of competent jurisdiction seeking (i) relief in respect of the Company or any Subsidiary, or of a substantial part of the property or assets of the Company or any Subsidiary, under Title 11 of the United States Code or any other Federal or state bankruptcy, insolvency, receivership or similar law, (ii) the appointment of a receiver, trustee, custodian, sequestrator or similar official for the Company or any Subsidiary or for a substantial part of the property of the Company or any Subsidiary or (iii) the winding-up or liquidation of the Company or any Subsidiary; and such proceeding or petition shall continue undismissed for 60 days or an order or decree approving or ordering any of the foregoing shall continue unstayed and in effect for 30 days;

(g) default shall be made with respect to any Indebtedness of the Company or any Subsidiary if the effect of any such default shall be to accelerate, or to permit the holder or obligee of any Indebtedness (or any trustee on behalf of such holder or obligee) to accelerate (with or without notice or lapse of time or both), the maturity of Indebtedness in an aggregate amount in excess of \$5,000,000; or any payment of principal or interest, regardless of amount, on any Indebtedness of the Company or a Subsidiary in an aggregate principal amount in excess of \$5,000,000, shall not be paid when due, whether at maturity, by

acceleration or otherwise (after giving effect to any period of grace specified in the instrument evidencing or governing such Indebtedness);

(h) a Reportable Event or Reportable Events shall have occurred with respect to any Plan or Plans that reasonably could be expected to result in liability of the Company or any Subsidiary to the Pension Benefit Guaranty Corporation in an aggregate amount in excess of \$5,000,000 and within 30 days after the reporting of such Reportable Event or Reportable Events to the Banks the Agent shall have notified the Company in writing that (i) it has determined that on the basis of such Reportable Event or Reportable Events there are reasonable grounds for termination of the Plan by the Pension Benefit Guaranty Corporation or for the appointment by the appropriate United States District Court of a trustee to administer such Plan and (ii) as a result of such determination, an Event of Default exists hereunder; or the Pension Benefit Guaranty Corporation shall have instituted proceedings to terminate any Plan or Plans, or a trustee shall have been appointed by a United States District Court to administer any Plan or Plans, with vested unfunded liabilities aggregating in excess of \$5,000,000; or

(i) a final judgment for the payment of money in excess of \$5,000,000 shall be rendered by a court or other tribunal against the Company or any Subsidiary and shall remain undischarged for a period of 45 consecutive days during which execution of such judgment shall not have been stayed effectively;

then, and in any such event (other than an event with respect to a Borrower described in paragraph (e) or (f) above), and at any time thereafter during the continuance of such event, the Agent may, and at the request of the Required Banks shall, by written or telegraphic notice to the Company, take either or both of the following actions at the same or different times: (i) terminate forthwith the Commitments of the Banks hereunder and (ii) declare the Notes then outstanding to be forthwith due and payable, whereupon the principal of the Notes, together with accrued interest thereon and any unpaid accrued Commitment Fees and all other liabilities of the Borrowers accrued hereunder, shall become forthwith due and payable both as to principal and interest, without presentment, demand, protest or any other notice of any kind, all of which are hereby expressly waived by the Borrowers, anything contained herein or in any

Note to the contrary notwithstanding; and in any event with respect to a Borrower described in paragraph (e) or (f) above, the Commitments of the Banks shall automatically terminate and the Notes shall automatically become due and payable, both as to principal and interest, without presentment, demand, protest or other notice of any kind, all of which are hereby expressly waived by the Borrowers, anything contained herein or in any Note to the contrary notwithstanding.

#### VIII. THE AGENT

In order to expedite the various transactions contemplated by this Agreement, Chemical Bank is hereby appointed to act as Agent on behalf of the Banks. Each of the Banks hereby irrevocably authorizes and directs the Agent to take such action on behalf of such Bank under the terms and provisions of this Agreement and to exercise such powers hereunder as are specifically delegated to or required of the Agent by the terms and provisions hereof, together with such powers as are reasonably incidental thereto. The Agent is hereby expressly authorized on behalf of the Banks, without hereby limiting any implied authority, (a) to receive on behalf of each of the Banks any payment of principal of or interest on the Notes outstanding hereunder and all other amounts accrued hereunder paid to the Agent, and promptly to distribute to each Bank its proper share of all payments so received; (b) to give notice within a reasonable time on behalf of each of the Banks to the Company of any Event of Default specified in this Agreement of which the Agent has actual knowledge acquired in connection with its agency hereunder; and (c) to distribute to each Bank copies of all notices, agreements and other material as provided for in this Agreement as received by such Agent.

Neither the Agent nor any of its directors, officers, employees or agents shall be liable as such for any action taken or omitted by any of them hereunder except for its or his own gross negligence or wilful misconduct, or be responsible for any statement, warranty or representation herein or the contents of any document delivered in connection herewith or be required to ascertain or to make any inquiry concerning the performance or observance by any Borrower of any of the terms, conditions, covenants or agreements of this Agreement. The Agent shall not be responsible to the Banks for the due execution, genuineness, validity, enforceability or effectiveness of this Agreement,

the Notes or any other instrument to which reference is made herein. The Agent may deem and treat the payee of any Note as the owner thereof for all purposes hereof until it shall have received from the payee of such Note notice, given as provided herein, of the transfer thereof. The Agent shall in all cases be fully protected in acting, or refraining from acting, in accordance with written instructions signed by the Required Banks, and, except as otherwise specifically provided herein, such instructions and any action taken or failure to act pursuant thereto shall be binding on all the Banks. The Agent shall, in the absence of knowledge to the contrary, be entitled to rely on any paper or document believed by it in good faith to be genuine and correct and to have been signed or sent by the proper person or persons. Neither the Agent nor any of its directors, officers, employees or agents shall have any responsibility to any Borrower on account of the failure or delay in performance or breach by any Bank of any of its obligations hereunder or to any Bank on account of the failure of or delay in performance or breach by any other Bank or any Borrower of any of their respective obligations hereunder or in connection herewith. The Agent may execute any and all duties hereunder by or through agents or employees and shall be entitled to advice of legal counsel selected by it with respect to all matters arising hereunder and shall not be liable for any action taken or suffered in good faith by it in accordance with the advice of such counsel.

With respect to the Loans made by it hereunder and the Notes issued to it, the Agent in its individual capacity and not as an Agent shall have the same rights and powers hereunder and under any other agreement executed in connection herewith as any other Bank and may exercise the same as though it were not an Agent, and the Agent and its affiliates may accept deposits from, lend money to and generally engage in any kind of business with the Company or any Subsidiary or other affiliate thereof as if it were not the Agent.

Each Bank agrees (i) to reimburse the Agent in the amount of such Bank's pro rata share (based on its Commitment hereunder) of any expenses incurred for the benefit of the Banks by the Agent, including counsel fees and compensation of agents and employees paid for services rendered on behalf of the Banks, not reimbursed by any Borrower and (ii) to indemnify and hold harmless the Agent and any of its directors, officers, employees or agents, on demand, in the amount of its pro rata share, from and against any and all liabilities, obligations, losses, damages, penalties,

actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever which may be imposed on, incurred by or asserted against it in its capacity as the Agent or any of them in any way relating to or arising out of this Agreement or any action taken or omitted by it or any of them under this Agreement, to the extent not reimbursed by any Borrower, provided that no Bank shall be liable to the Agent for any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements resulting from the gross negligence or wilful misconduct of the Agent or any of its directors, officers, employees or agents.

Each Bank acknowledges that it has, independently and without reliance upon the Agent or any other Bank and based on such documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement. Each Bank also acknowledges that it will, independently and without reliance upon the Agent or any other Bank and based on such documents and information as it shall deem appropriate at the time, continue to make its own decisions in taking or not taking action under or based upon this Agreement, any related agreement or any document furnished hereunder.

#### IX. GUARANTEE

The Company unconditionally guarantees, as a primary obligor and not merely as a surety, the due and punctual payment of principal of and interest on each Note of a Borrowing Subsidiary, when and as due, whether at maturity, by acceleration, by notice of prepayment or otherwise, and all other monetary obligations of the Borrowing Subsidiaries to the Banks under this Agreement (collectively, the "Obligations"). The Company further agrees that the Obligations may be extended or renewed, in whole or in part, without notice or further assent from it, and that it will remain bound upon its guarantee notwithstanding any extension or renewal of any Obligation.

The Company waives presentment to, demand of payment from and protest to the Borrowing Subsidiaries of any of the Obligations, and also waives notice of acceptance of its guarantee and notice of protest for nonpayment. The obligations of the Company under this Article IX shall not be affected by (a) the failure of any Bank to assert any claim or demand or to enforce any right or remedy against any Borrowing Subsidiary under the provisions of this



Agreement or otherwise; (b) any rescission, waiver, amendment or modification of any of the terms or provisions of this Agreement, the Notes, any guarantee or any other agreement; (c) the release of any security held by any Bank for the Obligations or any of them; or (d) the failure of any Bank to exercise any right or remedy against any other guarantor of the Obligations.

The Company further agrees that its guarantee constitutes a guarantee of payment when due and not of collection, and waives any right to require that any resort be had by any Bank to any security held for payment of the Obligations or to any balance of any deposit account or credit on the books of such Bank in favor of any Borrowing Subsidiary or any other person.

The obligations of the Company under this Article IX shall not be subject to any reduction, limitation, impairment or termination for any reason, including, without limitation, any claim of waiver, release, surrender, alteration or compromise, and shall not be subject to any defense or setoff, counterclaim, recoupment or termination whatsoever by reason of the invalidity, illegality or unenforceability of the Obligations or otherwise. Without limiting the generality of the foregoing, the obligations of the Company under this Article IX shall not be discharged or impaired or otherwise affected by the failure of any Bank to assert any claim or demand or to enforce any remedy under this Agreement, any Note, any guarantee or any other agreement, by any waiver or modification of any thereof, by any default, failure or delay, wilful or otherwise, in the performance of the Obligations, or by any other act or omission which may or might in any manner or to any extent vary the risk of the Company or otherwise operate as a discharge of the Company as a matter of law or equity.

The Company further agrees that its guarantee shall continue to be effective or be reinstated, as the case may be, if at any time payment, or any part thereof, of principal of or interest on any Obligation (including, without limitation, any payment pursuant to this Guarantee) is rescinded or must otherwise be restored by any Bank upon the bankruptcy or reorganization of any Borrowing Subsidiary or otherwise.

In furtherance of the foregoing and not in limitation of any other right which any Bank may have at law or in equity against the Company by virtue hereof, upon the failure of any Borrowing Subsidiary to pay any Obligation

when and as the same shall become due, whether at maturity, by acceleration, after notice of prepayment or otherwise, the Company hereby promises to and will, upon receipt of written demand by any Bank, forthwith pay, or cause to be paid, to the Agent for distribution to the Banks in cash the amount of such unpaid Obligations, and thereupon each Bank shall, in a reasonable manner, assign the amount of the Obligations owed to it and paid by the Company pursuant to this guarantee to the Company, such assignment to be pro tanto to the extent to which the Obligations in question were discharged by the Company, or make such other disposition thereof as the Company shall direct (all without recourse to such Bank and without any representation or warranty by such Bank).

Upon payment by the Company of any sums to a Bank as provided above, all rights of the Company against any Borrowing Subsidiary arising as a result thereof by way of right of subrogation or otherwise shall in all respects be subordinated and junior in right of payment to the prior indefeasible payment in full of all the Obligations to the Banks.

#### X. MISCELLANEOUS

SECTION 10.01. Notices. Notices and other communications provided for herein shall be in writing and shall be delivered or mailed (or in the case of telegraphic communication, delivered by telex, graphic scanning or other telegraphic communications equipment) addressed,

(a) if to the Company, at 24 East 51st Street, New York, N.Y. 10022, Attention of Ronald J. Doerfler, Senior Vice President and Chief Financial Officer (Telecopy No.: (212) 308-1391), with a copy to Hall, Dickler, Lawler, Kent & Friedman, 460 Park Avenue, New York, N.Y. 10022, Attention of Edmund S. Wartels, Esq. (Telecopy No.: (212) 935-3121 or (212) 751-5020); [include telex and telecopy numbers];

(b) if to the Agent, to it at 277 Park Avenue, New York, N.Y. 10172, to the attention of Robert C. Ruocco, Banking & Corporate Finance, and Stephen M. Feeney, Syndications, and at 52 Broadway (4th Floor), New York, N.Y. 10004, to the attention of Rufus Kearney, Loan Department (Telex: NY:423623 Answerback: CSYND) (Telecopy No.: (212) 319-0720 Confirm: James B. Lee, (212) 310-4300); and

(c) if to a Bank, at its address set forth in Section 2.01 hereof.

All notices and other communications given to any party hereto in accordance with the provisions of this Agreement shall be deemed to have been given on the date of receipt if hand delivered or three days after being sent by registered or certified mail, postage prepaid, return receipt requested, if by mail, or upon receipt if by any telegraphic or telex communications equipment, in each case addressed to such party as provided in this Section or in accordance with the latest unrevoked direction from such party.

**SECTION 10.02. Survival of Agreement.** All covenants, agreements, representations and warranties made by the Borrowers herein and in the certificates or other instruments prepared or delivered in connection with this Agreement shall be considered to have been relied upon by the Banks and shall survive the making by the Banks of the Loans and the execution and delivery to the Banks of the Notes evidencing such Loans and shall continue in full force and effect as long as the principal of or any accrued interest on any Note or any Commitment Fee or any other fee or amount payable under the Notes or this Agreement is outstanding and unpaid and so long as the Commitments have not been terminated.

**SECTION 10.03. Binding Effect.** This Agreement shall become effective when it shall have been executed by the Company and the Agent and when the Agent shall have been notified by each Bank that such Bank has executed it and thereafter shall be binding upon and inure to the benefit of the Borrowers, the Agent and each Bank and their respective successors and assigns, except that no Borrower shall have the right to assign its rights hereunder or any interest herein without the prior consent of all the Banks.

**SECTION 10.04. Assignments and Participations.**  
 (a) Each Bank may assign to one or more Eligible Assignees all or a portion of its interests, rights and obligations under this Agreement (including, without limitation, all or a portion of its Commitment and the same portion of the Loans at the time owing to it); provided, however, that (i) the Company shall have given its prior written consent, which shall not be unreasonably withheld, (ii) each such assignment shall be of a constant, and not a varying percentage of all the assigning Bank's rights and obligations under this Agreement, (iii) the amount of the Commitment of the assigning Bank subject to each such assignment

(determined as of the date the Assignment and Acceptance with respect to such assignment is delivered to the Agent) shall in no event be less than the lesser of (A) \$25,000,000 and (B) the total Commitment of such assigning Bank (as set forth in Section 2.01 and as may be adjusted from time to time pursuant to Section 2.08), and shall be in an amount which is an integral multiple of \$1,000,000, and (iv) the parties to each such assignment shall execute and deliver to the Agent, for its acceptance and recording in the Register, an Assignment and Acceptance, together with a processing and recordation fee of \$2,000. Upon such execution, delivery, acceptance and recording, from and after the effective date specified in each Assignment and Acceptance, which effective date shall be at least five Business Days after the execution thereof, (x) the assignee thereunder shall be a party hereto and, to the extent provided in such Assignment and Acceptance, have the rights and obligations of a Bank hereunder and (y) the Bank assignor thereunder shall, to the extent provided in such Assignment and Acceptance, relinquish its rights (other than under Section 10.05) and be released from its obligations under this Agreement (and, in the case of an Assignment and Acceptance covering all or the remaining portion of an assigning Bank's rights and obligations under this Agreement, such Bank shall cease to be a party hereto).

(b) By executing and delivering an Assignment and Acceptance, the Bank assignor thereunder and the assignee thereunder confirm to and agree with each other and the other parties hereto as follows: (i) other than the representation and warranty that it is the legal and beneficial owner of the interest being assigned thereby free and clear of any adverse claim, such Bank assignor makes no representation or warranty and assumes no responsibility with respect to any statements, warranties or representations made in or in connection with this Agreement or the execution, legality, validity, enforceability, genuineness, sufficiency or value of this Agreement or any other instrument or document furnished pursuant hereto; (ii) such Bank assignor makes no representation or warranty and assumes no responsibility with respect to the financial condition of any of the Borrowers or the performance or observance by any of the Borrowers of any of their respective obligations under this Agreement or any other instrument or document furnished pursuant hereto; (iii) such assignee confirms that it has received a copy of this Agreement, together with copies of the financial statements referred to in Section 5.05 and such other documents and information as it has deemed appropriate to make its own credit analysis and

decision to enter into such Assignment and Acceptance; (iv) such assignee will, independently and without reliance upon the Agent, such Bank assignor or any other Bank and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement; (v) such assignee confirms that it is an Eligible Assignee; (vi) except as such assignee shall have previously disclosed to the Company, such assignee is not aware of any facts that in its reasonable judgment would require it to notify the Company pursuant to the first sentence of paragraph (e) of Section 2.12; (vii) such assignee appoints and authorizes the Agent to take such action as agent on its behalf and to exercise such powers under this Agreement as are delegated to the Agent by the terms hereof, together with such powers as are reasonably incidental thereto; and (viii) such assignee agrees that it will perform in accordance with their terms all of the obligations which by the terms of this Agreement are required to be performed by it as a Bank.

(c) The Agent shall maintain at its offices at 52 Broadway, New York, N.Y. a copy of each Assignment and Acceptance delivered to it and a register for the recordation of the names and addresses of the Banks and the Commitment of, and principal amount of the Loans owing to, each Bank from time to time (the "Register"). The entries in the Register shall be conclusive, in the absence of manifest error, and the Borrowers, the Agent and the Banks may treat each person whose name is recorded in the Register as a Bank hereunder for all purposes of this Agreement. The Register shall be available for inspection by the Company or any Bank at any reasonable time and from time to time upon reasonable prior notice.

(d) Upon its receipt of an Assignment and Acceptance executed by an assigning Bank and an Eligible Assignee, the Agent shall, if such Assignment and Acceptance has been completed and is in the form of Exhibit F hereto, and has been consented to by the Company (i) accept such Assignment and Acceptance, (ii) record the information contained therein in the Register and (iii) give prompt notice thereof to the Bank and the appropriate Borrower. The Agent shall provide the Company, within 100 days after the end of each fiscal year, and within 50 days after the end of the first three quarters of each fiscal year, of the Company, a list, current as of the date delivered, of all Banks that as of such date are parties hereto (including Banks that as of such date shall have become parties hereto pursuant to this Section) upon which list the Company shall rely in complying

with its obligations under Section 5.05 to deliver documents to the Banks.

(e) Each Bank may without the consent of any Borrower sell participations to one or more banks or other entities in all or a portion of its rights and obligations under this Agreement (including, without limitation, all or a portion of its Commitment and the Loans owing to it); provided, however, that (i) such Bank's obligations under this Agreement shall remain unchanged, (ii) such Bank shall remain solely responsible to the other parties hereto for the performance of such obligations and (iii) the Borrowers, the Agent and the other Banks shall continue to deal solely and directly with such Bank in connection with such Bank's rights and obligations under this Agreement.

(f) Any Bank may, in connection with any assignment or participation or proposed assignment or participation pursuant to this Section 10.04, disclose to the assignee or participant or proposed assignee or participant, any information relating to the Company furnished to such Bank by or on behalf of the Company; provided that prior to any such disclosure, each such assignee or participant or proposed assignee or participant shall agree to preserve the confidentiality of any confidential information relating to the Company received from such Bank in accordance with its respective customary procedures with respect to confidential information.

**SECTION 10.05. Expenses of the Banks; Indemnity.**

(a) The Borrowers agree, jointly and severally, to pay all out-of-pocket expenses reasonably incurred by the Agent in connection with the preparation of this Agreement and the Notes or with any amendments, modifications or waivers of the provisions hereof (whether or not the transactions hereby contemplated shall be consummated) or reasonably incurred by the Agent or any Bank in connection with the enforcement or protection of their rights in connection with this Agreement or with the Loans made or the Notes issued hereunder, including, but not limited to, the reasonable fees and disbursements of Cravath, Swaine & Moore, special counsel for the Banks, and, in connection with such enforcement or protection, the reasonable fees and disbursements of other counsel for any Bank. The Company further agrees that it shall indemnify the Banks from and hold them harmless against any documentary taxes, assessments or charges made by any governmental authority by reason of the execution and delivery of this Agreement or any of the Notes.

(b) The Borrowers agree, jointly and severally, to indemnify the Banks and their directors, officers, employees and agents against, and to hold the Banks and such persons harmless from, any and all losses, claims, damages, liabilities and related expenses, including counsel fees and expenses, incurred by or asserted against the Banks or any such persons arising out of, in any way connected with, or as a result of (i) the Merger or the consummation of the transactions contemplated by the Merger Agreement, (ii) the use of any of the proceeds of the Loans, in connection with the Merger or otherwise, (iii) the acquisition or ownership of ABC, (iv) this Agreement and the other documents contemplated hereby, the performance by the parties hereto and thereto of their respective obligations hereunder and thereunder (including but not limited to the making of the Commitments) and consummation of the transactions contemplated hereby and thereby, or (b) any claim, litigation, investigation or proceedings relating to any of the foregoing, whether or not any Bank or any such person is a party thereto; provided that such indemnity shall not, as to any Bank, apply to any such losses, claims, damages, liabilities or related expenses arising from (A) any unexcused breach by such Bank of any of its obligations under this Agreement or (B) the gross negligence or wilful misconduct of such Bank.

