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CAPITAL CITIES ABC INC **10-K**

NYS FN C 10 18 50 000

CARD 1 DISCLOSURE INCORPORATED BETHESDA MD 20816 FOR 01/01/89

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Auditor														
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Securities Structure	A	A			■			A	A		A			
Subsidiaries	A	A					■		A		A			
Underwriting				■				A			A			
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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

5161 River Road ☐ Bethesda, MD 20816 ☐ 301/951-1300

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Capital Cities/ABC, Inc.

1988 *Annual Report & Form 10-K*

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

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K
ANNUAL REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended January 1, 1989 | **Commission file number 1-4278**

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

New York	**14-1284013**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
77 West 66th Street, New York, N.Y.	**10023**
(Address of principal executive offices)	**(Zip Code)**

Registrant's telephone number, including area code (212) 456-7777

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

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes **X.** No

The aggregate market value of the voting stock held by non-affiliates of the registrant is $5,245,000,000 as of February 28, 1989.

The number of shares outstanding of the issuer's common stock as of February 28, 1989: 17,993,645 shares, excluding 399,851 treasury shares.

Portions of Part I are incorporated herein by reference to the 1988 Annual Report to Shareholders and the definitive Proxy Statement for the annual meeting of shareholders to be held on May 2, 1989.

Part II and Part IV, with the exception of certain schedules and exhibits, are incorporated herein by reference to the 1988 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 2, 1989.

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 data bases.

Employees

At January 1, 1989, the Company had approximately 19,720 full-time employees: 10,260 in broadcasting operations, 9,210 in publishing operations and 250 in corporate activities.

Industry Segments

Information relating to the industry segments of the Company's operations is included on page 33 of the Company's Annual Report to Shareholders and is hereby incorporated by reference. In 1988, the Company derived substantially all broadcasting revenues and approximately 67% 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 1, 1989, 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 2,100 affiliated stations as of January 1, 1989 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. The Company has entered into an agreement to acquire Satellite Music Network, Inc. which provides music programming live via satellite to commercial AM and FM radio stations.

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 are 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 and other station details are set forth in the following tables:

Radio stations

Station and market	Frequency AM-Kilohertz FM-Megahertz	Expiration date of FCC authorization	Radio market ranking (1)
WABC .... New York, New York	770 K	June 1, 1991	1
KABC .... Los Angeles, California	790 K	Dec. 1, 1990	2
WLS .... Chicago, Illinois	890 K	Dec. 1, 1989	3
KGO .... San Francisco, California	810 K	Dec. 1, 1990	4
WJR .... Detroit, Michigan	760 K	Oct. 1, 1989	6
WBAP........ Fort Worth-Dallas, Texas	820 K	Aug. 1, 1990	8
WMAL .... Washington, D.C.	630 K	Oct. 1, 1995	9
WKHX(2) .... Atlanta, Georgia	590 K	(3)	13
KQRS .... Minneapolis-St.Paul, Minnesota	1440 K	Apr. 1, 1990	19
KRXY .... Denver, Colorado	1600 K	Apr. 1, 1990	24
WPRO .... Providence, Rhode Island	630 K	Apr. 1, 1991	28
WPLJ(FM) .... New York, New York	95.5 M	June 1, 1991	1
KLOS(FM) .... Los Angeles, California	95.5 M	Dec. 1, 1990	2
WYTZ(FM) .... Chicago, Illinois	94.7 M	Dec. 1, 1989	3
WHYT(FM) .... Detroit, Michigan	96.3 M	Oct. 1, 1989	6
KSCS(FM) (2)........ Fort Worth-Dallas, Texas	96.3 M	Aug. 1, 1990	8
WRQX(FM) .... Washington, D.C.	107.3 M	Oct. 1, 1995	9
WKHX-FM (2) .... Atlanta, Georgia	101.5 M	(3)	13
KQRS-FM .... Minneapolis-St. Paul, Minnesota	92.5 M	(3)	19
KRXY-FM .... Denver, Colorado	107.5 M	Apr. 1, 1990	24
WPRO-FM .... Providence, Rhode Island	92.3 M	Apr. 1, 1991	28

Television stations

Station and market	Channel	Expiration date of FCC authorization	Television market ranking (4)
WABC-TV ... New York, New York	7	June 1, 1989	1
KABC-TV ... Los Angeles, California	7	Dec. 1, 1993	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	(3)	5
KTRK-TV ... Houston, Texas	13	Aug. 1, 1993	10
WTVD ... Durham-Raleigh, North Carolina	11	Dec. 1, 1991	34
KFSN-TV ... Fresno, California	30	(3)	62

(1) Based on Arbitron Radio Market Metro Population Rankings as of January 1, 1989.
(2) No network affiliation.
(3) See "Licenses—Federal Regulation of Broadcasting/Renewal Matters" below for description of pending license renewal applications.
(4) Based on Arbitron ADI Market Rankings, 1988-1989 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 33⅓%-owned.

Competition

The ABC Television Network competes for viewers with the other television networks, independent television stations and other video media such as cable television, satellite television program services and video cassettes; in the sale of advertising time, it competes with the other television networks, independent television stations, suppliers of cable television programming, and other advertising media such as newspapers, magazines and billboards. Substantial competition also exists for exclusive broadcasting rights for television programming. The ABC Radio Networks likewise compete with other radio networks and radio programming services, independent radio stations, and other advertising media.

The Company's television and radio stations are in competition with other television and radio stations, 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 is 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 when 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 both the Congress and the Federal Communications Commission (the "FCC") have 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. Renewal applications are now pending for KGO-TV, KFSN-TV, WKHX and WKHX-FM. No formal petition to deny has been filed against these stations. However, an informal complaint alleging discrimination in employment and in the selection of programming has been filed against KGO-TV. The Company has responded to the complaint, denying its allegations. All of the Company's other owned stations have been granted license renewals by the FCC for regular terms except for KQRS-FM. Action on the KQRS-FM renewal application was delayed pending the outcome of a long-standing dispute involving the technical facilities of several of the FM stations in the KQRS-FM market. The dispute has now been resolved and grant of the station's renewal application is expected soon.

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 foreign governments.

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 24.39%. The Company also owns eleven AM and ten FM radio stations.

In addition, the FCC rule precludes the grant of 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, or the sale of such a combination to a single party. 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. The Company has filed a request for a permanent waiver in accordance with a recently announced FCC decision permitting such waivers for stations in the cities involved.

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's 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 effectively 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 the 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 operate. The ruling became final in 1988 when the Supreme Court declined to hear the case. There may be attempts to obtain legislation reinstituting 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.

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 FCC 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 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):

	1988	1987	1986	1985	1984
Inches of advertising					
Newspapers (a)	16,855	17,384	17,006	18,276	18,620
Specialized publications	3,729	3,766	3,914	2,691	2,837
Advertising revenue					
Newspapers—ROP	$278,789	$270,905	$255,844	$257,244	$249,771
Newspapers—inserts	43,523	35,997	32,849	28,093	25,825
Shopping guides	61,238	60,845	56,291	52,608	41,927
Specialized publications	305,665	312,508	311,593	179,071	165,832
Circulation revenue					
Newspapers	$ 75,025	$ 70,686	$ 56,260	$ 51,418	$ 49,468
Specialized publications	64,311	62,225	62,870	31,087	24,886
Other operating revenue					
Newspapers	$ 5,218	$ 4,074	$ 3,603	$ 3,778	$ 3,593
Shopping guides	5,024	5,120	7,508	11,902	9,560
Specialized publications					
Books/Music	100,909	99,504	102,413	2,314	2,448
Data base and other	84,194	84,733	81,524	25,068	18,306
Total revenue					
Newspapers	$402,555	$381,662	$348,556	$340,533	$328,657
Shopping guides	66,262	65,965	63,799	64,510	51,487
Specialized publications	555,079	558,970	558,400	237,540	211,472
Paid circulation at year-end					
Newspapers (Mon.-Fri.)	908	941	933	935	971
Newspapers (Sun.)	915	900	856	830	858
Specialized publications	4,515	4,234	4,437	785	769

(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 1, 1989 are as follows:

		Daily	Sunday
The Kansas City Times	Morning	275,000	
The Kansas City Star	Evening	184,000	411,000
Fort Worth Star-Telegram	Morning	140,000	317,000
Fort Worth Star-Telegram	Evening	113,000	
The Oakland Press (Pontiac, Mich.)	Evening	74,000	81,000
Belleville News-Democrat (Belleville, Ill.)	Morning	47,000	54,000
The Times Leader (Wilkes-Barre, Pa.)	Morning	48,000	52,000
Albany Democrat-Herald (Albany, Oregon)	Evening	21,000	
The Daily Tidings (Ashland, Oregon)	Evening	6,000	