(c) The provisions of this Section 10.05 shall remain operative and in full force and effect regardless of the expiration of the term of this Agreement, the consummation of the transactions contemplated hereby, the repayment of any of the Loans, the invalidity or unenforceability of any term or provision of this Agreement or any Note, or any investigation made by or on behalf of any Bank. All amounts due under this Section 10.05 shall be payable on written demand therefor.

**SECTION 10.06. Right of Setoff.** If an Event of Default shall have occurred and be continuing and any Bank shall have requested the Agent to declare the Notes immediately due and payable pursuant to Article VII, each Bank is hereby authorized at any time and from time to time, to the fullest extent permitted by law, to set off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held and other indebtedness at any time owing by such Bank to or for the credit or the account of any Borrower against any of and all the obligations of such Borrower (and, in the case of the Company, any Borrowing Subsidiary) now or hereafter existing under this Agreement and the Note held by such Bank, irrespective of whether or not such Bank shall have made any

demand under this Agreement or such Note and although such obligations may be unmatured. Each Bank agrees promptly to notify the Company after any such setoff and application made by such Bank, but the failure to give such notice shall not affect the validity of such setoff and application. The rights of each Bank under this Section are in addition to other rights and remedies (including, without limitation, other rights of setoff) which such Bank may have.

**SECTION 10.07. Applicable Law.** This Agreement and the Notes shall be construed in accordance with and governed by the laws of the State of New York.

**SECTION 10.08. Payments on Business Days.** Should the principal of or interest on the Notes or any Commitment Fee or any other fee or amount payable hereunder become due and payable on other than a Business Day, payment in respect thereof may be made on the next succeeding Business Day, and such extension of time shall in such case be included in computing interest, if any, in connection with such payment.

**SECTION 10.09. Waivers; Amendments.** (a) No failure or delay of any Bank in exercising any power or right hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such right or power, or any abandonment or discontinuance of steps to enforce such a right or power, preclude any other or further exercise thereof or the exercise of any other right or power. The rights and remedies of the Banks hereunder are cumulative and not exclusive of any rights or remedies which they would otherwise have. No waiver of any provision of this Agreement or the Notes or consent to any departure by any Borrower therefrom shall in any event be effective unless the same shall be authorized as provided in paragraph (b) below, and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given. No notice or demand on any Borrower in any case shall entitle such Borrower to any other or further notice or demand in similar or other circumstances. Each holder of any of the Notes shall be bound by any amendment, modification, waiver or consent authorized as provided herein, whether or not such Note shall have been marked to indicate such amendment, modification, waiver or consent.

(b) Neither this Agreement nor any provision hereof may be waived, amended or modified except pursuant to an agreement or agreements in writing entered into by the Company and the Required Banks (except that the Commitments may be adjusted as provided in Section 2.08); provided,



however, that no such agreement shall (i) change the principal amount of, or extend or advance the maturity of or any date for the payment of any principal of or interest on, any Note, or waive or excuse any such payment or any part thereof, or change the rate of interest on any Note, without the written consent of each holder affected thereby, (ii) change the Commitment of any Bank without the written consent of such Bank, or change the Commitment Fees without the written consent of each Bank, or (iii) amend or modify the provisions of this Section, Sections 2.09 through 2.16, Section 10.03 and 10.04 or Article IX or the definition of the "Required Banks", without the written consent of each Bank; and provided further that no such agreement shall amend, modify or otherwise affect the rights or duties of the Agent hereunder without the written consent of the Agent. Each Bank and holder of any Note shall be bound by any modification or amendment authorized by this Section regardless of whether its Notes shall be marked to make reference thereto, and any consent by any Bank or holder of a Note pursuant to this Section shall bind any person subsequently acquiring a Note from it, whether or not such Note shall be so marked.

SECTION 10.10. Severability. In the event any one or more of the provisions contained in this Agreement or in the Notes should be held invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein or therein shall not in any way be affected or impaired thereby. The parties shall endeavor in good-faith negotiations to replace the invalid, illegal or unenforceable provisions with valid provisions the economic effect of which comes as close as possible to that of the invalid, illegal or unenforceable provisions.

SECTION 10.11. Counterparts. This Agreement may be executed in two or more counterparts, each of which shall constitute an original but all of which when taken together shall constitute but one contract, and shall become effective as provided in Section 10.03.

SECTION 10.12. Headings. Article and Section headings and the Table of Contents used herein are for convenience of reference only and are not to affect the

construction of, or to be taken into consideration in interpreting, this Agreement.

IN WITNESS WHEREOF, the Company, the Banks and the Agent have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

CAPITAL CITIES/ABC, INC.,

by

\_\_\_\_\_  
Title:

CHEMICAL BANK, individually and as Agent,

by

\_\_\_\_\_  
Title:

THE BANK OF NEW YORK,

by

\_\_\_\_\_  
Title:

THE CHASE MANHATTAN BANK, N.A.,

by

\_\_\_\_\_  
Title:

MORGAN GUARANTY TRUST COMPANY OF NEW YORK,

by

\_\_\_\_\_  
Title:

MORGAN GUARANTY TRUST COMPANY OF  
NEW YORK, Channel Islands Branch,

by

\_\_\_\_\_  
Title:

MANUFACTURERS HANOVER TRUST COM-  
PANY,

by

\_\_\_\_\_  
Title:

BANK OF AMERICA NATIONAL TRUST AND  
SAVINGS ASSOCIATION,

by

\_\_\_\_\_  
Title:

BANKERS TRUST COMPANY,

by

\_\_\_\_\_  
Title:

MARINE MIDLAND BANK, N.A.,

by

\_\_\_\_\_  
Title:

THE FIRST NATIONAL BANK OF CHICAGO,

by

\_\_\_\_\_  
Title:

CONTINENTAL ILLINOIS NATIONAL BANK  
AND TRUST COMPANY OF CHICAGO,

by

\_\_\_\_\_  
Title:

NATIONAL BANK OF DETROIT,

by

\_\_\_\_\_  
Title:

SECURITY PACIFIC NATIONAL BANK,

by

\_\_\_\_\_  
Title:

THE FIRST NATIONAL BANK OF BOSTON,

by

\_\_\_\_\_  
Title:

COMMERCE BANK OF KANSAS CITY,

by

\_\_\_\_\_  
Title:

UNITED MISSOURI BANK OF KANSAS  
CITY, N.A.,

by

\_\_\_\_\_  
Title:

Description of Merger and of Ownership  
of ABC by the Company  
Following the Merger

On the date of the Merger, Acquisition will be merged with and into AEC, which will be the surviving corporation in the Merger. The Company will own, directly or indirectly, all the issued and outstanding common stock of ABC, which will be the only stock of ABC issued and outstanding. Approximately 76% of such common stock will be owned by approximately 35 direct, wholly owned subsidiaries of ABC Holding Company, Inc., a direct, wholly owned subsidiary of the Company. Of the remaining ABC common stock, approximately 17% will be owned directly by the Company and approximately 7% will be owned directly by CC Texas Holding Co., Inc., a direct, wholly owned subsidiary of the Company.

BORROWING SUBSIDIARY AGREEMENT dated as of \_\_\_\_\_, 19\_\_\_\_, among CAPITAL CITIES/ABC, INC. (formerly Capital Cities Communications, Inc.), a New York corporation (the "Company"), [Name of Subsidiary], a \_\_\_\_\_ corporation (the "Subsidiary"), and CHEMICAL BANK, a New York banking corporation, as agent (the "Agent") for the banks (the "Banks") party to the Revolving Credit Agreement dated as of January 3, 1986, as amended by a First Amendment dated as of June 30, 1987 (the "Credit Agreement"), among the Company, the Agent and the Banks.

Under the Credit Agreement, the Banks have agreed, upon the terms and subject to the conditions therein set forth, to make revolving credit loans to the Company and to subsidiaries (as defined in the Credit Agreement) of the Company which execute and deliver to the Agent Borrowing Subsidiary Agreements in the form of this Agreement. The Company represents that the Subsidiary is a subsidiary (as so defined) of the Company. In consideration of being permitted to borrow under the Credit Agreement upon the terms and subject to the conditions set forth therein, the Subsidiary agrees that from and after the date of this Agreement it will be, and will be liable for the observance and performance of all the obligations of, a Borrowing Subsidiary under the Credit Agreement, as the same may be amended from time to time, to the same extent as if it had been one of the original parties to the Credit Agreement.

IN WITNESS WHEREOF, the Company and the Subsidiary have caused this Agreement to be duly executed by their authorized officers as of the date first appearing above.

CAPITAL CITIES/ABC, INC.,

by \_\_\_\_\_

[Name of Subsidiary]

by

---

Accepted as of the date  
first appearing above:

CHEMICAL BANK, as Agent,

by

---

FORM OF COMPETITIVE BID REQUEST

Chemical Bank, as Agent  
for the Banks parties  
to the Credit Agreement  
referred to below  
[Address]  
New York, New York  
Attention:

[Date]

Dear Sirs:

The undersigned, \_\_\_\_\_, a  
corporation (the "Borrower"), refers to the  
Revolving Credit Agreement, dated as of January 3, 1986, as  
amended by the First Amendment dated as of June 30, 1987  
(the "Credit Agreement"), among Capital Cities/ABC, Inc.  
(formerly Capital Cities Communications, Inc.), the Banks  
named therein and Chemical Bank, as Agent for the Banks.  
Capitalized terms used herein and not defined shall have the  
meanings assigned to such terms in the Credit Agreement.  
The Borrower hereby gives you notice pursuant to Sec-  
tion 2.02(a) of the Credit Agreement that it requests a  
Competitive Borrowing under the Credit Agreement, and in  
that connection sets forth below the terms on which such  
Competitive Borrowing is requested to be made:

- (A) Date of Competitive Borrowing \_\_\_\_\_
- (B) Aggregate Principal Amount of  
Competitive Borrowing 1/ \_\_\_\_\_
- (C) Interest Period 2/ \_\_\_\_\_

1/ Not less than \$50,000,000 and in integral multiples of \$50,000,000.

2/ Which shall end not later than the Maturity Date.



Upon acceptance of any or all of the Loans offered by Banks in response to this request, the Company shall be deemed to affirm as of such date the representations and warranties made in the Credit Agreement to the extent specified in Article IV thereof.

Very truly yours,

[Name of Borrower],

By

Title: [Responsible Officer]

## FORM OF STANDBY BORROWING REQUEST

Chemical Bank, as Agent  
for the Banks parties  
to the Credit Agreement  
referred to below

[Address]

New York, New York  
Attention:

[Date]

Dear Sirs:

The undersigned, a corporation (the "Borrower"), refers to the Credit Agreement, dated as of January 3, 1986, as amended by the First Amendment dated as of June 30, 1987 (the "Credit Agreement"), among Capital Cities/ABC, Inc. (formerly Capital Cities Communications, Inc.), the Banks named therein and Chemical Bank, as Agent for the Banks. Capitalized terms used herein and not defined shall have the meanings assigned to such terms in the Credit Agreement. The Borrower hereby gives you notice pursuant to Section 2.03 of the Credit Agreement that it requests a Standby Borrowing under the Credit Agreement, and in that connection sets forth below the terms on which such Standby Borrowing is requested to be made:

- (A) Date of Standby Borrowing \_\_\_\_\_
- (B) Aggregate Principal Amount of Standby Borrowing 1/ \_\_\_\_\_
- (C) Interest rate basis 2/ \_\_\_\_\_
- (D) Interest Period 3/ \_\_\_\_\_

1/ Not less than \$50,000,000 and in integral multiples of \$50,000,000 (except in the case of Alternate Base Loans replacing a portion of a proposed Competitive Borrowing, as provided in paragraph (d) of Section 2.02).

2/ Certificate of Deposit Loan, Eurodollar Loan or Alternate Base Loan.

3/ Which shall end not later than the Maturity Date.

Upon acceptance of any or all of the Loans offered by Banks in response to this request, the Company shall be deemed to affirm as of such date the representations and warranties made in the Credit Agreement to the extent specified in Article IV thereof.

Very truly yours,

[Name of Borrower],

By

Title: [Responsible Officer]

FORM OF NOTICE OF COMPETITIVE BID REQUEST

[Name of Bank]  
[Address]  
New York, New York  
Attention:

[Date]

Dear Sirs:

Reference is made to the Revolving Credit Agreement, dated as of January 3, 1986, as amended by the First Amendment dated as of June 30, 1987 (the "Credit Agreement"), among Capital Cities/ABC, Inc. (formerly Capital Cities Communications, Inc.), the Banks named therein and Chemical Bank, as Agent for the Banks. Capitalized terms used herein and not defined shall have the meanings assigned to such terms in the Credit Agreement.

, a corporation, made a Competitive Bid Request on , 19 pursuant to Section 2.02(a) of the Credit Agreement, and in that connection you are invited to submit a Competitive Bid by [Date]. Your Competitive Bid must be received by the Agent not later than 9:30 a.m. New York time, one Business Day before a proposed Competitive Borrowing. Your Competitive Bid must comply with Section 2.02(b) of the Credit Agreement and the terms set forth below on which the Competitive Bid Request was made:

- (A) Date of Competitive Borrowing \_\_\_\_\_
- (B) Aggregate principal amount of Competitive Borrowing \_\_\_\_\_
- (C) Interest Period \_\_\_\_\_

Very truly yours,

CHEMICAL BANK, as Agent for  
the Banks,

By

\_\_\_\_\_  
Title:

## FORM OF COMPETITIVE BID

Chemical Bank, as Agent for the  
Banks parties to the Credit  
Agreement referred to below  
[Address] New York, New York  
Attention:

[Date]

Dear Sirs:

The undersigned, [Name of Bank], refers to the Revolving Credit Agreement, dated as of January 3, 1986, as amended by the First Amendment dated as of June 30, 1987 (the "Credit Agreement"), among Capital Cities/ABC, Inc. (formerly Capital Cities Communications, Inc.), the Banks named therein and Chemical Bank, as Agent for the Banks. Capitalized terms used herein and not defined shall have the meanings assigned to such terms in the Credit Agreement. The undersigned hereby makes [a Competitive Bid] [Competitive Bids] pursuant to Section 2.02(b) of the Credit Agreement, in response to the Competitive Bid Request made by \_\_\_\_\_, a \_\_\_\_\_ corporation (the "Borrower"), on \_\_\_\_\_, 19\_\_\_\_, and in that connection sets forth below the terms on which such [Competitive Bid is] [Competitive Bids are] made:

	<u>Principal Amount</u> <sup>1/</sup>	<u>Rate</u>
Bid(s)	_____	_____

The undersigned hereby confirms that it is prepared to extend credit to the Borrower upon acceptance by the Company of [this bid] [these bids] in accordance with Section 2.02(d) of the Credit Agreement.

Very truly yours,

[NAME OF BANK] [ADDRESS],

By

Title: \_\_\_\_\_

<sup>1/</sup> Each bid must be in an amount of at least \$5,000,000 and in integral multiples of \$1,000,000. The aggregate of the principal amounts of all bids specified by the undersigned may not exceed its unused individual Commitment.



provided, however, that any failure of the holder hereof to make such a notation or any error in such notation shall not in any manner affect the obligation of the Borrower to make payments of principal and interest in accordance with the terms of this Competitive Note and the Credit Agreement.

This Competitive Note is one of the Competitive Notes referred to in the Credit Agreement which, among other things, contains provisions for the acceleration of the maturity hereof upon the happening of certain events, for optional prepayment of the principal hereof prior to the maturity thereof and for the amendment or waiver of certain provisions of the Credit Agreement, all upon the terms and conditions therein specified. This Competitive Note shall be construed in accordance with and governed by the laws of the State of New York and any applicable laws of the United States of America.

[Name of Borrower],

by

Title: \_\_\_\_\_

Loans and Payments

<u>Date</u>	<u>Amount of Loan</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Payments</u>		<u>Unpaid Principal Balance of Note</u>	<u>Name of Person Making Notation</u>
				<u>Principal</u>	<u>Interest</u>		

E-1 continued





provided, however, that any failure of the holder hereof to make such a notation or any error in such notation shall not in any manner affect the obligation of the Borrower to make payments of principal and interest in accordance with the terms of this Standby Note and the Credit Agreement.

This Standby Note is one of the Standby Notes referred to in the Credit Agreement which, among other things, contains provisions for the acceleration of the maturity hereof upon the happening of certain events, for optional prepayment of the principal hereof prior to the maturity thereof and for the amendment or waiver of certain provisions of the Credit Agreement, all upon the terms and conditions therein specified. This Standby Note shall be construed in accordance with and governed by the laws of the State of New York and any applicable laws of the United States of America.

[Name of Borrower],

by

\_\_\_\_\_  
Title:

Loans and Payments

<u>Date</u>	<u>Amount of Loan</u>	<u>Maturity Date</u>	<u>Interest Rate Option</u>	<u>Payments</u>		<u>Unpaid Principal Balance of Note</u>	<u>Name of Person Making Notation</u>
				<u>Principal</u>	<u>Interest</u>		

E-2 continued

## ASSIGNMENT AND ACCEPTANCE

Dated \_\_\_\_\_, 19\_\_

Reference is made to the Revolving Credit Agreement dated as of January 3, 1986, as amended by the First Amendment dated as of June 30, 1987 (the "Credit Agreement"), among Capital Cities/ABC, Inc. (formerly Capital Cities Communications, Inc.), a New York corporation (the "Company"), the Banks (as defined in the Credit Agreement) named therein and Chemical Bank, as Agent for the Banks (the "Agent"). Terms defined in the Credit Agreement are used herein with the same meaning.

\_\_\_\_\_ (the "Assignor") and  
 \_\_\_\_\_ (the "Assignee") agree as follows:

1. The Assignor hereby sells and assigns to the Assignee, and the Assignee hereby purchases and assumes from the Assignor, without recourse to the Assignor, a \_\_\_\_\_% interest in and to all the Assignor's rights and obligations under the Credit Agreement as of the Effective Date (as defined below) (including, without limitation, a \_\_\_\_\_% interest (which on the Effective Date hereof is \$ \_\_\_\_\_) in the Commitment of the Assignor on the Effective Date and such percentage interest in all unpaid commitment fees accrued to the Effective Date, and a \_\_\_\_\_% interest (which on the Effective Date hereof is \$ \_\_\_\_\_) in the Loans owing to the Assignor outstanding on the Effective Date together with such percentage interest in all unpaid interest on such Loans accrued to the Effective Date, and a \_\_\_\_\_% interest in the Standby Note [and Competitive Note] held by the Assignor (which on the Effective Date hereof is \$ \_\_\_\_\_)).

2. The Assignor (i) represents that as of the date hereof, its Commitment (without giving effect to assignments thereof which have not yet become effective) is \$ \_\_\_\_\_ and the outstanding balance of its Loans (unreduced by any assignments thereof which have not yet become effective) is \$ \_\_\_\_\_; (ii) represents that it is in receipt of the written consent of the Company required by clause (i) of paragraph (a) of Section 10.04 of the Credit Agreement; (iii) makes no representation or warranty and assumes no responsibility with respect to any statements, warranties or representations made in or in connection with the Credit Agreement or the execution, legality, validity, enforceability, genuineness, sufficiency or value of the Credit Agreement or any other instrument or document fur-

nished pursuant thereto, other than that it is the legal and beneficial owner of the interest being assigned by it hereunder and that such interest is free and clear of any adverse claim; (iv) makes no representation or warranty and assumes no responsibility with respect to the financial condition of the Company or the performance or observance by the Company of any of its obligations under the Credit Agreement or any other instrument or document furnished pursuant thereto, and (v) attaches the Standby Note [and Competitive Note] referred to in paragraph 1 above and requests that the Agent exchange such Standby Note [and Competitive Note] for [for a new Standby Note [and Competitive Note] dated \_\_\_\_\_, 19 \_\_, in the principal amount of \$ \_\_\_\_\_ payable to the order of the Assignee] [new Standby Notes [and Competitive Notes] as follows: a Standby Note dated \_\_\_\_\_, 19 \_\_, in the principal amount of \$ \_\_\_\_\_ payable to the order of the Assignor and a Standby Note dated \_\_\_\_\_, 19 \_\_, in the principal amount of \$ \_\_\_\_\_ payable to the order of the Assignee [and a Competitive Note dated \_\_\_\_\_, 19 \_\_, in the principal amount of \$ \_\_\_\_\_ payable to the order of the Assignor and a Competitive Note dated \_\_\_\_\_, 19 \_\_, in the principal amount of \$ \_\_\_\_\_ payable to the order of the Assignee]].

3. The Assignee (i) represents and warrants that it is legally authorized to enter into this Assignment and Acceptance; (ii) confirms that it has received a copy of the Credit Agreement, together with copies of the most recent financial statements delivered pursuant to Section 5.05 thereof and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into this Assignment and Acceptance; (iii) confirms that it is an Eligible Assignee; (iv) agrees that it will, independently and without reliance upon the Agent, the Assignor or any other Bank and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under the Credit Agreement; (v) appoints and authorizes the Agent to take such action as agent on its behalf and to exercise such powers under the Credit Agreement as are delegated to the Agent by the terms thereof, together with such powers as are reasonably incidental thereto; (vi) agrees that it will perform in accordance with their terms all the obligations which by the terms of the Credit Agreement are required to be performed by it as a Bank; (vii) agrees that it will keep confidential all information with respect to the Company furnished to it by the Company or the Assignor (other than information

generally available to the public or otherwise available to the Assignor on a nonconfidential basis); (viii) specifies as its address for notices the offices set forth beneath its name on the signature pages hereof; and (ix) attaches the forms prescribed by the Internal Revenue Service of the United States certifying as to the Assignee's exemption from United States withholding taxes with respect to all payments to be made to the Assignee under the Credit Agreement or such other documents as are necessary to indicate that all such payments are subject to such tax at a rate reduced by an applicable tax treaty. 1/

4. The effective date for this Assignment and Acceptance shall be \_\_\_\_\_ (the "Effective Date"). 2/ Following the execution of this Assignment and Acceptance, it will be delivered to the Agent for acceptance and recording by the Agent.

5. Upon such acceptance and recording, from and after the Effective Date, (i) the Assignee shall be a party to the Credit Agreement and, to the extent provided in this Assignment and Acceptance, have the rights and obligations of a Bank thereunder and (ii) the Assignor shall, to the extent provided in this Assignment and Acceptance, relinquish its rights (other than under Section 10.05 of the Credit Agreement) and be released from its obligations under the Credit Agreement.

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1/ If the Assignee is organized under the laws of a jurisdiction outside the United States.

2/ See Section 10.04. Such date shall be at least five Business Days after the execution of this Assignment and Acceptance and delivery thereof to the Agent.

6. Upon such acceptance and recording, from and after the Effective Date, the Agent shall make all payments in respect of the interest assigned hereby (including payments of principal, interest, fees and other amounts) to the Assignee. The Assignor and Assignee shall make all appropriate adjustments in payments for periods prior to the Effective Date by the Agent or with respect to the making of this assignment directly between themselves.

7. This Assignment and Acceptance shall be governed by, and construed in accordance with, the laws of the State of New York.

[NAME OF ASSIGNOR]

By \_\_\_\_\_  
Title:

[NAME OF ASSIGNEE]

By \_\_\_\_\_  
Title:

Accepted this \_\_\_\_\_ day  
of \_\_\_\_\_, 19 \_\_\_\_\_

Address for Notices:

CHEMICAL BANK,  
as Agent

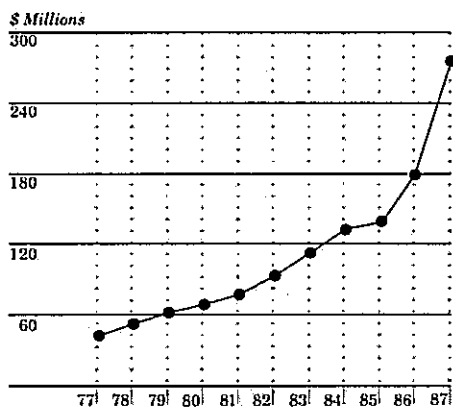
By \_\_\_\_\_  
Title:

# Operating Highlights

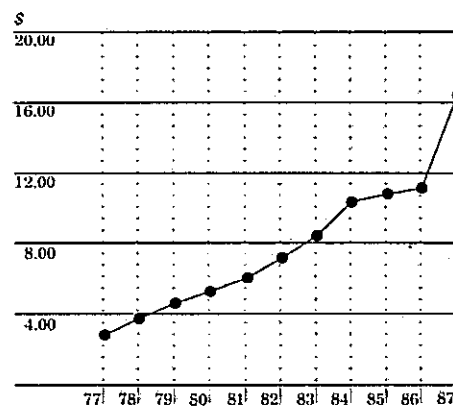
Exhibit (13)

	1987	1986
Net revenues	\$4,440,346,000	\$4,124,374,000
Operating income	\$ 745,990,000	\$ 602,678,000
Income before extraordinary items	\$ 279,078,000	\$ 181,943,000
Income per share before extraordinary items	\$16.46	\$11.20
Average shares outstanding	16,950,000	16,250,000

**Income Before Extraordinary Items**



**Income Per Share Before Extraordinary Items**





## To Our Shareholders

In 1987 Capital Cities/ABC, Inc. experienced a year of good growth, with record results. Consolidated net revenues increased 8 percent to \$4,440,000,000, while income per share was \$16.46, a gain of 47 percent.

The Broadcast Group had an outstanding year. The ABC Television Network Group recorded mixed audience ratings, but produced better than anticipated operating earnings, while the Publishing Group was down slightly in a difficult business environment for most print media. Equally important, while the Company was achieving satisfactory financial results in 1987, substantial further progress was made toward the goal of completing the operating and organizational combination of the two predecessor companies.

A summary of the Company's operating results for 1987 (53-week year ending January 3, 1988) compared with 1986 (52-week year ending December 28, 1986) follows:

<i>(Dollars in millions)</i>	1987	1986	Percent change
Net revenues	\$4,440.4	\$4,124.4	8%
Operating costs	3,536.1	3,363.1	5%
Depreciation and amortization	158.3	158.6	—
Total costs	3,694.4	3,521.7	5%
Operating income	746.0	602.7	24%
Interest and other, net	(182.0)	(180.0)	1%
Income before taxes	564.0	422.7	33%
Income taxes	(284.9)	(240.8)	18%
Net income*	\$ 279.1	\$ 181.9	53%
Income per share*	\$16.46	\$11.20	47%

\*Before 1986 extraordinary items.

The Company started 1987 with rather modest financial expectations. Broadcasting advertising demand was not projected to grow significantly. Also, it was known that cost reductions at the ABC Television Network and at the former ABC television

stations would have a favorable impact, comparatively, for only a portion of 1987. Further, there was no realistic basis for projecting improved audience deliveries by the ABC Television Network in its key dayparts. Somewhat offsetting these concerns was the knowledge that most of the Company's other franchises were in very sound condition. The national rate of inflation was at its lowest level in over ten years and the economy entered the year in good shape with the exception of energy-related states, particularly Texas. The Company owns several major operations in Texas, including the *Fort Worth Star-Telegram* and KTRK-TV, Houston.

Through the first nine months of the year actual results were quite close to plan. Television network sales for the fourth quarter of 1987, however, were surprisingly strong and made an important and welcome contribution to a better-than-expected performance for that period. While operating earnings, excluding purchase price adjustments, were up for each of the four quarters, the rate of gain of net income was further enhanced by reduction in the Federal income tax rate.

You may recall from last year's report that the historic value of certain ABC Television Network commitments for entertainment programming and sports rights on the date of acquisition exceeded their fair market value by approximately \$280,000,000, net of related income tax benefits. Generally accepted accounting principles require that this amount be written off over a number of years, rather than as the various programs are aired. The resultant reduction in network program rights benefited earnings by \$3.85 and \$5.60 per share in 1987 and 1986, respectively. Amortization of intangible assets arising from the ABC acquisition and additional depreciation from the write-up of fixed assets to fair market value amounted to \$3.15 and \$3.38 per share being charged to earnings in 1987 and 1986, respectively. Excluding these two noncash acquisition-

related factors, earnings per share would have been \$15.76 in 1987 and \$8.98 in 1986.

In addition to the improvement in operating results, the Company has made substantial progress in strengthening its balance sheet in the two years since the \$3,371,000,000 acquisition of ABC. Since March 30, 1986 (the first quarter-end following the acquisition), total debt has decreased from \$2,080,000,000 to \$1,700,000,000, while cash increased from \$150,000,000 to \$330,000,000. This combined \$560,000,000 improvement in financial condition resulted primarily from the generation of cash flow from operations. The Company's debt to total capital ratio has improved from 51 percent in March 1986 to 41 percent at year-end 1987. Except for approximately \$100,000,000 in commercial paper, all of the Company's outstanding debt has fixed interest rates which average 10.3 percent, and there are no meaningful maturities before 1991. In these times of volatility, the financial flexibility and access to the capital markets provided by the Company's strong capital structure are reassuring.

In this letter we will highlight activities and results for each of the Company's operating groups. Further details may be found in the following sections of this report.

The ABC Television Network Group had a turn-around year in 1987. Advertising revenues for the three-network marketplace grew very little from late 1984 through September 1987. Despite (or perhaps in part because of) a radical change in audience measurement methodology, a very strong up-front sales market for the 1987-88 season resulted in a revenue gain for the ABC Television Network for the fourth quarter and the full year 1987. Total revenues for the three networks for calendar year 1987 were up 1 percent, with ABC increasing 3 percent. Continuing cost control efforts throughout the network resulted in an expense reduction of 1 percent versus 1986 (excluding purchase

price adjustments). These two factors combined to return the ABC Television Network to modest profitability for the year.

Although prime-time ratings for the ABC Television Network have not improved overall, several new programs have been well received and offer promise for the future. Measurable progress has also been made with the younger demographic groups that are so attractive to advertisers. ABC Daytime has improved its ratings and is once again ranked first in television households, as well as in the key demographics, for the 1987-88 season. ABC Sports continued the programming and financial recovery it began in 1986, and ABC News added another year of innovation and distinction to its record of service to the American viewing public.

The Broadcast Group enjoyed another fine year in 1987. Continued strength in audience ratings, plus the impact of cost reduction efforts at the former ABC properties, resulted in record earnings for the television stations. ESPN, the Company's 24-hour sports cable programming service, enjoyed a year of outstanding growth in revenues and earnings. A three-year agreement to broadcast a limited schedule of NFL games starting in 1987 further solidified ESPN's already well-established relationships with cable operators and viewers throughout the country. Results for radio were mixed in 1987, with soft demand for national advertising (both network and stations) and ratings disappointments in several markets contributing to a slight decline in operating earnings.

The Publishing Group experienced another disappointing year in 1987, incurring a modest decline in operating income for the second consecutive year. A number of the Group's specialized business and consumer publications failed to match the prior year's revenues during 1987, a year when overall demand for national print advertising was very sluggish. The Company's newspapers

generally achieved modest growth in revenues and earnings, with the exception of the *Fort Worth Star-Telegram* which was strongly affected by the combination of a very weak local economy and the first full year of higher costs associated with its new production facility.

The start of another year finds us somewhat optimistic about the near-term earnings prospects for the Company. In 1988 the combined benefits of the reduction in the Federal income tax rate and the continued decline in net financing costs, should result in satisfactory earnings.

During 1988 the Winter and Summer Olympics and national elections all take place over a span of nine months. Historically, such years have produced unusually high revenue growth at television networks and stations. At this time, it appears that while sales levels will increase as they have in the past, the effect will not be as great as in previous Olympic/presidential election years. Profitability will not be enhanced — at least for the ABC Television Network — because rights payments and production charges for the Calgary Winter Olympics will be well in excess of net revenues. It now appears that the strong up-front television network selling season of last fall was borrowed in part from scatter sales thus far in 1988. Whether pressure from the Seoul Summer Olympics on the NBC Television Network and from political advertising will tighten the advertising marketplace and lift rates in late 1988 remains doubtful.

The Broadcast Group should have another outstanding year. Recent ratings for virtually all of the Company's stations are strong; early radio network sales are good; and the cable programming services, led by ESPN, should achieve record performances. The outlook for the Publishing Group remains uncertain because of continuing revenue softness at the *Fort Worth Star-Telegram* and several specialized publications.

Cash generated during the first two years following the ABC acquisition has been

greater than expected and should continue to be a very positive factor barring severe and prolonged national economic problems.

Over the longer term, the Company's prospects are promising. The rate of decline in audience levels for the three networks should moderate over the next several years, as cable television household penetration on a nationwide basis levels off. Total network audience share of prime-time viewing is projected to stabilize at about a 60 to 65 percent level, where the traditional networks will still represent the most efficient means by which advertisers can market merchandise nationally. It is now estimated that future erosion in network viewing will be offset by annual growth in television households.

The outlook for affiliated television stations, such as ours, is bright. Television stations with strong news and information programming should continue to capture ever-growing shares of local advertising spending. We also remain optimistic that the Company's cable programming services will continue to grow substantially in scope and profitability over the next decade.

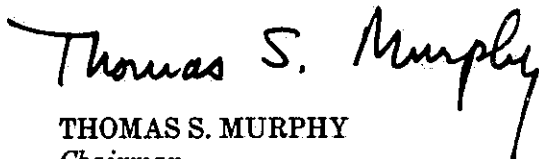
Finally, we want to bring to your attention a technological development that is of concern to all television broadcasters. The next few years are expected to see the introduction of so-called advanced television systems, which offer improved video and audio quality to the viewer. The systems closest to operational status will use channel bandwidths which are wider than those used by conventional broadcasters; and which would not be compatible with existing television receivers or over-the-air transmission systems. The new technology, however, can more readily be implemented in videocassette or videodisc formats, in satellite-to-home services, and by cable systems and cable program services — none of which are constrained by the channel bandwidths that restrict over-the-air broadcasters.

We are working with other broadcasters to participate in the development of advanced systems which are compatible with our

transmission systems and the 140,000,000 television receivers now in use in the United States and which are competitive in quality with what other media may be able to offer. At the same time, the Federal Communications Commission has put a hold on available UHF spectrum while it evaluates whether broadcasters need (and should be given) additional channel capacity in order to provide a service of competitive quality.

The technology is changing rapidly, and we are hopeful that ways will be found to provide significantly improved television service to our viewers without undermining the system that has served the public interest over the years.

The organizational structure implemented at Capital Cities/ABC two years ago has worked out well, and we sense that people at all levels throughout the Company are now more comfortable and effective in their jobs. Once again, we wish to express our gratitude and admiration for the performance of our 20,000 fellow employees. We also take pleasure in extending thanks to our shareholders for their interest and support.



THOMAS S. MURPHY  
*Chairman*



DANIEL B. BURKE  
*President*

## Broadcasting

Capital Cities/ABC's broadcasting operations, which consist of the ABC Television Network Group and the Broadcast Group, had 1987 net revenues of \$3,433,700,000, an increase of \$230,100,000 or 9 percent over 1986.

Operating earnings of \$632,900,000 in 1987, were up \$158,400,000 or 33 percent over the prior year. Broadcasting operations' 1987 results, compared with 1986, are summarized as follows:

<i>(Dollars in millions)</i>	1987	1986
Net revenues	\$3,433.7	\$3,153.6
Operating costs	2,680.6	2,554.9
Depreciation and amortization	120.2	124.2
Total costs	2,800.8	2,679.1
Operating income	\$ 632.9	\$ 474.5

The 1987 and 1986 results are after giving effect to the acquisition-related adjustment to fair market value of the ABC Television Network entertainment programming and sports rights, which benefited 1987 and 1986 earnings by \$120,000,000 and \$180,000,000, respectively. Additionally, both 1987 and 1986 results include amortization of intangibles and depreciation arising from the ABC acquisition of \$46,000,000 and \$47,600,000, respectively. Excluding these two noncash acquisition-related factors, broadcasting earnings for 1987 would have increased 63 percent to \$558,900,000, from 1986 earnings of \$342,100,000.

### ABC Television Network Group

The ABC Television Network Group reported significantly improved results in 1987. The network's original plan had anticipated no revenue growth and little change from the operating loss recorded in 1986, primarily because of disappointing prime-time and daytime ratings. However, revenues and profits exceeded expectations due to stronger advertiser demand for network time, particularly in the fourth quarter, and uniformly lower-than-budgeted operating

costs. As a result, reported revenues for 53-week 1987 rose 5 percent to \$2,200,000,000.

Continued cost containment measures resulted in an operating expense decrease for 53-week 1987 of 1 percent (excluding purchase price adjustments for entertainment programming and sports rights). The combination of these factors resulted in a return to modest profitability for the television network. Operating income in 1987 (before purchase price adjustments and amortization of intangibles) exceeded \$50,000,000, compared to a loss of \$70,000,000 in 1986. On a comparable 52-week basis, revenues increased 3 percent, while operating costs decreased 2 percent.

The three-network marketplace grew by 1 percent in 1987, well below historical levels. As previously stated, revenue growth has been affected by modest growth in the overall economy, a lower inflation rate, stronger performances by competitive media and an across-the-board decline in network audience delivery. Coincidental with the industry's most recent ratings decline was a major change in the way our audiences are measured. In September 1987, the national ratings services switched from a diary and electronic method to an all electronic measurement system called a people meter. Under this new methodology, three-network viewing levels declined across all dayparts in the fourth quarter; and competitive media, particularly pay cable, basic cable and independent television stations, reported higher ratings over the same period. The erosion in three-network audience levels in the fourth quarter was anticipated due to the change in ratings measurement systems. Within this environment, our longer-term objective is to improve our competitive ratings performance, especially in prime-time series programming.

Prime time attracts the largest audiences and produces the largest revenues of any daypart. The ABC Television Network did make some progress in its prime-time schedule during

the first half of the 1987-88 season. The network consistently won Tuesday and Wednesday nights by using its established programs on those nights to introduce three new series. On Tuesday, *Who's The Boss?* and *Growing Pains* regularly rated in the ten most popular shows for young adults. *Moonlighting*, an in-house production of ABC Circle Films, also ranked in the top ten programs of the current season. On Tuesday evening, *thirtysomething* debuted last fall to critical acclaim and strong audience and advertiser appeal. On Wednesday night, *Perfect Strangers* and *Head of the Class* consistently won their time periods and enabled the network to get strong viewer sampling for two new programs, *Hooperman* and *Slap Maxwell*. These have also been two of the better-performing new series to date.

On the other nights of the prime-time schedule, ratings continued to be disappointing. Monday was competitive due largely to *Monday Night Football*, but ratings for the night declined when the NFL season ended. With few exceptions, the network finished third on Thursday, Friday, Saturday and Sunday nights. *Dolly*, a one-hour variety show starring Dolly Parton, was moved to Saturday night in January 1988 and has significantly improved the network's audience levels in its new time period.

Monday-to-Friday daytime programming experienced a ratings improvement in the fourth quarter of 1987. For the first nine months of the year, however, the network failed to deliver the anticipated audience levels to advertisers and was forced to use a portion of its daytime commercial inventory to make good on this shortfall. With the switch to people meters in the fourth quarter, the ABC daytime schedule was top-rated, particularly with women 18-49 years old. *General Hospital*, *One Life to Live* and *All My Children* are consistently three of the four highest rated daytime programs. ABC also strengthened its late-morning schedule with the premiere of *Home*, an informative "how-to" program, in January 1988.

*Good Morning America*, the network's news and information program in early morning, continued to show ratings improvement. Charles Gibson joined the show as co-host with Joan Lunden early in 1987, and the program's format of newsmaker interviews, human interest stories and other timely features continued to be popular with young adults.

ABC News provided comprehensive, award-winning coverage of the major events of 1987. *World News Tonight with Peter Jennings* was the evening news broadcast most watched by young adults. This newscast is first in the nation's largest markets and is very competitive in the three-network news rankings. *Nightline*, anchored by Ted Koppel, continued to focus national attention on the most significant issues of the day. *This Week with David Brinkley* is an important contributor to the ABC News schedule.

*20/20*, hosted by Hugh Downs and Barbara Walters, performed well in its new time period on Friday night with its lineup of investigative reports, personality profiles and other features. In 1987 ABC News introduced *Capital to Capital*, an innovative program which brings the leaders of the United States and the Soviet Union together to discuss the world's key issues. The program is also broadcast throughout the Soviet Union in prime time.

ABC Sports emerged from last year's restructuring with a very successful 1987. Advertiser demand for sports programming was especially strong in the fourth quarter, and ABC Sports' strong lineup benefited. The division entered the first year of new contracts with the National Football League and college football. Additionally, the seven-game World Series between the Minnesota Twins and the St. Louis Cardinals highlighted the fall schedule. Early in 1988, ABC Sports presented the Washington Redskins victory in Super Bowl XXII in San Diego and broadcast the Winter Olympics from Calgary.

Among the numerous awards won by the ABC Television Network in 1987 was the

President's Volunteer Action Award for Project Literacy U.S. (PLUS). This joint campaign with the Public Broadcasting Service fights illiteracy and is the Company's most comprehensive public service effort. One special focus of PLUS in 1987 was literacy in the work force. PLUS used a wide range of programming, including public service announcements, the made-for-television movie *Bluffing It*, and print material, to heighten awareness in 1987. Many television network affiliates, the radio division and the Publishing Group all contributed to the campaign this past year. ABC programming was also honored with nearly 200 awards in 1987, including 42 Emmys, two Christopher Awards and a duPont-Columbia University Award.

While the network's 1987 operating performance was gratifying, it is clear that the industry's longer-term growth faces challenges. Several issues are of immediate concern to the network as it looks ahead in 1988.

To improve its overall audience delivery, the Company must continue to provide the television network with all the resources it needs to attract proven creative talent to its program development efforts. As an example, the television network recently entered into an exclusive six-year development agreement with Steven Bochco. Mr. Bochco, widely regarded as a leader in the creative community, has been associated with such acclaimed series as *Hill Street Blues*, *L.A. Law* and *Hooperman*.

As programming costs continue to rise, it is imperative that the network constantly evaluate its other operating costs. In 1987 the network made significant progress in this area, as overall operating costs were lower than 1986 levels. To further prosper, the network must seek increased efficiency at every operating level.