Weekly Newspapers

The Company publishes weekly community newspapers in five states. The location by state, number of publications and aggregate circulation at January 1, 1989 is set forth below:

State	Number of Publications	Aggregate Circulation
Connecticut	15	197,000
Illinois	7	64,000
Michigan	2	4,000
Oregon	6	45,000
Rhode Island	3	22,000

Shopping Guides

The Company distributes shopping guides in six states. The location by state, number of publications and aggregate circulation at January 1, 1989 is set forth below:

State	Number of Publications	Aggregate Circulation
California	4	1,533,000
Connecticut	7	213,000
Kansas	2	242,000
Missouri	1	129,000
Oregon	3	212,000
Washington	2	298,000

Specialized Publications

The Specialized Publications Group, through Fairchild Publications, Institutional Investor, Practical Homeowner, and ABC Publishing, is engaged in gathering and publishing business news and ideas for industries covered by its various publications; in the publishing of consumer, special interest, trade and agricultural publications; and in data base services and inspirational communications. All of the publications are printed by outside printing contractors. Following are the significant publications and services:

Title	Frequency	Circulation
Fairchild Publications		
Newspapers		
Women's Wear Daily	Daily	61,000
Daily News Record	Daily	23,000
American Metal Market	Daily	11,000
HFD—Retailing Home Furnishings	Weekly	32,000
Energy User News	Monthly	11,000
Footwear News	Weekly	22,000
Supermarket News	Weekly	57,000
Electronic News	Weekly	92,000
Metalworking News	Weekly	86,000*
MIS Week	Weekly	125,000*
Multichannel News	Weekly	14,000
W	Biweekly	259,000
SportStyle	Biweekly	26,000*
Entrée	Monthly	11,000*
Children's Business	Monthly	20,000*
Financial Services Week	Biweekly	64,000*
Automotive Electronics	Biweekly	32,000*
Magazines		
M, The Civilized Man	Monthly	156,000
Metal Center News	Monthly	13,000*
Home Fashions	Monthly	12,000*
Heat Treating	Monthly	21,000*
Travel Agent	Twice Weekly	45,000
Iron Age/Metal Producers	Monthly	22,000*
International Medical News Group		
Family Practice News	Semimonthly	73,000*
Internal Medicine News	Semimonthly	77,000*
Ob. Gyn. News	Semimonthly	28,000*
Pediatric News	Monthly	31,000*
Clinical Psychiatry News	Monthly	28,000*
Skin & Allergy News	Monthly	38,000*
Professional Press Group		
Optical Index	Semimonthly	17,000*
International Contact Lens Clinic	Monthly	4,000*
Institutional Investor		
Domestic Edition	Monthly	113,000*
International Edition	Monthly	43,000*
Practical Homeowner	9 times per year	750,000
Philatelic Publications		
Stamp Collector	Weekly	21,000
The Stamp Wholesaler	Bimonthly	6,000

Title	Frequency	Circulation
ABC Publishing		
Consumer and Special Interest Publications		
COMPUTE!	Monthly	250,000
COMPUTE!'s Gazette	Monthly	325,000
COMPUTE!'s PC Magazine	Bimonthly	60,000
High Fidelity	Monthly	300,000
Los Angeles Magazine	Monthly	172,000
McCall's Needlework & Crafts	Bimonthly	500,000
Modern Photography	Monthly	675,000
Musical America/Opus	Bimonthly	15,000
Personal Publishing	Monthly	65,000
Schwann CD	Monthly	13,000
Schwann Record & Tape Guide	Quarterly	16,000
Trade Publications		
Assembly Engineering	Monthly	79,000*
Automotive Industries	Monthly	86,000*
Automotive Marketing	Monthly	27,000*
Commercial Carrier Journal	Monthly	80,000*
Distribution	Monthly	71,000*
Electronic Component News	Monthly	115,000*
Food Engineering North America	Monthly	60,000*
Food Engineering International	10 times per year	13,000*
Hardware Age	Monthly	71,000*
IMPO (Industrial Maintenance & Plant Operations)	Monthly	120,000*
Industrial Finishing	Monthly	36,000*
Industrial Safety & Hygiene News	Monthly	60,000*
IAN (Instrumentation & Control News)	Monthly	118,000*
Instrument & Control Systems	Monthly	90,000*
Jewelers' Circular-Keystone	Monthly	40,000
Machine and Tool Blue Book	Monthly	95,000*
Manufacturing Systems	Monthly	115,000*
Motor Age	Monthly	140,000
Office Products Dealer	Monthly	32,000*
Outdoor Power Equipment	Monthly	12,000*
Owner Operator	Bimonthly	92,000
Product Design & Development	Monthly	160,000*
Quality	Monthly	93,000*
Review of Optometry	Monthly	29,000