In 1988 the ABC Television Network is providing extensive coverage of two important events: the Winter Olympics in

Calgary and the presidential election campaign. While these events add prestige to our schedule, they are costly undertakings. As a result of the \$309,000,000 in rights costs, combined with the dramatic slowdown in the growth of the three-network marketplace since 1984, the broadcast of the 1988 Winter Olympics resulted in a loss in excess of \$65,000,000 (before purchase price adjustments) for the network. Election year coverage will result in incremental news coverage expense of at least \$25,000,000. These factors, combined with a continued sluggish marketplace, will make 1988 a difficult and challenging year for the ABC Television Network.

The Company remains hopeful that the regulatory limitations which affect the network's ability to acquire financial interests in programs produced by others will be modified. We believe that changes in these rules would permit creative approaches to the development of programming that are cost-effective and beneficial to both the Company and the production community. Current regulatory restraints sharply limit the network in this respect. The Company will continue discussions with representatives of the production community in an attempt to reach agreement about needed changes in this area.

#### Broadcast Group

The Broadcast Group again achieved impressive operating results in 1987. Net revenues increased 15 percent and reached \$1,270,000,000. Operating income (before amortization of intangibles) reached \$507,000,000, a 23 percent increase over the \$412,000,000 achieved in 1986.

The effect of the cost restructuring that was implemented at the former ABC television stations in 1986, along with strong local sales, enabled the television stations to substantially improve their operating earnings. The radio division's profits were down in 1987 as a result of soft national

advertising and ratings declines at certain of the radio stations. The radio networks, however, achieved a modest increase in revenues and earnings while the radio network industry declined. Video Enterprises substantially increased its operating revenues and profitability in 1987, as ESPN continued its dramatic growth and the division's other cable program services gained in audience appeal and advertiser acceptance.

### Television Stations

Net revenues for the television stations increased 8 percent over 1986, despite the continuing economic malaise in the important Houston marketplace. While this increase was below the rate of growth achieved in the prior year, the gain was appreciably higher than the industry average. The growth of local advertising revenue also continued to outpace that of national sales.

The full year's effect of the major cost restructuring effort, commenced in 1986 at the former ABC stations, enabled the division to decrease operating costs for the second successive year. Costs declined by approximately 2 percent, despite increasing pressure on programming costs and the fulfillment of the FCC waiver-related commitment at WPVI-TV, Philadelphia.

The year 1987 was also the first full year of operation for the television stations' expanded in-house national sales representation company, Capital Cities/ABC National Television Sales. The unit was enlarged in late 1986 to assume the national sales representation responsibilities for the former Capital Cities television stations. The consolidation process required the addition of new personnel and sales offices, and the rapid expansion of computerized support systems. While we believed that this move would offer enhanced long-run revenue opportunities, the Company was prepared to suffer the short-term financial penalty often associated with such dramatic changes. We are pleased to

report the unit met the challenge and even exceeded its original revenue goals.

The Company's television stations continue as the largest group in the country, reaching 24.43 percent of total ADI (Area of Dominant Influence) television homes. Expressed as the percentage of a station's effective coverage potential, this reach is just under the 25 percent limitation imposed by the Federal Communications Commission.

Station and market	Market rank	No. of ADI TV homes	% of ADI TV homes
WABC-TV (New York)	1	6,876,000	7.74%
KABC-TV (Los Angeles)	2	4,663,900	5.25%
WLS-TV (Chicago)	3	3,084,400	3.47%
WPVI-TV (Philadelphia)	4	2,643,700	2.98%
KGO-TV (San Francisco)	5	2,141,100	2.41%
KTRK-TV (Houston)	10	1,466,500	1.65%
WTVD (Durham-Raleigh)	35	621,000	.70%
KFSN-TV (Fresno)	63	412,600	.23%*
<b>Total</b>		<b>21,909,200</b>	<b>24.43%</b>

Source: Arbitron ADI Market Rankings 1987-1988.

\*For FCC purposes, only one-half of homes reached by a UHF station are counted.

The stations enhanced their unique ADI position by being the most successful television group in audience ratings. According to November 1987 ratings data, from sign-on to sign-off, five of our stations are number one, two others are tied for first place, and the eighth station is a close second. While weaknesses in certain parts of the ABC Television Network schedule have eroded some measures of advantage, strong local programming has helped to offset the declines. The stations have assumed leadership roles in their respective markets through long-standing commitments to a strong local news presence and responsive



local programming. *The Oprah Winfrey Show*, which is the number one talk show in national syndication, is produced by WLS-TV, Chicago, and epitomizes high-quality programming produced at the local level. Seven of our eight stations air the program.

Our television stations remain committed to being marketplace leaders in quality entertainment programming, public service, and news excellence. The special emphasis we place on local programming helps to differentiate our stations from their competition and reinforces the relationships we have long held with the communities we serve. Our local news activities occupy a very special role in this context, and the following table reflects the ranking of our principal news programs.

Station and market	No. of commercial stations in market	News program rank	
		Early evening	Late evening
WABC-TV (New York)	6	1(T)	2
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	1	2
KFSN-TV (Fresno)	6	1	1

Sources: Nielsen, November 1987, except KFSN-TV which is Arbitron, November 1987.

(T) Tied

Competition for television viewers' attention continues, and the number of alternatives competing for viewers, revenue and program properties, further complicates this environment. Thus far, the Capital Cities/ABC television stations have more than held their own in this changing landscape, but our sense of confidence is coupled with increasing vigilance.

## Radio

Radio division profits declined in 1987, largely because revenue growth at the radio stations was marginal. Although the ABC Radio Networks' revenues grew at a moderate 4 percent rate, the networks outperformed their industry segment, which declined 4 percent. In addition, the effect of cost savings implemented at the radio networks in 1986 helped to produce an increase in profits of 6 percent.

Revenues for the radio stations, excluding the Minneapolis and Denver facilities which were not owned for the entire 1987 and 1986 years, grew only 2 percent over the prior year. Moderate revenue increases at the local level were not strong enough to offset a weak national marketplace. Ratings erosion at several of the Company's radio stations also contributed to the soft revenue performance. While the Company owns a number of very attractive radio properties, a weak marketplace generally has a greater effect on stations not ranked at the very top of the audience scale.

In September 1987, the Company acquired KRXY-AM/FM, Denver for \$8,500,000, bringing its complement of radio stations to 21. Denver is the sixteenth largest advertising revenue market in the country. The stations' upward ratings movement which began over a year ago gives every indication of continuing.

Seven of our radio stations continue to operate subject to a temporary FCC cross-ownership waiver which resulted from the ABC acquisition. These seven stations (AM and FM stations in New York, Chicago and Los Angeles; and an AM station in San Francisco) were to have been sold by June 1987. In February 1987, however, the FCC issued a notice of a proposed rulemaking, which may lead to revised multiple ownership regulations. As a consequence, the Company requested, and was subsequently granted, an extension of its waiver pending the outcome of this proceeding. We hope the review of

these regulations will permit the Company to retain the seven stations. Our acquisitions of the past two years reaffirm our commitment to continue to grow in the radio station business.

The Company's 21 radio stations reach 25.4 percent of the metropolitan population as shown below:

Station and market	Market rank	1987 Metro population (age 12 +)	
		#	% of U.S.
WABC-AM/WWPR-FM (New York)	1	14,053,600	7.0%
KABC-AM/KLOS-FM (Los Angeles)	2	8,831,800	4.4%
WLS-AM/WYZZ-FM (Chicago)	3	6,692,400	3.3%
KGO-AM (San Francisco)	4	4,879,800	2.4%
WJR-AM/WHYT-FM (Detroit)	6	3,576,200	1.8%
WBAP-AM/KSCS-FM (Ft. Worth-Dallas)	8	3,062,600	1.5%
WMAL-AM/WRQX-FM (Washington, D.C.)	9	3,006,900	1.5%
WKHX-AM/FM (Atlanta)	13	2,117,200	1.1%
KQRS-AM/FM (Minneapolis-St. Paul)	18	1,936,500	1.0%
KRXY-AM/FM (Denver)	24	1,570,700	.8%
WPRO-AM/FM (Providence)	28	1,249,400	.6%
<b>Total</b>		<b>50,977,100</b>	<b>25.4%</b>

Source: Arbitron, 1987-88 Populations in U.S. Radio Markets.

The ABC Radio Networks remain the pre-eminent group in the radio network industry. Consisting of six basic networks and serving approximately 2,100 affiliates nationwide, the radio networks continue to broaden their service base and appeal. In addition to featuring Paul Harvey, the most popular national commentator in radio, the networks in 1987 secured the services of Sally Jessy Raphael and Tom Snyder to further expand their roster of noted personalities. The unit also has capitalized on the effectiveness and reputation of its marketing organization by entering into national sales

representation arrangements with Satellite Music Network, a producer of live stereo formats, and more recently with Dow Jones radio reports. The dominant position of our radio networks is evident from the most recent ratings information presented below:

Network	Audience share	National rank
Entertainment	10.6%	1
Information	10.3%	2
Contemporary	9.1%	3
Rock	7.5%	5
FM	7.1%	6
Direction	5.2%	12

Source: RADAR 36, fall 1987, Mon-Sun 6AM-midnight; total persons 12+, average quarterly hour.

### Video Enterprises

Video Enterprises operations, consisting of cable program services, program distribution, and technology development operations, had an extraordinary year in 1987. After attaining profitability for the first time in 1986 on the strength of ESPN's performance, all of the organization's principal operating ventures are now profitable. Division revenues and operating earnings increased dramatically over 1986.

Cable program services include the Company's ownership participation in three basic cable program networks: ESPN, Arts & Entertainment (A & E), and Lifetime. Trends in subscriber growth for each of these networks and the cable household universe follow:

(Millions)	Average subscribers				
	1987	1986	1985	1984	1983
ESPN (Launched Sept. 1979)	41.8	37.3	36.0	32.6	26.9
A&E (Launched Feb. 1984)	26.8	20.5	18.7	10.5	—
Lifetime (Launched Feb. 1984)	30.9	25.9	23.0	18.5	—
Cable TV HH	42.7	41.8	36.1	33.0	30.3
Total TV HH	89.3	87.8	86.3	84.6	83.5

Source: Cable Profile Database — International Communications Research.

ESPN, 80 percent-owned by the Company, has become the country's premier cable sports network. The largest of the Company's cable program ventures, ESPN now reaches approximately 50 percent of the nation's television households. Early in 1987, ESPN provided exclusive live coverage of the America's Cup sailing races and later in the year became a major participant in the telecast of National Football League games. The NFL-ESPN package consisted of thirteen games: four pre-season contests, eight regular season games and the Pro Bowl. The acquisition of the NFL package represented a milestone for both ESPN and the cable industry. In 1987, ESPN made a significant contribution to the Company's operating profits.

Arts & Entertainment, which is 38 percent-owned by Capital Cities/ABC, provides general entertainment and cultural programming to an ever-increasing subscriber base. It recently expanded its service day to 24 hours and was second in the Awards for Cable Excellence (ACE) competition — a significant accomplishment. Lifetime operates on a 24-hour basis, and is primarily targeted toward women viewers and also provides a special medical program service for doctors on Sundays. The Company owns 33 percent of Lifetime which, like A & E, continues to grow within its respective niche. In 1987, both A & E and Lifetime achieved profitability.

ABC Distribution is responsible for the international sales and licensing of entertainment, sports and news programs owned by the ABC Television Network. This unit is also involved in the sale of ABC-owned programs on videocassette.

Video Enterprises' development and operations unit functions as a research and development group, probing for new opportunities in emerging technologies in electronic media. High speed data transmission and new videocassette technology are two of the areas in which this unit is presently active.

## Public Affairs

The Company's commitment as a broadcaster to serving its local communities and as a supplier of quality national cable programming is, in part, reflected by the numerous awards received in 1987. Award highlights include:

- WPVI-TV — a Pennsylvania Associated Press Broadcasters Award for investigative reporting for the series, *Philadelphia's Dirty Shame*.
- WLS-TV — the Amicus Certus Award from the Lutheran Social Services of Illinois for its report, *Say No to Drugs*.
- KTRK-TV — the Mayoral Award for the station's involvement in the effort to combat hunger.
- A&E — the D. W. Griffith Award for programming excellence from the National Board of Review of Motion Pictures.
- ABC Direction Radio Network — a CEBA Award of Distinction sponsored by the World Institute of Black Communications.
- KLOS-FM — an award from the Make A Wish Foundation for outstanding support to special children.

## Publishing

Revenues of the Capital Cities/ABC Publishing Group, which consists of newspapers, specialized publications and shopping guides, exceeded the \$1 billion level for the first time in 1987, but barely. Net revenues were \$1,006,600,000, up \$35,900,000 or 4 percent from 1986, but lower than planned. Expenses of \$859,900,000 were up \$48,200,000, or 6 percent. Operating income declined for the second straight year to \$146,700,000, down \$12,300,000 or 8 percent from 1986, as summarized below:

(Dollars in millions)	1987	1986
Net revenues	\$1,006.6	\$ 970.7
Operating costs	822.1	778.1
Depreciation and amortization	37.8	33.6
Total costs	859.9	811.7
Operating income	\$ 146.7	\$ 159.0

Record results were achieved by most of our daily and weekly newspapers as well as by certain individual specialized publications and shopping guides. Favorable turnarounds occurred at Sutton Industries and Word, Inc. These positive results, however, could not offset continuing profit erosion at the *Fort Worth Star-Telegram*, several Fairchild Publications titles and the ABC Publishing Agricultural Group. There was also a major decline at ABC Consumer Magazines and year-end softness at Institutional Investor.

The Publishing Group's approach toward acquisitions continues to be a conservative one, and activity was limited in 1987. Priority is given to publications in geographic areas where we currently operate and to specialized publications which provide an opportunity for operating efficiencies. The Company's unwillingness to match what we often consider to be excessive multiples limited our acquisition activity in 1987.

In early 1988, the Company sold Securities Data Company. Purchased in 1983, Securities Data has been a consistent profit contributor, but a review concluded that such a narrow

service more properly belonged with a company building a network of multiple electronic data bases and products.

### Specialized Publications

Overall revenues of the specialized publications division were virtually flat compared with 1986 levels. Total expenses were up 1 percent and operating profits declined 5 percent.

Excluding the effect of start-ups, Fairchild Publications' revenues, expenses and operating income were relatively unchanged from 1986. In total, Fairchild revenues were up 4 percent, expenses increased 6 percent and operating income was down approximately 5 percent. The profit decline was primarily attributable to continuing investments in new start-up opportunities, with gains on some continuing operations offsetting declines in others.

Results for the fashion publications were up. *W* enjoyed record circulation levels, revenues and profits. Its increase in operating income more than offset modest declines at *Women's Wear Daily* and *Daily News Record*. Start-up losses of *M*, *The Civilized Man* continued to decline. Investment spending increased in a new start-up, *Scene*, a younger women's consumer fashion magazine.

*HFD — Retailing Home Furnishings* posted substantial revenue and profit gains, as did *Multichannel News*, *Footwear News* and the International Medical News Group. *Supermarket News* converted to coated stock and, despite the higher associated expenses, increased its earnings. *Children's Business*, a 1985 start-up, posted small losses and was ahead of plan. *Electronic News* experienced continuing profit erosion. *MIS Week* and *Travel Agent* earnings declined because of industry and competitive conditions.

*Metalworking News* was split from *American Metal Market* and was reintroduced as a separate weekly publication. Substantial losses were incurred in this repositioning,

but meaningful progress had been made by year-end.

*Financial Services Week*, a biweekly newspaper for financial planners, was launched in October, incorporating *Financial Services Times*, a similar monthly publication acquired in August. Start-up losses were incurred. A new consumer weekly tabloid, *Travel Today*, began publication in January 1988 with distribution through 26,000 newsstands in the eastern United States. Pre-publication expenses impacted 1987 results.

ABC Publishing experienced a moderate decline in revenues and operating income in 1987. Expenses were below prior year levels due to extensive cost control efforts, combined with the impact from the decline in volume.

The Chilton Company, the largest of the ABC Publishing operating companies, achieved record operating income in 1987. Revenues were also at an all-time high, but growth over the prior year was modest.

NILS (National Insurance Law Service) had a record year in 1987 in both revenues and operating income. NILS provides a national data base service of regulatory information for the insurance industry in print and electronic form, and is also expanding to cover the consumer credit law market. National Price Service, which produces loose-leaf and data base price information for the electrical and plumbing trades, is also a part of the NILS operation.

Hitchcock Publishing also achieved revenue and profit growth in 1987. PEMCO (Professional Exposition Management Company), a trade show operation acquired during 1986, was a significant contributor to Hitchcock's growth. During 1987, Hitchcock acquired *Personal Publishing*, a magazine serving the growing desk-top publishing market, and introduced *MITE*, a pocket-sized product inquiry publication for the manufacturing industry.

*Los Angeles Magazine* had a record performance during 1987, following a disappointing 1986, as advertising sales in the local and national markets rebounded. A New York national sales office was successfully established during 1987. It sold advertising space for *Los Angeles Magazine* and for a combined group of California city publications.

Operating income for Word, Inc. was up substantially in 1987, while revenues were below prior year levels as a result of efforts to streamline product lines. Extensive cost reduction programs were put in place and were effective in contributing to improved profit results. Word had an exceptionally strong performance within the religious communications industry.

The ABC Publishing Agricultural Group continued to suffer from the depressed environment of the agricultural industry in 1987. Revenues and profits were down because of market conditions. During 1987, the Agricultural Group introduced eight new state editions, expanding their coverage to the key twelve midwestern and north central states, and positioning publications to compete more effectively in the national farm advertising marketplace.

The ABC Consumer Magazines group was down substantially in 1987 in revenues and operating income, due to a constriction in newsstand sales and softness in subscriptions. *COMPUTE!'s PC Magazine* was launched during 1987 and immediately generated a profit.

Institutional Investor's revenues were up more than 10 percent, while operating income was flat. Advertising revenues softened noticeably at year-end following the October worldwide decline in the stock markets. The magazine won the Overseas Press Club Award for best business reporting for magazines from abroad, bringing its total awards for editorial excellence to 36.

## Newspapers

Most of the Company's newspaper operations had a record year in 1987, with the exception of the *Fort Worth Star-Telegram*, where continuing revenue softness, combined with increased depreciation and operating costs from its new printing and distribution plant, produced a decline in operating income for the second straight year. Newspaper revenues in 1987 increased by 9 percent over the prior year, while operating income and margins declined slightly. Excluding the *Fort Worth Star-Telegram*, which is operating in a depressed regional economy, the newspapers division reported a gain of 8 percent in operating earnings.

Newsprint and ink expense, which account for more than 30 percent of total newspaper costs, were up 12 percent compared with 1986. This represents an end to a three-year hiatus in newsprint expense increases — 1986 expenses were actually lower than 1984. The effect of double-digit increases will continue in 1988, and adjusting to this expense impact is a major challenge for our publishers.

Despite subscription price increases in most markets, daily and Sunday circulation levels were up everywhere, except for the combined daily circulation in Kansas City where duplicate circulation is declining. Net unduplicated daily circulation, which is the most important factor for local advertisers, improved in that market. Circulation penetration of households remained constant or improved in all markets.

New records at *The Kansas City Star* and *Times* were achieved for 1987 in all categories of advertising, and in total revenues and operating profit. Total advertising linage showed a 5 percent increase over 1986 and revenues were up 10 percent over the previous year. Gains over the previous year were also recorded in circulation. After uniform home delivery rates in the seven-county area of Kansas and Missouri were established March 1, 1987, an all-time high for Sunday circulation — 420,400 net paid — was set in

March. Steady circulation gains have been shown in both the morning and Sunday editions, but the afternoon *Star* has declined slightly. The Kansas City newspapers' staff again received a number of significant journalism awards, including the Livingston Award for Young Journalists, first place in the National Headliners Awards and the National Press Club's consumer journalism award.

Revenues at the *Fort Worth Star-Telegram* were up about 2 percent in 1987. The increase was largely circulation-related, as the soft Texas economy kept advertising revenues relatively flat. Expenses were up more than 8 percent, principally because of higher newsprint and depreciation expense. Local management instituted a six-month wage freeze during 1987 and offered incentives for early retirement. Circulation of the morning paper surpassed that of the evening edition for the first time. Combined and unduplicated daily and Sunday circulation also reached new highs. A complete graphic redesign of all editions was introduced during 1987 to take full advantage of the new color and offset press capabilities. The *Star-Telegram* won more writing awards than any other paper in the state in the annual Headliners Foundation of Texas contest, including four first-place awards.

*The Oakland Press* in Pontiac, Michigan, achieved substantial advertising and circulation gains, and had a record profit despite the costs of launching a morning single-copy edition in April 1987. Three small Michigan weeklies were purchased in September 1987 and are operated separately. Profits from regional real estate publications also increased.

Once again, the *Belleville News-Democrat* had record advertising linage, total revenue, operating income, and daily and Sunday circulation levels. The recently redesigned Sunday and TV magazines are profitable and growing.

*The Times Leader*, in Wilkes-Barre, added a Sunday edition in August 1987 and recorded

its first annual operating profit since former employees went on strike and began publishing their own daily newspaper in October 1978. The newspaper's growth in market leadership and profit is expected to continue. In 1987 *The Times Leader* received the Distinguished Service Award for Public Service in Newspaper Journalism from The Society of Professional Journalists, Sigma Delta Chi.