Title	Frequency	Circulation
Agricultural Publications		
Prairie Farmer	17 times per year	161,000
Wallaces Farmer	16 times per year	144,000*
Wisconsin Agriculturist	17 times per year	52,000
Dairy Herd Management	Monthly	105,000*
Farm Store Merchandising	Monthly	36,000*
Feedstuffs	Weekly	19,000
Garden Supply Retailer	Monthly	42,000*
Hog Farm Management	Monthly	44,000*
Tack 'n Togs Merchandising	Monthly	21,000*

* 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 bibles and other 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's new headquarters building at 77 West 66th Street in New York City houses the executive and corporate offices and the television network administrative staff, and is owned by the Company.

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 adjacent to the Company's headquarters building on West 66th Street 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 leases 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.

Item 3. ***Legal Proceedings.***

Since 1982, the Company has been party to an action in the U.S. Claims Court against the government, seeking a determination that ABC was 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 program producers became parties to that litigation in 1983. In 1987, the U.S. Claims Court rejected a large part of the claim by ABC, and on May 19, 1988 the U.S. Court of Appeals for the Federal Circuit affirmed the lower court's decision. It remanded the case to the Claims Court for a determination relating to a limited number of films. In 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 credits were inconsistent with ABC's agreements with these producers. The Company has now agreed in principle to a settlement (for a non-material amount) of these related proceedings, pursuant to which it will dismiss the remaining portions of its Court of Claims actions and the program producers will dismiss the California lawsuit. The settlement, when finalized, will not affect certain other investment tax credit claims made by the Company with respect to a category of programs produced and broadcast by ABC which do not involve third-party producers.

All other litigation pending during 1988 was routine and incidental to the business of the Company.

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

The information called for by this item is not applicable.

Executive Officers of the Company

Name	Age	Director since	Officer since	Title
Thomas S. Murphy	63	1957	1958	Chairman of the Board of Directors and Chief Executive Officer.
Daniel B. Burke	60	1967	1962	President, Chief Operating Officer and Director.
John B. Fairchild	62	1968	1968	Executive Vice President, Chairman and Chief Executive Officer of Fairchild Publications, and Director.
John B. Sias	62	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	47		1977	Senior Vice President and Chief Financial Officer.
Michael P. Mallardi	55		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	51		1975	Senior Vice President and President of Publishing Group. Prior to 1986 he was President and Publisher of the *Fort Worth Star-Telegram.*
Stephen A. Weiswasser ..	48		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	46		1981	Vice President and Controller.
David J. Vondrak	43		1986	Vice President and Treasurer. Prior to 1986 he was Vice President and Treasurer of American Broadcasting Companies, Inc.
Philip R. Farnsworth	47		1986	Secretary since May 1988. From 1986 to May 1988 he was Assistant Secretary. Prior to 1986 he was Assistant Secretary of American Broadcasting Companies, Inc.

There is no relationship by blood, marriage or adoption 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 35 of the 1988 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 1988 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 1988 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 36 of the 1988 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 2, 1989. 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 2, 1989.

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 2, 1989.

Item 13. ***Certain Relationships and Related Transactions.***

The information called for by this item is not applicable.

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 1988.

CAPITAL CITIES/ABC, INC.

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

(Item 14(a) 1.)

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

* * * * * * * *

The consolidated financial statements of Capital Cities/ABC, Inc., listed in the above index which are included in the Annual Report to Shareholders for the year ended January 1, 1989, are hereby incorporated by reference. With the exception of the Items referred to in Items 1, 5, 6, 7 and 8, the 1988 Annual Report to Shareholders is not to be deemed filed as part of this report.

CONSENT OF INDEPENDENT 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 1, 1989 of our report dated February 28, 1989, included in the 1988 Annual Report to Shareholders of Capital Cities/ABC, Inc.