Shore Line Newspapers added six new publications in October 1987 (three biweekly real estate publications, two weekly shoppers, and one monthly women's magazine), increasing the chain of weeklies to 26 mastheads, and expanding its coastline market inland to Hartford, Connecticut, and to Springfield, Massachusetts. Net revenues for 1987 were up more than 12 percent and operating income for the group improved substantially from 1986.

The Oregon Newspaper group of two small dailies and six weeklies had a modest decline in operating income on flat revenues.

### Shopping Guides

Results at Sutton Industries were up substantially in 1987. Advertising revenues increased more than 5 percent. Expenses were below 1986 levels due to the discontinuation of commercial printing and the reorganization of production operations. Sutton now distributes over 1,500,000 copies of the *PennySaver* weekly in southern and northern California. Pennypower Shopping News, headquartered in Wichita, Kansas, had a disappointing year, due in part to a reduction of advertiser-supplied inserts. The Nickel publications in Seattle-Tacoma and Spokane, Washington, and in Portland, Oregon, had another excellent year.

## Financial Overview

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

#### Results of Operations — 1987 Compared to 1986

Consolidated net revenues for 1987 (53-week year ending January 3, 1988) were \$4,440,346,000, compared with \$4,124,374,000 in 1986 (52-week year ending December 28, 1986), an 8% increase. Broadcasting net revenues for 1987 were \$3,433,749,000, compared with \$3,153,619,000 in 1986, a 9% increase. Publishing net revenues increased only 4%, from \$970,755,000 in 1986 to \$1,006,597,000 in 1987. On a comparable 52-week basis consolidated net revenues increased 6% in 1987.

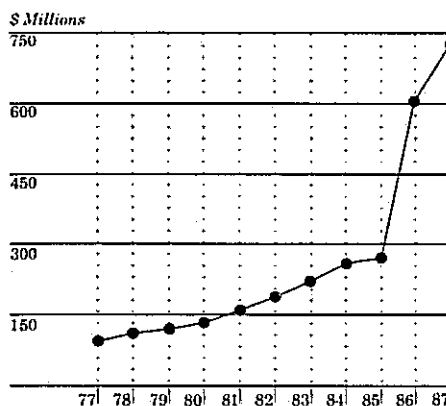
Revenues for the ABC Television Network, which had been down slightly for the first nine months of 1987, rebounded in the fourth quarter due to strong advertising demand. As a result, net revenues in 1987 for the ABC Television Network, on a comparable 52-week basis, increased 3% compared with 1986, despite the persistence of disappointing ratings levels, primarily in prime time. Strong local advertising growth in the larger television markets and increased advertising revenues and cable affiliate fees at ESPN also contributed to the 1987 increase in broadcasting revenues. The ESPN increase in 1987 includes the effect of televising 12 NFL games. The Company's radio operations reported slight revenue gains due to the weak demand for national advertising. Newspaper revenues increased modestly, principally as a result of circulation rate increases. These gains, however, were largely offset by advertising shortfalls at certain of the specialized business and consumer publications.

Total costs and expenses for 1987 were \$3,694,356,000 compared with \$3,521,696,000 in 1986, a 5% increase. Excluding purchase price adjustments and the impact of the 53rd week in 1987, total costs and expenses for the Company increased slightly over 1%. Broadcasting costs in 1987 (excluding purchase price adjustments) increased 2%

from 1986. Virtually all of the increase in broadcasting expenses was related to costs associated with ESPN's telecast of 12 NFL games. Broadcasting costs were favorably influenced by the impact of continued cost containment programs at the ABC Television Network and at the former ABC television stations. Costs and expenses for 1987 for the Company's publishing operations were 6% higher than 1986, with most of the increase in the newspaper group. Higher newsprint costs, delivery expense, and costs associated with the new production facility at the *Fort Worth Star-Telegram* were responsible for most of this increase.

Operating income for 1987 was \$745,990,000 compared with \$602,678,000 in 1986, a 24% increase. Broadcasting operations reported a 33% increase while publishing operations declined 8%. Results for 1987 and 1986 reflect a reduction in entertainment programming and sports rights at the ABC Television Network from historic costs to fair market values recorded in connection with the acquisition of ABC of \$120,000,000 and \$180,000,000, respectively. These reduced costs (net of income taxes) benefited per share earnings by \$3.85 and \$5.60 in 1987 and 1986, respectively. Results for 1987 and 1986 include a charge of \$3.13 per share and \$3.19 per share, respectively, for amortization of intangible assets arising from the ABC acquisition. The effect of the amortization of all intangible assets of the Company was to

#### Operating Income





reduce earnings per share by \$3.86 and \$3.90 in 1987 and 1986, respectively.

Net financial expense (interest expense less interest income) for 1987 decreased \$1,540,000 from 1986. The decrease is primarily attributable to the effect of the repayment of a substantial portion of the outstanding commercial paper and higher interest income from investment of cash, offset by lower capitalized interest. Interest of \$8,067,000 and \$11,414,000 was capitalized in 1987 and 1986, respectively.

The Company's effective tax rate was 50.5% in 1987 and 57.0% in 1986. The reduction in the effective tax rate is primarily due to a reduction in the Federal tax rate prescribed by the Tax Reform Act of 1986.

Consolidated net income for 1987 amounted to \$279,078,000, an increase of 53% from the \$181,943,000 (before extraordinary items) earned in 1986. Earnings per share for 1987 were \$16.46, a 47% gain over the \$11.20 (before extraordinary items) reported in 1986. Average shares outstanding for 1987 were 16,950,000 compared with 16,250,000 in 1986, the increase primarily reflecting the dilutive effect of outstanding warrants. In the first and third quarters of 1986, the Company reported (net of income taxes) an extraordinary gain of \$279,996,000 and an extraordinary charge of \$14,250,000, respectively (see Note 5 to the Consolidated Financial Statements).

#### 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 \$180,000,000, or \$5.60 per share (net of income taxes). Results for 1986 also include a charge of \$3.19 per share for amortization of intangible assets arising from the acquisition of ABC. 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.

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%.

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

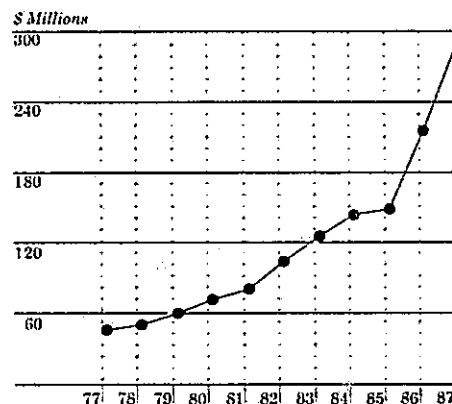
\$14,250,000 (net of income taxes of \$14,252,000). Average shares of common stock outstanding for 1986 were 16,250,000, compared to 13,080,000 shares in 1985.

#### 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 1987, the Company's available cash flow amounted to \$292,770,000, representing an increase of \$79,111,000, or 37%, over the \$213,659,000 reported in 1986. This increase was primarily attributable to higher cash flow from operations.

Unlike most industrial companies, the Company historically had 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. As a result of the acquisition of ABC, the Company will require significant capital spending to complete construction of several major facilities started prior to the acquisition, and to construct a new building which will house the Company's corporate offices as well as the television network's administrative staff. Additionally, the ABC Television Network has historically required a substantial investment in entertainment programming and sports rights.

Available Cash Flow



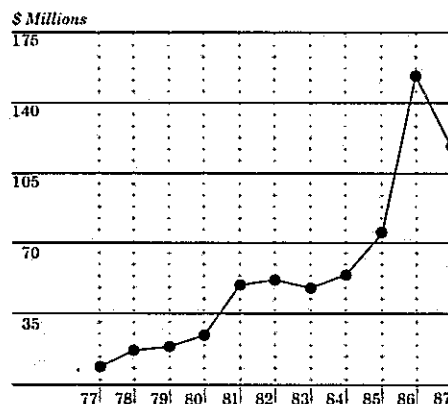
The Company's available cash flows have historically been almost equal to or higher than reported net income. In 1987 and 1986, available cash flow exceeded net income by \$13,692,000 and \$31,716,000, respectively. The continued generation of such available cash flow has allowed the Company to make 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 1987 of \$292,770,000 was increased by \$104,139,000 of reduced working capital and \$76,026,000 from other sources, and resulted in total cash provided of \$472,935,000. The reduction of commercial paper and repayment of other miscellaneous long-term debt required \$124,904,000, the purchase of common stock and warrants required \$14,464,000, acquisitions of operating properties required \$12,515,000; and along with dividends of \$3,231,000 resulted in total cash applied of \$155,114,000. The excess of cash provided over cash applied resulted in an increase of \$317,821,000 in cash and cash investments from December 28, 1986.

#### Capital Expenditures and Program Commitments

In 1987, capital expenditures amounted to \$116,309,000 compared with \$153,082,000 in 1986. The largest portion of 1987 capital spending was in the Company's broadcast operations where \$102,425,000 was spent. Of this amount, \$28,671,000 was for facility improvements at the television network, \$11,700,000 for the rebuilding of the WLS-TV broadcasting facilities in Chicago and \$50,443,000 for broadcast equipment to support current operations. The Company spent \$11,611,000 towards the construction of a new building adjacent to the New York broadcast center which is expected to be completed in early 1989. In 1987, the Publishing Group spent \$13,114,000 for on-going operations.

#### Capital Expenditures



The Company anticipates that 1988 capital expenditures will approximate \$175,000,000. This amount includes \$53,000,000 for the continued construction of the new building along with \$32,000,000 for other television network facility improvements, the completion of the WLS-TV facilities and a new studio at the ABC Television Center in Los Angeles. The remaining expenditures for broadcast and publishing equipment to support ongoing operations is expected to be \$90,000,000, which approximates annual depreciation expense.

As the operator of the ABC Television Network, ESPN and eight 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 \$1,315,000,000 at the end of 1987. 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 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 \$2,224,921,000 at January 3, 1988, an increase of \$276,294,000 from the 1986 year-end total of \$1,948,627,000.

At January 3, 1988, total interest-bearing debt was \$1,696,901,000, a decrease of \$124,904,000 from 1986. As more fully described in Note 4 to the Consolidated Financial Statements, total interest-bearing debt at January 3, 1988 includes \$101,916,000 of commercial 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 \$19,985,000 of other long-term debt. At January 3, 1988, the weighted average interest rate of the commercial paper, and of all other long-term instruments, was 7.6% and 10.3%, respectively.

At January 3, 1988, deferred income taxes amounted to \$159,080,000 and minority interest in the Company's consolidated subsidiaries was \$48,023,000.

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
1987 .....	\$1,696.9	\$4,128.9	41%
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%

### 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 13.4% and 9.7% in 1987 and 1986, respectively. In years prior to 1986, the Company's return on equity had 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.

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. The significant resulting decline in return on equity was reversed in 1987 as the Company's historical operating patterns returned.

### Intangible Assets

At January 3, 1988, the Company's intangible assets, before accumulated amortization, totaled \$2,450,677,000, of which \$2,060,336,000 arose from the acquisition of ABC. These intangible assets accounted for more than 45% 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 January 3, 1988, \$2,368,765,000 was subject to amortization. The amortization of such intangibles had the effect of reducing 1987 net income by \$65,406,000, or \$3.86 a share. The amortization of substantially all intangible assets is not a deductible item in computing income taxes.

## Financial Summary 1977-1987

*(Dollars in thousands except per share data)*

	1987	1986	1985
<b>RESULTS FOR THE YEAR</b>			
Net revenues			
Broadcasting .....	\$3,433,749	\$3,153,619	\$ 378,297
Publishing .....	1,006,597	970,755	642,583
Total .....	4,440,346	4,124,374	1,020,880
Operating income			
Broadcasting .....	\$ 679,437	\$ 519,735	\$ 159,337
Publishing .....	165,596	177,201	149,855
Income from operations .....	845,033	696,936	309,192
Amortization of intangible assets .....	(65,406)	(63,402)	(19,710)
General corporate expense .....	(33,637)	(30,856)	(11,981)
Total .....	745,990	602,678	277,501
Income before extraordinary items (a) .....	\$ 279,078	\$ 181,943	\$ 142,222
Income per share before extraordinary items (a)(b) .....	\$16.46	\$11.20	\$10.87
Cash dividends declared per common share (b) .....	\$ 0.20	\$ 0.20	\$ 0.20
Average shares (000's omitted) (b) .....	16,950	16,250	13,080
Return on average stockholders' equity (c) .....	13.4%	9.7%	17.5%
<b>SELECTED CHANGES IN FINANCIAL POSITION</b>			
Cash provided			
Operations .....	\$ 453,413	\$ 369,478	\$ 223,296
Available cash flow .....	292,770	213,659	146,179
Increase in long-term debt .....	—	1,474,184	493,329
Dispositions of operating properties .....	—	625,678	7,222
Cash applied			
Acquisitions of operating properties .....	\$ 12,515	\$3,383,531	\$ 51,109
Purchase of common stock for treasury .....	576	1,075	484
Capital expenditures .....	116,309	153,082	75,384
Reduction of long-term debt .....	124,904	367,528	7,872
Dividends on common stock .....	3,231	3,219	2,595
<b>AT YEAR-END</b>			
Working capital .....	\$ 640,574	\$ 416,230	\$ 830,986
Total assets .....	5,378,372	5,191,416	1,884,931
Long-term debt .....	1,696,901	1,821,805	714,298
Stockholders' equity .....	2,224,921	1,948,627	889,260
Number of shares outstanding (000's omitted) (b) .....	16,193	16,126	12,998
Price range of common stock (b)			
Closing market price .....	\$345	\$267½	\$224½
High for the year .....	450	279¾	229
Low for the year .....	267¼	208¼	152¼

(a) Extraordinary items amounted to \$265,746,000 (\$16.35 per share) in 1986, \$7,585,000 (\$0.58 per share) in 1984, \$2,430,000 (\$0.18 per share) in 1980 and \$3,320,000 (\$0.22 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.

1984	1983	1982	1981	1980	1979	1978	1977
\$ 348,106	\$ 302,785	\$274,298	\$214,498	\$167,010	\$151,327	\$133,360	\$112,522
591,616	459,510	389,282	359,286	305,098	263,563	234,116	193,624
939,722	762,295	663,580	573,784	472,108	414,890	367,476	306,146
\$ 151,982	\$ 132,293	\$124,666	\$102,394	\$ 85,626	\$ 80,551	\$ 70,312	\$ 56,989
143,012	108,611	82,918	71,252	61,418	53,513	51,542	46,088
294,994	240,904	207,584	173,646	147,044	134,064	121,854	103,077
(17,633)	(12,174)	(10,668)	(6,992)	(3,464)	(3,077)	(2,993)	(2,639)
(9,849)	(8,366)	(7,128)	(7,468)	(6,205)	(5,334)	(4,563)	(3,673)
267,512	220,364	189,788	159,186	137,375	125,653	114,298	96,765
\$ 135,193	\$ 114,704	\$ 96,317	\$ 80,518	\$ 70,783	\$ 63,758	\$ 54,033	\$ 43,234
\$10.40	\$8.53	\$7.25	\$6.12	\$5.38	\$4.68	\$3.80	\$2.91
\$ 0.20	\$0.20	\$0.20	\$0.20	\$0.20	\$0.20	\$0.175	\$0.10
13,000	13,455	13,280	13,150	13,165	13,615	14,220	14,852
19.9%	19.6%	19.5%	20.1%	21.5%	22.9%	21.8%	19.4%
\$ 196,600	\$ 169,363	\$137,529	\$108,208	\$ 86,589	\$ 77,888	\$ 66,811	\$ 53,763
142,734	124,945	103,677	79,940	71,297	59,710	50,497	45,554
18,065	202,527	1,944	111,640	3,834	1,900	2,696	90,628
5,000	3,200	—	13,808	—	—	15,526	14,389
\$ 146,843	\$ 22,016	\$ 21,588	\$157,128	\$ 32,308	—	\$ 10,017	\$132,159
46,135	43,619	676	125	14,753	\$ 24,736	31,097	17,111
53,866	47,595	51,651	48,634	23,611	18,178	16,314	8,209
16,030	32,766	55,867	67,935	23,122	26,928	25,970	23,775
2,570	2,656	2,627	2,603	2,573	2,669	2,438	1,467
\$ 240,985	\$ 265,847	\$ 16,353	\$ 4,288	\$ 35,408	\$ 34,428	\$ 18,980	\$ 8,998
1,208,172	1,052,912	776,013	697,620	519,958	473,134	444,797	435,096
222,995	220,960	48,449	102,372	58,667	77,955	102,983	126,257
734,455	625,255	544,267	443,822	359,081	298,497	259,691	236,834
12,867	13,103	13,180	13,025	12,902	13,058	13,514	14,212
\$164½%	\$144	\$119½%	\$73¾	\$58¾	\$48½%	\$39½%	\$30
174½	157½	136¾	80½	72	49½	47¾	30½
123½	114¾	64¾	56½	40	36¾	27½	22½

## Consolidated Statement of Income

(Dollars in thousands except per share amounts)

	1987	1986	1985
Net revenues .....	<u>\$4,440,346</u>	<u>\$4,124,374</u>	<u>\$1,020,880</u>
Costs and expenses			
Direct operating expenses .....	2,664,444	2,534,503	428,992
Selling, general and administrative .....	871,606	828,590	256,687
Depreciation .....	92,900	95,201	37,990
Amortization of intangible assets .....	65,406	63,402	19,710
	<u>3,694,356</u>	<u>3,521,696</u>	<u>743,379</u>
Operating income .....	<u>745,990</u>	<u>602,678</u>	<u>277,501</u>
Other income (expense)			
Interest expense .....	(190,806)	(185,511)	(22,738)
Interest income .....	15,774	8,939	19,033
Miscellaneous, net .....	(6,980)	(3,363)	3,026
	<u>(182,012)</u>	<u>(179,935)</u>	<u>(679)</u>
Income before income taxes .....	<u>563,978</u>	<u>422,743</u>	<u>276,822</u>
Income taxes			
Federal .....	235,400	206,400	117,700
State and local .....	49,500	34,400	16,900
	<u>284,900</u>	<u>240,800</u>	<u>134,600</u>
Income before extraordinary items .....	<u>279,078</u>	<u>181,943</u>	<u>142,222</u>
Extraordinary items, net of taxes .....	—	265,746	—
Net income .....	<u>\$ 279,078</u>	<u>\$ 447,689</u>	<u>\$ 142,222</u>
Income per share			
Before extraordinary items .....	<u>\$16.46</u>	<u>\$11.20</u>	<u>\$10.87</u>
Extraordinary items .....	—	16.35	—
Net income .....	<u>\$16.46</u>	<u>\$27.55</u>	<u>\$10.87</u>
Average shares outstanding (000's omitted) .....	<u>16,950</u>	<u>16,250</u>	<u>13,080</u>

See accompanying notes

# Consolidated Statement of Changes in Financial Position

(Dollars in thousands)

	1987	1986	1985
<b>Cash provided</b>			
<b>Operations</b>			
Income before extraordinary items .....	\$ 279,078	\$ 181,943	\$ 142,222
Depreciation .....	92,900	95,201	37,990
Amortization of intangible assets .....	65,406	63,402	19,710
Other noncash items, net .....	16,029	28,932	23,374
Total cash from operations .....	453,413	369,478	223,296
Capital expenditures .....	(116,309)	(153,082)	(75,384)
Program licenses and rights, net .....	(44,334)	(2,737)	(1,733)
Available cash flow from operations .....	292,770	213,659	146,179
Dispositions of real estate .....	16,520	162,165	—
Changes in other working capital items .....	104,139	(86,640)	(2,324)
Issuance of long-term debt .....	—	1,350,507	493,329
Dispositions of operating properties, net of current taxes .....	—	625,678	7,222
Common stock sold to Berkshire Hathaway Inc. ....	—	517,500	—
Long-term debt assumed on acquisition of ABC .....	—	123,677	—
Issuance of common stock warrants .....	—	97,193	—
Other, net .....	59,506	29,495	3,114
	<u>472,935</u>	<u>3,033,234</u>	<u>647,520</u>
<b>Cash applied</b>			
Reduction of long-term debt .....	124,904	367,528	7,872
Acquisitions of other operating properties .....	12,515	12,559	51,109
Common stock warrants purchased and redeemed .....	13,888	16,681	—
Dividends .....	3,231	3,219	2,595
Purchase of common stock for treasury .....	576	1,075	484
Acquisition of ABC .....	—	3,370,972	53,000
Litigation settlement, net of taxes .....	—	14,250	—
	<u>155,114</u>	<u>3,786,284</u>	<u>115,060</u>
<b>Increase (decrease) in cash and cash investments .....</b>	<b>317,821</b>	<b>(753,050)</b>	<b>532,460</b>
<b>Cash and cash investments</b>			
Beginning of period .....	15,809	768,859	236,399
End of period .....	<u>\$ 333,630</u>	<u>\$ 15,809</u>	<u>\$ 768,859</u>

See accompanying notes



## Consolidated Balance Sheet

January 3, 1988 and December 28, 1986  
(Dollars in thousands)

Assets	1987	1986
<b>Current assets</b>		
Cash .....	\$ 9,946	\$ 8,843
Short-term cash investments .....	323,684	6,966
Accounts and notes receivable (net of allowance for doubtful accounts of \$37,798 in 1987 and \$32,764 in 1986) .....	695,426	782,300
Program licenses and rights .....	369,844	349,499
Other current assets .....	146,602	114,510
<b>Total current assets</b> .....	<u>1,545,502</u>	<u>1,262,118</u>
 <b>Property, plant and equipment, at cost</b>		
Land .....	395,097	383,038
Buildings and improvements .....	459,766	422,031
Broadcasting and publishing equipment .....	456,360	441,413
Other, including construction-in-progress .....	113,325	96,897
	<u>1,424,548</u>	<u>1,343,379</u>
Less accumulated depreciation .....	287,415	206,807
<b>Property, plant and equipment, net</b> .....	<u>1,137,133</u>	<u>1,136,572</u>
 <b>Intangible assets (net of accumulated amortization of \$177,878 in 1987 and \$112,472 in 1986)</b> .....	2,272,799	2,339,893
Program licenses and rights, noncurrent .....	298,984	323,619
Other assets .....	123,954	129,214
	<u>\$5,378,372</u>	<u>\$5,191,416</u>

See accompanying notes

Liabilities and Stockholders' Equity	1987	1986
<b>Current liabilities</b>		
Accounts payable.....	\$ 80,404	\$ 94,837
Accrued compensation.....	114,753	115,256
Accrued interest.....	56,289	54,324
Accrued expenses and other current liabilities.....	208,338	242,878
Program licenses and rights.....	272,478	262,352
Taxes on income.....	171,124	74,266
Long-term debt due within one year.....	1,542	1,975
<b>Total current liabilities.....</b>	<b>904,928</b>	<b>845,888</b>
Deferred compensation.....	66,079	56,672
Deferred income taxes.....	159,080	152,458
Unearned subscription revenue.....	40,617	39,483
Program licenses and rights, noncurrent.....	142,668	201,418
Other liabilities.....	96,697	85,249
Long-term debt due after one year.....	1,695,359	1,819,830
<b>Total liabilities.....</b>	<b>3,105,428</b>	<b>3,200,998</b>
Minority interest.....	48,023	41,791
<b>Stockholders' equity</b>		
Preferred stock, no par value (4,000,000 shares authorized).....	—	—
Common stock, \$1 par value (80,000,000 shares authorized).....	18,394	18,394
Additional paid-in capital.....	646,124	647,021
Retained earnings.....	1,717,544	1,441,697
	<u>2,382,062</u>	<u>2,107,112</u>
Less common stock in treasury, at cost (2,200,957 shares in 1987 and 2,267,243 shares in 1986).....	157,141	158,485
<b>Total stockholders' equity.....</b>	<b>2,224,921</b>	<b>1,948,627</b>
	<u><b>\$5,378,372</b></u>	<u><b>\$5,191,416</b></u>

## Consolidated Statement of Stockholders' Equity

(Dollars in thousands)

	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Total
Balance December 31, 1984 .....	\$15,394	\$ 26,111	\$ 857,600	\$(164,650)	\$ 734,455
Net income for 1985 .....	—	—	142,222	—	142,222
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
2,444 shares purchased for treasury .....	—	—	—	(484)	(484)
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
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
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
4,201 shares purchased for treasury .....	—	—	—	(1,075)	(1,075)
Cash dividends .....	—	—	(3,219)	—	(3,219)
Balance December 28, 1986 .....	18,394	647,021	1,441,697	(158,485)	1,948,627
Net income for 1987 .....	—	—	279,078	—	279,078
Warrant activity:					
205,478 warrants purchased .....	—	(13,888)	—	—	(13,888)
7,072 warrants exercised .....	—	1,567	—	201	1,768
33,893 shares issued under Employee Stock Purchase Plan .....	—	6,374	—	960	7,334
26,728 shares issued on exercise of employee stock options .....	—	5,050	—	759	5,809
1,407 shares purchased for treasury .....	—	—	—	(576)	(576)
Cash dividends .....	—	—	(3,231)	—	(3,231)
Balance January 3, 1988 .....	<u>\$18,394</u>	<u>\$646,124</u>	<u>\$1,717,544</u>	<u>\$(157,141)</u>	<u>\$2,224,921</u>

See accompanying notes

# Notes to Consolidated Financial Statements

## 1. Accounting Policies

*Principles of Consolidation*—The consolidated financial statements include the accounts of all significant subsidiaries. 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 publishing intangible assets, all of which may be characterized as scarce assets with very long and productive lives, 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, \$8,067,000, \$11,414,000 and \$4,554,000 was capitalized in 1987, 1986 and 1985, 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. Results for 1987 are for the 53-week year ended January 3, 1988, and for 1986 for the 52-week year ended December 28, 1986.

## 2. Income Per Share

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

	1987	1986	1985
Common shares .....	16,165	16,090	12,955
Stock options .....	90	95	125
Warrants .....	695	65	—
Total .....	<u>16,950</u>	<u>16,250</u>	<u>13,080</u>

## Notes to Consolidated Financial Statements—(Continued)

## 3. Acquisitions

1987—In 1987, the Company acquired radio stations KRXV-AM/FM, serving the Denver, Colorado market, and several small publishing operations for a combined cash purchase price of \$12,515,000.

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 entitled the holder to receive \$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. The value of the 2,906,703 warrants of \$97,193,000 was included in additional paid-in capital.

The acquired 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. The Company may be required to divest seven of the radio stations pending completion of a proceeding which may lead to a change in the multiple-ownership regulations.

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.

<i>(000's, except per share)</i>	Year ended Dec. 31, 1985
Net revenues .....	\$1,088,900
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 .....	\$1,163,445
Property, plant and equipment .....	1,079,073
Intangible assets .....	2,060,336
Other assets .....	<u>487,016</u>
	4,789,870
Current liabilities .....	(695,809)
Other liabilities .....	(582,292)
Minority interest .....	<u>(40,721)</u>
	3,471,048
Elimination of cash and long-term debt included above .....	<u>(100,076)</u>
Net consideration .....	<u>\$3,370,972</u>

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.

#### 4. Long-Term Debt

Long-term debt at January 3, 1988 and December 28, 1986 is as follows (000's omitted):

	1987	1986
Commercial paper supported by bank revolving credit agreement .....	\$ 101,916	\$ 224,830
10.8% Senior Notes due 1994, with annual sinking fund payments of \$93,750 beginning in 1991 .....	375,000	375,000
8¼% notes due 1996 .....	200,000	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
11% debentures due 2015, with annual sinking fund payments beginning in 1996 ...	300,000	300,000
8¼% debentures due 2016, with annual sinking fund payments beginning in 1997 ...	300,000	300,000
Other long-term debt .....	19,985	21,975
	<u>\$1,696,901</u>	<u>\$1,821,805</u>

The aggregate payments of long-term debt outstanding at January 3, 1988 for the next five years, excluding commercial paper, are summarized as follows: 1988—\$1,542,000; 1989—\$1,926,000; 1990—\$2,429,000; 1991—\$95,306,000; 1992—\$95,307,000.

A subsidiary of the Company has issued commercial paper, \$101,916,000 of which was outstanding at January 3, 1988, at a weighted average interest rate of 7.6%. The commercial paper is supported by a \$1,000,000,000 bank revolving credit agreement terminating on June 30, 1990, unless otherwise extended. The agreement requires a commitment fee on the

unused portion of the available credit of ¼%. Under terms of the bank revolving credit agreement, the Company and its consolidated subsidiaries are required to maintain a consolidated net worth of \$1,460,041,000 at January 3, 1988, increasing annually by 33 percent of the consolidated net income of the previous year.

The commercial paper outstanding at January 3, 1988 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 1988 is expected to fluctuate and may be reduced from time to time.

The 8¼% debentures, 11¾% debentures and 11¼% 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 8¼% 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.

The proceeds from the issuance of virtually all of the outstanding debt were used to finance the acquisition of ABC in 1986.

## Notes to Consolidated Financial Statements—(Continued)

## 5. Extraordinary Items—1986

In transactions related to the acquisition of ABC, and 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 actions brought against them by the Star's independent contract carriers concerning its newspaper delivery routes and distribution system. The settlement allowed 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).

## 6. Commitments

At January 3, 1988, the Company is committed for the purchase of broadcast rights for various feature films, sports events and other programming aggregating approximately \$1,315,000,000.

The aggregate payments related to these commitments during the next five years are summarized as follows: 1988—\$774,892,000; 1989—\$349,022,000; 1990—\$108,065,000; 1991—\$36,865,000; 1992—\$34,326,000.

The Company anticipates 1988 capital expenditures for property, plant and equipment will approximate \$175,000,000.

Rental expense under operating leases amounted to \$77,985,000, \$74,645,000 and \$8,701,000 for 1987, 1986 and 1985, respectively.

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

	Capital leases	Operating leases
1988 .....	\$ 3,799	\$ 64,780
1989 .....	2,930	56,373
1990 .....	2,856	48,890
1991 .....	2,923	44,395
1992 .....	2,819	37,516
1993 and thereafter.....	<u>138,071</u>	<u>152,550</u>
Minimum lease payments.....	153,398	<u>\$ 404,504</u>
Imputed interest .....	<u>(126,565)</u>	
Present value of minimum lease payments .....	<u>\$ 26,833</u>	

Total minimum payments for operating leases have not been reduced for future minimum sublease rentals aggregating \$52,941,000.

## 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 amount as the Board of Directors may annually determine. Contributions to the profit sharing plans of \$6,079,000, \$5,173,000 and \$5,774,000 were charged to expense in 1987, 1986 and 1985, 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 FAS 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 1987 was \$3,272,000,

compared with \$6,198,000 and \$831,000 for 1986 and 1985, respectively.

The components of net pension cost for 1987 and 1986 were as follows (000's omitted):

	1987	1986
Service cost of current period .....	\$ 11,900	\$ 13,142
Interest cost on projected benefit obligation .....	23,088	22,177
Actual return on plan assets .....	(24,897)	(51,112)
Net amortization and deferral .....	(6,819)	21,991
Net pension cost .....	<u>\$ 3,272</u>	<u>\$ 6,198</u>

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, in 1987 and 1986. The expected long-term rate of return on assets was 8% in 1987 and 1986.

The following table sets forth the pension plans' funded status and amounts recognized in the balance sheet at January 3, 1988 and December 28, 1986 (000's omitted):

	1987	1986
Actuarial present value of accumulated plan benefits including vested benefits of \$234,024 (\$207,266 in 1986) .....	<u>\$ 250,087</u>	<u>\$ 225,836</u>
Plan assets at fair value, primarily publicly traded bonds and stocks .....	\$ 386,736	\$ 378,230
Projected benefit obligation for service rendered to date .....	(304,098)	(292,350)
Plan assets in excess of projected benefit obligation .....	82,638	85,880
Prior service cost not yet recognized in net periodic pension cost .....	(1,164)	—
Unrecognized net gain from past experience different from that assumed .....	(24,677)	(24,614)
Unrecognized net asset (transition amount) being recognized principally over 15 years .....	(29,206)	(31,928)
Prepaid pension cost included in balance sheet .....	<u>\$ 27,591</u>	<u>\$ 29,338</u>



## Notes to Consolidated Financial Statements—(Continued)

## 8. Segment Data

The Company operates the ABC Television Network and eight affiliated television stations, six radio networks and 21 radio stations, and provides programming for cable television. The Company publishes newspapers, shopping guides, various specialized business and consumer periodicals and books; and also distributes information from 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):

	1987	1986	1985	1984	1983
<b>Broadcasting</b>					
Net revenues .....	\$ 3,433,749	\$ 3,153,619	\$ 378,297	\$ 348,106	\$ 302,785
Direct operating costs .....	2,680,582	2,554,932	192,249	172,867	151,603
Depreciation .....	73,730	78,952	26,711	23,257	18,889
Total operating costs .....	2,754,312	2,633,884	218,960	196,124	170,492
Income before amortization of intangible assets .....	679,437	519,735	159,337	151,982	132,293
Amortization of intangible assets .....	46,527	45,200	8,367	7,800	7,597
Income from operations .....	\$ 632,910	\$ 474,535	\$ 150,970	\$ 144,182	\$ 124,696
Assets at year-end .....	\$ 4,018,775	\$ 4,186,650	\$ 537,797	\$ 507,433	\$ 455,341
Capital expenditures .....	102,425	104,278	26,327	26,370	36,782
<b>Publishing</b>					
Net revenues .....	\$ 1,006,597	\$ 970,755	\$ 642,583	\$ 591,616	\$ 459,510
Direct operating costs .....	822,123	778,201	482,333	438,414	342,253
Depreciation .....	18,878	15,353	10,395	10,190	8,646
Total operating costs .....	841,001	793,554	492,728	448,604	350,899
Income before amortization of intangible assets .....	165,596	177,201	149,855	143,012	108,611
Amortization of intangible assets .....	18,879	18,202	11,343	9,833	4,577
Income from operations .....	\$ 146,717	\$ 158,999	\$ 138,512	\$ 133,179	\$ 104,034
Assets at year-end .....	\$ 908,193	\$ 920,896	\$ 455,274	\$ 430,997	\$ 287,523
Capital expenditures .....	13,114	48,589	45,869	26,700	10,666
<b>Consolidated</b>					
Net revenues .....	\$ 4,440,346	\$ 4,124,374	\$ 1,020,880	\$ 939,722	\$ 762,295
Income from operations .....	\$ 779,627	\$ 633,534	\$ 289,482	\$ 277,361	\$ 228,730
General corporate expense .....	(33,637)	(30,856)	(11,981)	(9,849)	(8,366)
Operating income .....	745,990	602,678	277,501	267,512	220,364
Interest expense .....	(190,806)	(185,511)	(22,738)	(27,161)	(14,633)
Interest and other income .....	8,794	5,576	22,059	28,442	18,773
Income before income taxes .....	\$ 563,978	\$ 422,743	\$ 276,822	\$ 268,793	\$ 224,504
Assets employed by segments .....	\$ 4,926,968	\$ 5,107,546	\$ 993,071	\$ 938,430	\$ 742,864
Investments and corporate assets .....	451,404	83,870	891,860	269,742	310,048
Total assets at year-end .....	\$ 5,378,372	\$ 5,191,416	\$ 1,884,931	\$ 1,208,172	\$ 1,052,912

## 9. Income Taxes

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

	1987		1986		1985	
	Amount	%	Amount	%	Amount	%
Income before income taxes .....	<u>\$563,978</u>		<u>\$422,743</u>		<u>\$276,822</u>	
Income tax expense at statutory rate.....	\$225,591	40.0	\$194,462	46.0	\$127,338	46.0
State and local income taxes, net of Federal benefit.....	29,700	5.3	18,576	4.4	9,126	3.3
Investment tax credits.....	(3,794)	(0.7)	(4,800)	(1.1)	(5,653)	(2.0)
Amortization of intangibles.....	26,162	4.6	28,705	6.8	5,601	2.0
Other, net.....	7,241	1.3	3,857	0.9	(1,812)	(0.7)
Total .....	<u>\$284,900</u>	<u>50.5</u>	<u>\$240,800</u>	<u>57.0</u>	<u>\$134,600</u>	<u>48.6</u>

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

	1987	1986	1985
<b>Federal</b>			
Current.....	\$246,700	\$205,800	\$104,100
Deferred.....	(11,300)	600	13,600
	<u>235,400</u>	<u>206,400</u>	<u>117,700</u>
<b>State and local</b>			
Current.....	52,600	34,300	14,900
Deferred.....	(3,100)	100	2,000
	<u>49,500</u>	<u>34,400</u>	<u>16,900</u>
<b>Total.....</b>	<u>\$284,900</u>	<u>\$240,800</u>	<u>\$134,600</u>

The provision (benefit) 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):

	1987	1986	1985
<b>Accelerated depreciation.....</b>	\$ 19,200	\$ 22,500	\$ 11,200
<b>Program costs .....</b>	(12,900)	(15,600)	—
<b>Deferred compensation.....</b>	(12,600)	(3,100)	(1,000)
<b>Other .....</b>	(8,100)	1,900	5,400
<b>Total.....</b>	<u>\$ (14,400)</u>	<u>\$ 700</u>	<u>\$ 15,600</u>

The 1986 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 January 3, 1988 also include approximately \$66,000,000 of taxes relating to the disposition of broadcasting properties by ABC on January 2, 1986, deferred under the provisions of Section 1071.

In December 1987, *Financial Accounting Standards Board Statement No. 96* was issued which requires a change in the method of accounting for income taxes. This statement must be implemented by 1989. The Company has not adopted the Standard in 1987. Based upon preliminary estimates, the Company believes the effect of the adoption of FAS No. 96 would not be material to the financial position of the Company. Upon adoption of FAS No. 96, the Company has the option of restating prior years' financial statements. If the Company does restate, the income taxes provided on the 1986 extraordinary gain would be reduced by approximately \$67,000,000.

## Notes to Consolidated Financial Statements—(Continued)

**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. In 1987, the Company's shareholders authorized the issuance of 300,000 additional options. The following information pertains to the Company's stock option plans:

	1987	1986	1985
Outstanding options, beginning of year .....	166,433	265,799	325,983
Granted .....	4,500	—	19,845
Cancelled or expired .....	(1,150)	(11,700)	(5,425)
Exercised .....	<u>(26,728)</u>	<u>(87,666)</u>	<u>(74,604)</u>
Outstanding options, end of year .....	<u>143,055</u>	<u>166,433</u>	<u>265,799</u>
Average price of options exercised during the year .....	\$96.19	\$41.90	\$32.66
Exercise price of outstanding options, end of year .....	\$23.94 to \$383.38	\$23.94 to \$220.69	\$12.50 to \$220.69
Options exercisable, end of year .....	128,083	132,525	201,604
Options available for future grant .....	501,205	204,555	192,855

The Company has an Employee Stock Purchase Plan which allows eligible employees, through contributions of up to 15% of their compensation, to 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 33,893, 44,674 and 58,314 shares under the Plan in 1987, 1986 and 1985, respectively. As of January 3, 1988, 423,573 shares remain available to be purchased through the period ending April 1992.

The Company also has the ABC Savings & Investment Plan which allows eligible employees to allocate up to 10% 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, up to 5% of salary, net of forfeitures. In 1987 and 1986, the cost of this plan was \$6,335,000 and \$5,866,000, respectively.

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

As of February 29, 1988, the approximate number of holders of common stock was 5,480. Dividends of \$.05 per share have been paid for each quarter of 1987 and 1986. 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 1987 and 1986 are as follows:

	1987			1986		
	High	Low	Close	High	Low	Close
1st quarter .....	\$355	\$267¼	\$347⅞	\$256	\$208¼	\$238¼
2nd quarter .....	394	324	385¼	262½	214½	258½
3rd quarter .....	450	378¼	419½	272	240	252¼
4th quarter .....	447	297	345	279¼	245½	267½

In connection with the ABC acquisition, 2,906,703 warrants were issued (see Note 3). As of January 3, 1988, 2,331,591 warrants were outstanding.

The warrants, which expire on July 29, 1988, are traded on the Pacific Stock Exchange.

## 12. Quarterly Financial Data (Unaudited)

The following summarizes the Company's results of operations for each quarter of 1987, 1986 and 1985 (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
<b>1987</b>					
Net revenues .....	\$959,201	\$1,126,795	\$946,211	\$1,408,139	\$4,440,346
Costs and expenses .....	861,858	871,615	829,124	1,131,759	3,694,356
Operating income.....	97,343	255,180	117,087	276,380	745,990
Interest expense .....	(48,604)	(47,470)	(45,566)	(49,766)	(190,806)
Interest and other income .....	487	2,822	4,815	670	8,794
Income before income taxes .....	49,826	210,532	76,336	227,284	563,978
Income taxes.....	25,900	110,800	37,900	110,300	284,900
Net income.....	<u>\$ 23,926</u>	<u>\$ 99,732</u>	<u>\$ 38,436</u>	<u>\$ 116,984</u>	<u>\$ 279,078</u>
Net income per share.....	<u>\$1.43</u>	<u>\$5.88</u>	<u>\$2.23</u>	<u>\$6.91</u>	<u>\$16.46</u>
<b>1986</b>					
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.....	<u>\$281,966</u>	<u>\$ 67,029</u>	<u>\$ 18,370</u>	<u>\$ 80,324</u>	<u>\$ 447,689</u>
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.....	<u>\$17.48</u>	<u>\$4.15</u>	<u>\$1.13</u>	<u>\$4.90</u>	<u>\$27.55</u>
<b>1985</b>					
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.....	<u>\$ 27,740</u>	<u>\$ 41,226</u>	<u>\$ 33,444</u>	<u>\$ 39,812</u>	<u>\$ 142,222</u>
Net income per share.....	<u>\$2.13</u>	<u>\$3.15</u>	<u>\$2.55</u>	<u>\$3.04</u>	<u>\$10.87</u>

## 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 January 3, 1988 and December 28, 1986, and the consolidated statements of income, stockholders' equity and changes in financial position for each of the three years in the period ended January 3, 1988. 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 January 3, 1988 and December 28, 1986, and the consolidated results of operations and changes in financial position for each of the three years in the period ended January 3, 1988, 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 29, 1988

# Capital Cities/ABC

## Corporate

Thomas S. Murphy, *Chairman of the Board and Chief Executive Officer*  
Daniel B. Burke, *President and Chief Operating Officer*  
Joseph P. Dougherty, *Executive Vice President*  
John B. Fairchild, *Executive Vice President; Chairman and Chief Executive Officer, Fairchild Publications*  
John B. Sias, *Executive Vice President; President, ABC 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*

Philip R. Beuth, *Vice President*  
Allan J. Edelson, *Vice President and Controller*  
Joseph M. Fitzgerald, *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*  
Jeffrey Ruthizer, *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*  
Alan Wurtzel, *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*

# Capital Cities/ABC

## Broadcast Group

Michael P. Mallardi, *President*  
James J. Allegro, *Senior Vice 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** (New York, NY)  
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)

## Broadcast Operations & Engineering

Julius Barnathan, *President*

## Radio

James P. Arcara, *President*

## ABC Radio Networks

Aaron M. Daniels, *President*

## Radio Stations — Group I

Don P. Bouloukos, *President*  
WABC-AM (New York, NY)  
Frederick D. Weinhaus, *President, General Manager*  
WWPR-FM (New York, NY)  
R. Dana Horner, *President, General Manager*  
KABC-AM (Los Angeles, CA)  
George Green, *President, General Manager*  
KLOS-FM (Los Angeles, CA)  
Bill Sommers, *President, General Manager*  
KGO-AM (San Francisco, CA)  
Michael Luckoff, *President, General Manager*  
WJR-AM (Detroit, MI)  
James E. Long, *President, General Manager*  
WHYT-FM (Detroit, MI)  
John E. Cravens, *President, General Manager*  
KRXY-AM/FM (Denver, CO)  
Joseph E. Parish, *President, General Manager*  
WPRO-AM/FM (Providence, RI)  
J. Mitchell Dolan, *President, General Manager*

## Radio Stations — Group II

Norman S. Schrutt, *President*  
WLS-AM/WYZ-FM (Chicago, IL)  
Clifford K. Levine, *President, General Manager*  
WBAP-AM (Fort Worth-Dallas, TX)  
William J. Hare, *President, General Manager*  
KSCS-FM (Fort Worth-Dallas, TX)  
Victor J. Sansone, *President, General Manager*  
WMAL-AM (Washington, DC)  
WRQX-FM (Washington, DC)  
Maureen Lesourd, *President, General Manager*  
WKHX-AM/FM (Atlanta, GA)  
Verners J. Ore, *President, General Manager*  
KQRS-AM/FM (Minneapolis, MN)  
Mark S. Steinmetz, *President, General Manager*

# Capital Cities/ABC

## Publishing Group

Phillip J. Meek, *President*

## Specialized Publications

**FAIRCHILD PUBLICATIONS** (New York, NY)

John B. Fairchild, *Chairman and  
Chief Executive Officer*

Phillip J. Meek, *President*

Kenneth S. Share, *Executive Vice President*

David S. Branch, *Senior Vice President*

Michael F. Coady, *Senior Vice President*

John E. Coots, *Senior Vice President*

Richard J. Lynch, *Senior Vice President*

Philip L. McGovern, *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*

**ABC PUBLISHING**

Robert G. Burton, *President*

**ABC CONSUMER MAGAZINES**

(New York, NY and Greensboro, NC)

Marc Reisch, *Senior Vice President*

**ABC PUBLISHING AGRICULTURAL GROUP**

(Lombard, IL)

Allan R. Johnson, *Vice President, Publisher*

**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*

## 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. Dumcan, *President, Publisher*

**OREGON NEWSPAPERS** (Albany, OR)

Glenn C. Cushman, *President*

Richard F. Anderson, *General Manager*

**SHORE LINE NEWSPAPERS** (Guilford, CT)

John C. Peterson, *President, Publisher*

**HIGHLAND NEWS-LEADER** (Highland, IL)

## Shopping Guides

**SUTTON INDUSTRIES** (Orange, Riverside and  
San Diego Counties, Sacramento and Stockton, CA)

Wes Turner, *President*

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

R. Thomas Cronk, *President*

**NORTHWEST NICKELS** (Seattle-Tacoma and  
Spokane, WA; and Portland, OR)



## 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*

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## 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.*

**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*

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**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)*

As of January 3, 1988

Subsidiaries of Capital Cities/ABC, Inc.

	<u>Jurisdiction of Incorporation</u>
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 Daytime Circle, Inc.	Delaware
ABC Network Holding Company, Inc.	Delaware
ABC Equipment Leasing, Inc.	New York
ABC, 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
ABC Theatre Holdings, Inc.	Delaware
ABC Interstate Theatres, Inc.	Delaware
ABC Southeastern Theatres, Inc.	Delaware
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.	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
ABC Sports Marketing, Inc.	Delaware
American Broadcasting Companies, Inc.	Delaware
Capital Cities/ABC National Television Sales, Inc.	Delaware
Capital Cities/ABC Video Enterprises, Inc.	Delaware
ABC Merchandising, Inc.	New York
ABC Pictures International, Inc.	New York
(dissolved 2/19/88)	
ABC Sports International, Inc.	Delaware
ABC Wide World of Learning, Inc.	New York
(dissolved 1/4/88)	

Capital Cities/ABC, Inc. (parent)(continued)	
ABC Holding Company, Inc. (continued)	
Capital Cities/ABC Video Enterprises, Inc. (continued)	
Ambro Distributing Corporation Limited	United Kingdom
Capital Cities/ABC Video Publishing, Inc.	Delaware
Capital Cities/ABC Video Systems, Inc.	Delaware
Tele1ST, 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
ESPN Holding Company, Inc.	Delaware
ESPN, Inc.	Delaware
ESPN (U.K.) Limited	United Kingdom
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
KLDS-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 Realty Company, Inc.	Delaware
77 West 66 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

Capital Cities/ABC, Inc. (parent)(continued)	
ABC Holding Company, Inc. (continued)	
WPLJ-FM Radio, Inc. (name changed to	Delaware
WMPR-FM Radio, Inc. - 3/8/88)	
WYTZ-FM Radio, Inc.	Delaware
ABC Television, Inc.	New York
Cablecom-General, Inc.	Oklahoma
Capital Cities Entertainment Systems, Inc.	Delaware
Capital Cities Media, Inc.	New York
Guilford Publishing Company, Inc.	Delaware
Newside Publications, Inc.	Delaware
Capital Cities of Illinois, Inc. (dissolved 1/7/88)	Delaware
Capital Cities of Kansas, Inc.	Delaware
Pennypower Shopping News, Inc.	Kansas
Capital Cities Vision, Inc.	New York
CC Finance Holding Corporation	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	Missouri
preferred stock of Capital Cities Media, Inc.)	
KQRS Holding Corporation	Delaware
KQRS, Inc.	Delaware
KRXY Holding Corporation	Delaware
KRXY Radio, Inc.	Delaware
Legal Com of Delaware, Inc.	Delaware
The Oakland Press Company	Michigan
Tri-County Newspapers, Inc.	Michigan
Securities Data Company, Inc. (sold 2/1/88)	New York
Sutton Industries, Inc.	Delaware
Texas Media Holding Company, Inc.	Delaware
KTRK, Inc.	Delaware
Star-Telegram, Inc.	Delaware
TV Connection, Inc.	Delaware
WBAP-KSCS, Inc.	Delaware
Wilson Publishing Company	Rhode Island

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

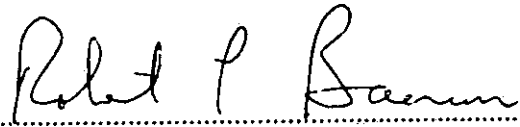
KNOW ALL MEN BY THESE PRESENTS, that the undersigned director of CAPITAL CITIES/ABC, INC. (the "Company"), in his capacity as set forth below, hereby constitutes and appoints Thomas S. Murphy, Daniel B. Burke and Ronald J. Doerfler, and each of them severally, his true and lawful attorneys-in-fact and 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 January 3, 1988 (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, 1988.

Capacity: Director

Robert P. Bauman

.....  
Name



.....  
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 January 3, 1988 (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, 1988.

Capacity: Director

Warren E. Buffett

.....  
Name

  
.....  
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 January 3, 1988 (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, 1988.

Capacity: Director

..... Daniel B. Burke .....

Name

.....  .....

Signature



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

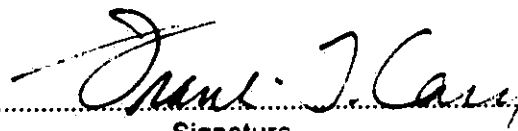
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IN WITNESS WHEREOF, the undersigned has subscribed these presents this 17th day of March, 1988.

Capacity: Director

Frank T. Cary

.....  
Name

  
.....  
Signature

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

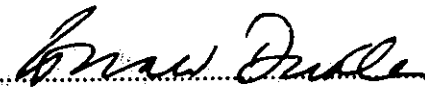
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IN WITNESS WHEREOF, the undersigned has subscribed these presents this 17th day of March, 1988.

Capacity: Director

Gerald Dickler

.....  
Name



.....  
Signature

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

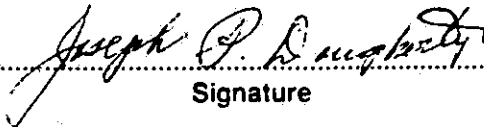
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IN WITNESS WHEREOF, the undersigned has subscribed these presents this 17th day of March, 1988.

Capacity: Director

..... Joseph P. Dougherty .....

Name

.....  .....

Signature

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IN WITNESS WHEREOF, the undersigned has subscribed these presents this 17th day of March, 1988.

Capacity: Director

John B. Fairchild

.....  
Name

x J. B. Fairchild

.....  
Signature

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IN WITNESS WHEREOF, the undersigned has subscribed these presents this 17th day of March, 1988.

Capacity: Director

Leonard H. Goldenson

.....  
Name

  
.....  
Signature

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

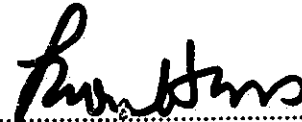
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IN WITNESS WHEREOF, the undersigned has subscribed these presents this 17th day of March, 1988.

Capacity: Director

Leon Hess

.....  
Name



.....  
Signature

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IN WITNESS WHEREOF, the undersigned has subscribed these presents this 17th day of March, 1988.

Capacity: Director

George P. Jenkins

.....  
Name

  
.....  
Signature

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IN WITNESS WHEREOF, the undersigned has subscribed these presents this 17th day of March, 1988.

Capacity: Director

Thomas M. Macioce

.....  
Name

  
.....  
Signature



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IN WITNESS WHEREOF, the undersigned has subscribed these presents this 17th day of March, 1988.

Capacity: Director

John H. Muller, Jr.

.....  
Name

  
.....  
Signature

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

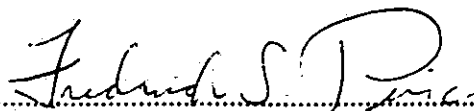
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IN WITNESS WHEREOF, the undersigned has subscribed these presents this 17th day of March, 1988.

Capacity: Director

Frederick S. Pierce

.....  
Name



.....  
Signature

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IN WITNESS WHEREOF, the undersigned has subscribed these presents this 17th day of March, 1988.

Capacity: Director

.....John B. Poole.....

Name

A handwritten signature in cursive script, appearing to read "John B. Poole", is written over a horizontal dotted line.

Signature

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

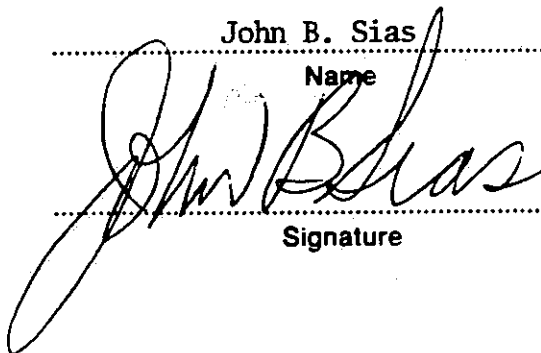
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Capacity: Director

John B. Sias

Name



Signature

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IN WITNESS WHEREOF, the undersigned has subscribed these presents this 17th day of March, 1988.

Capacity: Director

William I. Spencer

.....  
Name

  
.....  
Signature

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IN WITNESS WHEREOF, the undersigned has subscribed these presents this 17th day of March, 1988.

Capacity: Director

M. Cabell Woodward, Jr.

.....  
Name

  
.....  
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, 1987

- 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.

During 1987 the following changes were made in the Plan:

In addition to the regular 50 percent matched contributions of 2, 3, 4 or 5 percent of compensation, employees may now also contribute unmatched contributions of an additional 2, 3, 4 or 5 percent of compensation. Such additional contributions may also be designated all "regular after-tax contributions" (taxable) or all Tax Deferred Contributions.

The percentages of an employee's compensation that is contributed to the Plan, either matched or unmatched, may be changed on the first day of any month. (Previously, changes in contributions were permitted once every six months.)

Taxable contributions may now be withdrawn without incurring a suspension period. Such withdrawals may now be made in 10 percent increments (rather than in 25 percent increments as previously permitted).

Tax Deferred Contributions may now be withdrawn at any time after age 59 1/2, in 10 percent increments.

For employees of any of the participating companies and divisions who were previously employees of Capital Cities Communications, Inc., now Capital Cities/ABC, Inc. (the "Company"), for purposes of eligibility and vesting the Plan will recognize service with the Company prior to the merger of the Company and American Broadcasting Companies, Inc.

The Plan's definition of "employee" was amended so that the definition of who is eligible to participate in the Plan, after the completion of one year of service, also includes any nonunion talent employee of the participating companies and divisions except (i) a person hired for a position in connection with the production of a primetime program produced by the Entertainment Division of American Broadcasting Companies, Inc. ("ABC") or (ii) a person hired in connection with a special event such as Olympics or Presidential election coverage.

An employee eligible to participate in the Plan who is also eligible to participate in the Company's Employee Stock Purchase Plan and who authorizes a contribution to the Employee Stock Purchase Plan at any time after April 3, 1988 shall thereafter be ineligible to make any further contributions to this plan (the ABC Savings & Investment Plan -- the "SIP"). However, such a person shall be entitled to exercise all other rights of a participant under the SIP with respect to employee and employer contributions made prior to the date that such person becomes ineligible to make further contributions into the SIP.



In compliance with the Tax Reform Act of 1986:

(1) No participant may make more than \$7,000 of Tax Deferred Contributions (or such greater amount as shall be prescribed by the Secretary of the Treasury) for any year. Any participant who has elected to make Tax Deferred Contributions and reaches the \$7,000 limit will be deemed to have elected to make regular after-tax contributions thereafter for such year.

(2) "Annual additions" (consisting of employer contributions, including Tax Deferred Contributions, and regular after-tax contributions) to the account of a participant are subject to certain limitations as to amount. In no event may such annual additions under all defined contribution plans maintained by the Company or ABC, any participating company, or any affiliated company 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 year, or 25 percent of compensation (determined after giving effect to Tax Deferred Contributions).

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 6,670 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, 1987 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 \$143,615.
- (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 \$77,561. During 1987, the commissions paid to Neuberger & Berman, Inc. constituted 57.8 percent of the total brokerage commissions paid by the Plan. The dollar amount of transactions involving the payment of commissions to Neuberger & Berman, Inc. constituted 56.3 percent of the aggregate dollar amount of transactions during 1987. The difference in the two percentages is due mainly to the type of transactions handled by Neuberger & Berman, Inc. 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 1987, neither the Plan nor its investment manager directed the Plan's brokerage transactions to a broker or brokers because of research services.

Item 9. Financial Statements and Exhibits.

(a) Financial Statements:

Certified Public Accountants' Reports

Combined Statements of Financial Condition as of December 31, 1987 and 1986

Combined Statements of Income and Changes in Plan Equity for the years ended December 31, 1987, 1986 and 1985

**Notes to Financial Statements**

**Supplemental Schedules:**

**Investments at December 31, 1987**

**Combining Statements of Financial Condition as of  
December 31, 1987 and 1986**

**Combining Statements of Income and Changes in Plan  
Equity for the years ended December 31, 1987, 1986  
and 1985**

**Consent of Arthur Young & Company  
Consent of Peat Marwick Main & Co.**

**(b) Exhibits:**


**Text of the ABC Savings & Investment Plan as amended through  
December 31, 1987.**

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 25, 1988

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

ABC SAVINGS & INVESTMENT PLAN  
Financial Statements and Schedules  
December 31, 1987  
(With Accountants' Reports Thereon)

ABC SAVINGS & INVESTMENT PLAN

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Certified Public Accountants' Reports

Combined Statements of Financial Condition as of  
December 31, 1987 and 1986  
Combined Statements of Income and Changes in Plan Equity  
for the years ended December 31, 1987, 1986 and 1985  
Notes to Financial Statements

Schedule

Investments at December 31, 1987.....	1
Combining Statements of Financial Condition as of December 31, 1987 and 1986.....	2
Combining Statements of Income and Changes in Plan Equity for the years ended December 31, 1987, 1986 and 1985.....	3

CERTIFIED PUBLIC ACCOUNTANTS' REPORT

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

We have examined the combined statements of financial condition of the ABC Savings & Investment Plan at December 31, 1987 and 1986 and the combined statements of income and changes in plan equity for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the combined financial statements as mentioned above present fairly the financial position of the ABC Savings & Investment Plan at December 31, 1987 and 1986 and the income and changes in plan equity for the years then ended in conformity with generally accepted accounting principles applied on a consistent basis during the period.

The additional schedules at and for the years ended December 31, 1987 and 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 25, 1988



**Peat Marwick**

Certified Public Accountants

**Peat Marwick Main & Co.**

345 Park Avenue  
New York, NY 10154

Telephone 212 758 9700  
Telex 666890

Telecopiers 212 758 9819  
212 308 9064

ACCOUNTANTS' REPORT

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

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

*Peat Marwick Main & Co.*  
PEAT MARWICK MAIN & CO.

New York, New York  
March 21, 1986

ABC SAVINGS & INVESTMENT PLAN  
 Combined Statements of Financial Condition

December 31, 1987 and 1986

	<u>1987</u>	<u>1986</u>
<u>Assets</u>		
Investments, at market (notes 1 and 3):		
Equity securities:		
Capital Cities/ABC Inc. common stock	\$ 136,060,065	\$110,002,339
Other	11,122,815	10,251,425
Total equity securities	<u>147,182,880</u>	<u>120,253,764</u>
Other investments (at cost which approximates market):		
Bankers Trust Generalized Employee Benefit Trust Interim Investment Fund	5,212,540	210,231
Funds on deposit with insurance company	37,451,233	33,221,230
Total other investments	<u>42,663,773</u>	<u>33,431,461</u>
Total investments	<u>189,846,653</u>	<u>153,685,225</u>
Due from participants (note 2)	1,292,483	821,209
Interest and dividends receivable	365,457	355,760
Due from (to) Capital Cities/ABC, Inc.	2,031,769	(31,092)
Receivables from sales of investments	<u>173,938</u>	<u>-</u>
Total assets	<u>\$ 193,710,300</u>	<u>\$154,831,102</u>
<u>Liabilities and Plan Equity</u>		
Due to former participants	\$ 3,977,236	\$ 4,210,799
Payables from purchases of investments	306,491	-
Plan equity	<u>189,426,573</u>	<u>150,620,303</u>
Total liabilities and plan equity	<u>\$ 193,710,300</u>	<u>\$154,831,102</u>

See accompanying notes to financial statements.

ABC SAVINGS & INVESTMENT PLAN

Combined Statements of Income and  
Changes in Plan Equity

Years ended December 31, 1987, 1986 and 1985

	<u>1987</u>	<u>1986</u>	<u>1985</u>
Investment income:			
Dividends	\$ 484,844	\$ 432,733	\$ 1,848,789
Interest	3,235,858	5,172,428	2,326,293
Total investment income	<u>3,720,702</u>	<u>5,605,161</u>	<u>4,175,082</u>
Appreciation of American Broadcasting Companies, Inc. common stock distributed to terminated and withdrawing participants (note 1)	-	-	4,260,949
Appreciation of Capital Cities/ABC Inc. common stock and warrants distributed to terminated and withdrawing participants (note 1)	1,139,770	498,230	-
Net gain on tender of American Broadcasting Companies, Inc. common stock (net of unrealized gains at the beginning of 1986 of \$78,649,963)	-	886,103	-
Net gain on sales of other common stock	1,561,690	1,609,427	1,659,316
Net increase in unrealized appreciation of plan assets held at year end (note 1)	<u>28,088,133</u>	<u>16,166,936</u>	<u>52,539,115</u>
	<u>34,510,295</u>	<u>24,765,857</u>	<u>62,634,462</u>
Contributions:			
Participants' (note 2)	15,849,443	13,670,223	13,767,869
Employer (notes 1 and 2)	6,089,889	5,741,290	6,085,443
Total contributions	<u>21,939,332</u>	<u>19,411,513</u>	<u>19,853,312</u>
Interest on participants' loans (note 2)	93,349	59,331	8,860
Total	<u>56,542,976</u>	<u>44,236,701</u>	<u>82,496,634</u>
Distributions to terminated and withdrawing participants (note 1):			
Capital Cities/ABC, Inc. common stock at market value	4,534,258	6,817,473	-
American Broadcasting Companies, Inc. common stock, at market value	-	-	6,773,788
Cash	13,202,448	36,416,106	11,452,885
Total distributions	<u>17,736,706</u>	<u>43,233,579</u>	<u>18,226,673</u>
Change in plan equity	<u>38,806,270</u>	<u>1,003,122</u>	<u>64,269,961</u>
Plan equity:			
Beginning of year	150,620,303	149,617,181	85,347,220
End of year	<u>\$189,426,573</u>	<u>\$150,620,303</u>	<u>\$149,617,181</u>

See accompanying notes to financial statements.

ABC SAVINGS & INVESTMENT PLAN

Notes to Financial Statements

December 31, 1987, 1986 and 1985

(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, American Broadcasting Companies, Inc. is stated at market value which is based on the year-end stock quotation from the New York Stock Exchange. As a result of the merger of American Broadcasting Companies, Inc. with Capital Cities Communications, Inc. the American Broadcasting Companies, Inc. 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 of 9.25% for 1987.

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:

	<u>1987</u>	<u>1986</u>	<u>1985</u>
Balance at beginning of year	\$ 16,577,945	\$79,060,972	\$26,521,857
Less: Amount realized due to tender of American Broadcasting Companies, Inc. common stock	-	78,649,963	-
	<u>16,577,945</u>	<u>411,009</u>	<u>26,521,857</u>
Balance at end of year	44,666,078	16,577,945	79,060,972
Net increase	<u>\$ 28,088,133</u>	<u>\$16,166,936</u>	<u>\$52,539,115</u>

(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 \$497,643, \$871,772 and \$725,212 for 1987, 1986 and 1985, respectively.

(continued)

## ABC SAVINGS &amp; INVESTMENT PLAN

## Notes to Financial Statements

December 31, 1987, 1986, and 1985

(2) Description of Plan

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

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, 1987, 1986 and 1985

(2) Continued

The Plan has been amended effective April 3, 1988 such that an employee eligible to participate in the Plan who is also eligible to participate in the Company's Employee Stock Purchase Plan and who authorizes a contribution to the Employee Stock Purchase Plan at any time after April 3, 1988 will be ineligible to make any further contributions to the Plan. However, the employee will be entitled to exercise all other rights of a participant under the Plan with respect to employee and employer contributions made prior to the date that the employee becomes ineligible to make further contributions to the Plan.

Under the Plan, eligible employees may authorize payroll deductions of either 2, 3, 4 or 5% of their annual compensation to be invested in one or more of three funds. Such contributions may be in the form of regular after-tax contributions (taxable), or tax deferred contributions. Capital Cities/ABC will contribute an amount equal to 50% of such deductions, to be invested in the Capital Cities/ABC, Inc. Common Stock Fund (Fund A). On October 1, 1987, the Plan was amended to allow employees to contribute an additional unmatched 2, 3, 4 or 5% of annual contributions, which may also be designated either taxable or tax deferred contributions. No participant may make more than \$7,000 of tax deferred contributions for any year. Total annual contributions by the employer and employee to a participant's account are limited to \$30,000 for all defined contribution plans. Participants 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.

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.

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.

(continued)

## ABC SAVINGS &amp; INVESTMENT PLAN

## Notes to Financial Statements

December 31, 1987, 1986 and 1985

(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 in 10% increments, 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 American Broadcasting Companies, Inc. 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, 1987 there were 6,845 participants in Fund A, 2,310 participants in Fund B and 4,075 participants in Fund C.

As of December 31, 1987 there were 3,586,954 total units in Fund B and 15,304,997 total units in Fund C with unit values of \$3.17 and \$2.43 respectively.

## ABC SAVINGS &amp; INVESTMENT PLAN

## Notes to Financial Statements

December 31, 1987, 1986 and 1985

- (3) Changes in Investment in Equity Securities  
 Changes in investment in equity securities, at cost, for the years ended December 31, 1987 and 1986 were as follows:

	<u>Shares</u>	<u>Cost</u>
Capital Cities/ABC, Inc. common stock:		
Balance at December 31, 1985	-	\$ -
Purchases	445,142	101,557,593
Distribution to terminated and withdrawing participants	<u>(34,877)</u>	<u>(7,958,542)</u>
Balance at December 31, 1986	410,265	\$ 93,599,051
Purchases	-	-
Distributions to terminated and withdrawing participants	<u>(15,888)</u>	<u>(3,624,747)</u>
Balance at December 31, 1987	<u>394,377</u>	<u>\$ 89,974,304</u>
Other equity securities:		
Balance at December 31, 1985	268,900	\$ 9,728,866
Purchases	383,133	11,291,696
Sales	<u>(325,773)</u>	<u>(10,943,793)</u>
Balance at December 31, 1986	326,260	\$ 10,076,769
Purchases	386,167	9,938,411
Sales	<u>(258,647)</u>	<u>(7,472,676)</u>
Balance at December 31, 1987	<u>\$453,780</u>	<u>\$ 12,542,504</u>



## ABC SAVINGS &amp; INVESTMENT PLAN

## Notes to Financial Statements

December 31, 1987, 1986 and 1985

(4) Administration of the Plan

Under the terms of a trust agreement between Bankers Trust Company (Trustee) and the Plan, the Trustee manages the Plan assets on behalf of the Plan. As of December 31, 1987 and 1986, substantially all the 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) Termination 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 (an indirect 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 sponsor companies intend to file an application for a determination from the IRS that the plan as amended through October 1, 1987 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**

## ABC SAVINGS &amp; INVESTMENT PLAN

## Investments

December 31, 1987

<u>Identity and description of issue</u>	<u>Number of shares</u>	<u>Cost</u>	<u>Market value</u>
Common stock:			
Allied Signal Inc.	9,000	\$ 392,269	\$ 254,250
Amax Inc.	6,000	102,828	120,000
American Electric Power	4,000	106,889	105,000
American President	7,000	173,518	206,500
American Std.	6,500	242,186	237,250
AMR Corp.	3,000	160,813	105,750
Atlantic Richfield	4,000	252,563	276,000
Black & Decker	11,500	237,192	217,062
Burlington Northern	4,000	260,474	251,000
Capital Cities/ABC, Inc.	394,377	89,974,304	136,060,065
CBI Industries	11,000	324,854	218,625
Citicorp	3,000	56,049	55,875
Contel Corp.	10,000	280,210	290,000
CSX Corp.	9,200	289,773	267,950
Deere & Co.	3,000	73,725	104,250
Diamond Shamrock R&M Inc.	18,000	293,943	157,500
Domtar Inc.	23,000	241,946	261,625
E Systems Inc.	10,000	285,890	265,000
Engelhard Corp.	13,500	216,113	268,313
General Dynamics Corp.	6,500	424,614	316,875
General Motors Corp.	4,000	282,036	245,500
Gould Inc.	14,000	267,460	168,000
Grolier Inc.	20,000	211,232	182,500
GTE Corp.	9,000	270,771	318,375
Henley Group	8,000	152,747	155,000
Henley Mfg.	400	7,590	8,000
Hercules Inc.	2,500	115,735	117,500
IBM Corp.	500	61,815	57,750
Ingersoll Rand Co.	5,000	107,800	177,500
International Minerals & Chemicals	9,000	293,668	427,500
James Riv Corp.	10,000	328,231	237,500
Kansas City Southern Industries	4,000	224,488	163,500
Katy Industries	11,000	204,821	125,125
Litton Industries	4,000	314,202	288,500

## ABC SAVINGS &amp; INVESTMENT PLAN

## Investments

December 31, 1987

<u>Identity and description of issue</u>	<u>Number of shares</u>	<u>Cost</u>	<u>Market value</u>
Common stock (continued):			
May Dept. Stores	4,000	\$ 108,104	\$ 116,500
Mobil Corp.	8,000	241,927	313,000
Occidental Pete Corp.	12,000	403,423	292,500
Penn Central Corp.	3,600	163,881	150,300
Petrie Stores	11,000	291,158	171,875
Pinnacle West Cap Corp.	2,000	62,626	55,500
Pioneer Hi Bred Int'l.	9,000	305,040	283,500
Prime Computer Inc.	8,400	121,338	130,200
S L Industries	12,359	107,740	129,770
Salomon Inc.	12,000	427,139	235,500
Sonat Inc.	10,000	333,568	228,750
Sundstrand Corp.	5,000	271,578	211,875
Tenneco Inc.	7,000	280,475	278,250
Texas Inds.	8,320	205,962	255,840
Textron Inc.	11,000	324,519	248,875
United States Shoe Corp.	8,000	191,690	111,000
United Technologies Corp.	7,000	306,982	237,125
USF&G Corp.	8,000	321,838	227,000
V F Corp.	5,000	118,188	122,500
W. R. Grace & Co.	12,000	296,591	288,000
Wang Labs Inc.	20,000	266,111	230,000
Total Common Stock	841,656	\$102,382,627	\$147,029,000
Preferred Stock:			
American President	1,000	50,000	55,500
Variety Corp.	5,500	84,124	98,312
Stock Warrants:			
Capital Cities/ABC Warrant	1	57	68
Total Equity Securities/Warrants	848,157	102,516,808	147,182,880
Other Investments:			
Bankers Trust Generalized Employee Benefit Trust Interim Invest. Fund	5,212,540	5,212,540	5,212,540
Funds on Deposit with Insurance Company:			
Group Annuity Contracts with Aetna Life Ins.	37,451,233	37,451,233	37,451,233
Total Other Investments		42,663,773	42,663,773
Total Investments		\$145,180,581	\$189,846,653

## Schedule 2

## ABC SAVINGS &amp; INVESTMENT PLAN

## Combining Statement of Financial Condition

December 31, 1987

<u>Assets</u>	<u>Total Funds</u>	<u>Fund A - Capital Cities/ ABC, Inc. Common Stock Fund</u>	<u>Fund B - Diversified Equity Fund</u>	<u>Fund C - Guaranteed Fund</u>
Investments, at market				
Equity Securities:				
Capital Cities/ABC, Inc. common stock	\$136,060,065	\$136,060,065	\$ -	\$ -
Other	11,122,815	68	11,122,747	-
Total equity securities	<u>\$147,182,880</u>	<u>\$136,060,133</u>	<u>\$11,122,747</u>	<u>\$ -</u>
Other investments (at cost which approximates market):				
Bankers Trust Generalized Employee Benefit Trust Interim Investment Fund	\$ 5,212,540	\$ 4,429,559	\$ 782,981	\$ -
Funds on deposit with insurance company	37,451,233			37,451,233
Total other investments	<u>\$ 42,663,773</u>	<u>\$ 4,429,559</u>	<u>\$ 782,981</u>	<u>\$37,451,233</u>
Total investments	189,846,653	140,489,692	11,905,728	37,451,233
Due from participants	\$ 1,292,483	\$ 1,292,483	\$ -	\$ -
Interest and dividends receivable	365,457	36,891	43,249	285,317
Due (to) from Capital Cities/ ABC, Inc.	2,031,769	1,714,186	325,758	(8,175)
Interfund transfer receivable (payable)	-	358,489	(549,816)	191,327
Receivables from sales of investments	<u>173,938</u>	<u>-</u>	<u>173,938</u>	<u>-</u>
Total assets	<u><u>\$193,710,300</u></u>	<u><u>\$143,891,741</u></u>	<u><u>\$11,898,857</u></u>	<u><u>\$37,919,702</u></u>
 <u>Liabilities and Plan Equity</u>				
Due to former participants	\$ 3,977,236	\$ 2,948,356	\$ 230,573	\$ 798,307
Payables from purchases of investments	306,491	-	306,491	-
Plan equity	<u>189,426,573</u>	<u>140,943,385</u>	<u>11,361,793</u>	<u>37,121,395</u>
Total liabilities and plan equity	<u><u>\$193,710,300</u></u>	<u><u>\$143,891,741</u></u>	<u><u>\$11,898,857</u></u>	<u><u>\$37,919,702</u></u>

ABC SAVINGS & INVESTMENT PLAN  
 Combining Statement of Financial Condition  
 December 31, 1986

<u>Assets</u>	<u>Total Funds</u>	<u>Fund A - Capital Cities/ ABC, Inc. Common Stock Fund</u>	<u>Fund B - Diversified Equity Fund</u>	<u>Fund C - Guaranteed Fund</u>
Investments, at market				
Equity Securities:				
Capital Cities/ABC, Inc. common stock	\$110,002,339	\$110,002,339	\$ -	\$ -
Other	10,251,425	-	10,251,425	-
Total equity securities	<u>\$120,253,764</u>	<u>\$110,002,339</u>	<u>\$10,251,425</u>	<u>\$ -</u>
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	<u>\$ 33,431,461</u>	<u>\$ 13,749</u>	<u>\$ 196,482</u>	<u>\$33,221,230</u>
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	<u><u>\$154,831,102</u></u>	<u><u>\$110,287,976</u></u>	<u><u>\$10,546,992</u></u>	<u><u>\$33,996,134</u></u>
 <u>Liabilities and Plan Equity</u>				
Due to former participants	\$ 4,210,799	\$ 2,886,294	\$ 238,958	\$ 1,085,547
Payable from purchase of investments	-	-	-	-
Plan equity	<u>150,620,303</u>	<u>107,401,682</u>	<u>10,308,034</u>	<u>32,910,587</u>
Total liabilities and plan equity	<u><u>\$154,831,102</u></u>	<u><u>\$110,287,976</u></u>	<u><u>\$10,546,992</u></u>	<u><u>\$33,996,134</u></u>

## ABC SAVINGS &amp; INVESTMENT PLAN

## Combining Statement of Income and Changes in Plan Equity

Year ended December 31, 1987

	<u>Total Funds</u>	<u>Fund A - Capital Cities/ ABC, Inc. Common Stock Fund</u>	<u>Fund B - Diversified Equity Fund</u>	<u>Fund C - Guaranteed Fund</u>
Investment income:				
Dividends	\$ 484,844	\$ 79,536	\$ 405,308	\$ -
Interest	3,235,858	70,988	28,088	3,136,782
Total investment income	<u>3,720,702</u>	<u>150,524</u>	<u>433,396</u>	<u>3,136,782</u>
Appreciation of Capital Cities/ ABC, Inc. common stock distributed to terminated and withdrawing participants	1,139,770	1,139,770	-	-
Net gain on sales of other common stock	1,561,690	-	1,561,690	-
Net increase in unrealized appreciation (depreciation) of plan assets	<u>28,088,133</u>	<u>29,682,485</u>	<u>(1,594,352)</u>	<u>-</u>
	<u>\$ 34,510,295</u>	<u>\$ 30,972,779</u>	<u>\$ 400,734</u>	<u>\$ 3,136,782</u>
Contributions:				
Participants'	15,849,443	7,931,724	2,545,577	5,372,142
Employer	6,089,889	6,089,889	-	-
Total contributions	<u>21,939,332</u>	<u>14,021,613</u>	<u>2,545,577</u>	<u>5,372,142</u>
Interest on participants' loans	93,349	93,349	-	-
Participants' transfers	-	407,941	(545,783)	137,842
Total	<u>56,542,976</u>	<u>45,495,682</u>	<u>2,400,528</u>	<u>8,646,766</u>
Distributions to terminated and withdrawing participants:				
Capital Cities/ABC, Inc. common stock, at market value	4,534,258	4,534,258	-	-
Cash	13,202,448	7,419,721	1,346,769	4,435,958
Total distributions	<u>17,736,706</u>	<u>11,953,979</u>	<u>1,346,769</u>	<u>4,435,958</u>
Change in plan equity	<u>38,806,270</u>	<u>33,541,703</u>	<u>1,053,759</u>	<u>4,210,808</u>
Plan equity:				
Beginning of year	<u>150,620,303</u>	<u>107,401,682</u>	<u>10,308,034</u>	<u>32,910,587</u>
End of year	<u><u>\$189,426,573</u></u>	<u><u>\$140,943,385</u></u>	<u><u>\$11,361,793</u></u>	<u><u>\$37,121,395</u></u>

ABC SAVINGS & INVESTMENT PLAN  
 Combining Statement of Income and Changes in Plan Equity  
 Year ended December 31, 1986

	<u>Total Funds</u>	<u>Fund A - Capital Cities/ ABC, Inc. Common Stock Fund</u>	<u>Fund B - Diversified Equity Fund</u>	<u>Fund C - Guaranteed Fund</u>
Investment income:				
Dividends	\$ 432,733	\$ 77,045	\$ 355,688	\$ -
Interest	5,172,428	1,896,881	28,227	3,247,320
Total investment income	<u>5,605,161</u>	<u>1,973,926</u>	<u>383,915</u>	<u>3,247,320</u>
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)	-
	<u>\$ 24,765,857</u>	<u>\$ 19,761,548</u>	<u>\$ 1,756,989</u>	<u>\$ 3,247,320</u>
Contributions:				
Participants'	13,670,223	6,172,383	2,246,652	5,251,188
Employer	5,741,290	5,741,290	-	-
Total contributions	<u>19,411,513</u>	<u>11,913,673</u>	<u>2,246,652</u>	<u>5,251,188</u>
Interest on participants' loans	59,331	59,331	-	-
Participants' transfers	-	(12,051,599)	(1,946,524)	13,998,133
Total	<u>44,236,701</u>	<u>19,682,953</u>	<u>2,057,117</u>	<u>22,496,631</u>
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	<u>43,233,579</u>	<u>30,362,730</u>	<u>2,568,586</u>	<u>10,302,263</u>
Change in plan equity	1,003,122	(10,679,777)	(511,469)	12,194,368
Plan equity:				
Beginning of year	<u>149,617,181</u>	<u>118,081,459</u>	<u>10,819,503</u>	<u>20,716,219</u>
End of year	<u>\$150,620,303</u>	<u>\$107,401,682</u>	<u>\$10,308,034</u>	<u>\$32,910,587</u>



## ABC SAVINGS &amp; INVESTMENT PLAN

## Combining Statement of Income and Changes in Plan Equity

Year ended December 31, 1985

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

CERTIFIED PUBLIC 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 25, 1988, relating to the combined statements of financial condition of the ABC Savings & Investment Plan (the Plan) as of December 31, 1987 and 1986, the related combined statements of income and changes in plan equity for the years then ended and the additional schedules included in the Plan's annual report (Form 11-K) filed with the Securities and Exchange Commission.

*Arthur Young & Company*  
ARTHUR YOUNG & COMPANY

New York, New York  
March 25, 1988



# Peat Marwick

Certified Public Accountants

**Peat Marwick Main & Co.**

345 Park Avenue  
New York, NY 10154

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Telex 666890

Telecopiers 212 758 9819  
212 308 9064

## 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 21, 1986, relating to the combined statement of income and changes in plan equity of the ABC Savings & Investment Plan for the year ended December 31, 1985 and the applicable supplemental schedule, which report appears in the December 31, 1987 annual report on Form 11-K of the ABC Savings & Investment Plan.

*Peat Marwick Main & Co.*

PEAT MARWICK MAIN & CO.

New York, New York  
March 25, 1988



Member Firm of  
Klynveld Peat Marwick Goerdeler

## ABC SAVINGS & INVESTMENT PLAN

(As in effect on December 31, 1987)

The ABC Savings & Investment Plan as set forth herein applies to all employees who are in active service on October 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. (a Delaware corporation) 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. (a

Delaware corporation).

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 or talent 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 for what is intended by the Company to be a temporary period for a position in connection with a special event, such as Olympics coverage or Presidential election coverage.

(iv) an individual who is hired for a position in

connection with the production of a prime time program produced by the Entertainment Division of the ABC Television Network.

(v) an individual who is hired by the Company pursuant to an employment agreement or a personal services agreement if such agreement provides that such individual shall not be eligible to participate in the Plan.

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 therefore 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 consecutive 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 investment 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 ("Matched 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. Any Member who has elected to make Matched Contributions equal to 5% of his Compensation may elect to contribute to the Fund an additional 2%, 3%, 4% or 5% of his Compensation. Such contributions ("Unmatched Contributions") may be either Taxed Contributions of Members or Tax Deferred Contributions of Members, but not

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). Notwithstanding the foregoing, if an eligible Employee or a Member makes a payment or authorizes a payment to be made into the Capital Cities/ABC, Inc. Employee Stock Purchase Plan ("Stock Purchase Plan") at any time after April 3, 1988, he shall not be permitted to make any further contributions to the Fund under this Plan (unless he is thereafter employed by a Company whose employees are not eligible to participate in the Stock Purchase Plan).

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 all (but not less than all) of his Matched and Unmatched 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 Matched Contributions and/or his Unmatched 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 that a Member may not make any Unmatched Contributions unless he has elected to make Matched Contributions equal to 5% of his Compensation. 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 con-

tributions 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 contributions of 50% of Members' Matched Contributions after the close of each month. Such matching contributions shall be allocated among the Members in proportion to their Matched 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 discretion 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 Capital Cities/ABC, 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 Mem-

ber 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.

#### Section 7 - Vesting

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 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 as soon as is practicable following the date of such termination of Service; 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 elec-

tion 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 physically 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 shall be distributed to him as soon as is practicable following the date of such termination of Service, 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 10% or more (in multiples of 10%) 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 10% or more (in multiples of 10%) 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). 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 ap-

plicable 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 herein-after 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.

(1) 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 compen-

sation 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 Capital Cities/ABC, 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 prescribed by applicable law or regulation for the giving of such notice.

#### Section 12 - Limitations

(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) Maximum Annual Addition

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

(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 assump-

tion 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 ancil-



lary 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, 1983 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 the 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 Statement 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**