We also consent to the addition of the financial statement schedules listed in the accompanying index to financial statements and financial statement schedules to the financial statements covered by our report dated February 28, 1989 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, Form S-8 No. 33-16206 for the registration of 300,000 shares and Form S-8 No. 33-25918 for the registration of 200,000 shares, and in the related Prospectuses, of our above report.

Arthur Young & Company

ARTHUR YOUNG & COMPANY

New York, New York
March 13, 1989

CAPITAL CITIES/ABC, INC.

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

(3)(a) Restated Certificate of Incorporation of the Company, with amendments.
(3)(b) Current By-Laws of the Company.

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

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

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

(4)(d) Revolving Credit Agreement, dated 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) 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)(i) 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)(j) 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)(k) 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)(l) 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)(h) through (4)(k) above. Incorporated by reference to Exhibit (4)(c) to Registration Statement No. 33-5315.

(4)(m) 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) 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 American Broadcasting Companies, Inc.'s Joint Proxy Statement-Prospectus dated May 10, 1985.

(10)(b) 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.

(13) The Company's 1988 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.

(28)(a) Form 11-K for the Capital Cities/ABC, Inc. Savings & Investment Plan for the year ended December 31, 1988.

(28)(b) Undertakings.

CAPITAL CITIES/ABC, INC.

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

	Balance at beginning of period	Operating companies acquired	Additions at cost	Retire-ments or sales	Other changes—reclassifi-cations(a)	Balance at close of period
Year ended January 1, 1989:						
Land and improvements	$ 395,097	$ 22	$ 3,245	$ (67)	$ 1,103	$ 399,400
Buildings and improvements	459,766	150	35,603	(153)	(53)	495,313
Broadcasting equipment	307,756		55,185	(4,523)	2,530	360,948
Printing machinery and equipment	148,604	271	7,488	(4,220)	(664)	151,479
Other, including construction-in-progress	113,325	40	51,892	(1,531)	1,448	165,174
	$1,424,548	$ 483	$153,413	$ (10,494)	$ 4,364	$1,572,314
Year ended January 3, 1988:						
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
	$1,343,379	$ 2,232	$116,309	$ (42,391)	$ 5,019	$1,424,548
Year ended December 28, 1986:						
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
	$ 518,492	$1,078,610	$153,082	$ (406,805)		$1,343,379

(a) Represents in 1988, final adjustments to the purchase price allocation of the 1987 acquisition of radio stations KRXY-AM/FM and the 1986 acquisition of American Broadcasting Companies, Inc. (ABC). In 1987, represents adjustments of the purchase price allocation of the acquisition of ABC.

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.

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

		Additions		Deductions		
	Balance at beginning of period	Operating companies acquired	Charged to expense	Operating companies disposed	Accounts written-off, net	Balance at close of period
Deducted from accounts and notes receivable:						
Year ended January 1, 1989	$37,798	$ 444	$51,924	$ (91)	$(52,373)	$37,702
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

CAPITAL CITIES/ABC, INC.

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

(Thousands of Dollars)

	Balance at beginning of period	Charged to expense	Retirements or sales	Other changes—reclassifications(a)	Balance at close of period
Year ended January 1, 1989:					
Land improvements	$ 1,299	$ 381	$ (13)		$ 1,667
Buildings and improvements	63,702	20,370	(99)	$ (22)	83,951
Broadcasting equipment	131,380	54,068	(3,798)	1,366	183,016
Printing machinery and equipment	65,482	12,067	(3,327)	(270)	73,952
Other	25,552	8,819	(1,080)	556	33,847
	$287,415	$95,705	$ (8,317)	$1,630	$376,433
Year ended January 3, 1988:					
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
	$206,807	$92,900	$ (18,658)	$6,366	$287,415
Year ended December 28, 1986:					
Land improvements	$ 772	$ 224	$ (69)		$ 927
Buildings and improvements	30,763	22,501	(7,003)		46,261
Broadcasting equipment	42,461	53,202	(23,902)		71,761
Printing machinery and equipment	60,460	11,928	(3,116)		69,272
Cable television distribution systems and equipment	49,456		(49,456)		
Other	16,684	7,346	(5,444)		18,586
	$200,596	$95,201	$ (88,990)		$206,807

(a) Represents in 1988 and 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)

	Royalties	Advertising costs
Year ended January 1, 1989	$56,061	$115,337
Year ended January 3, 1988	49,961	111,511
Year ended December 28, 1986	49,707	108,655

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Annual Report to be signed on its behalf by the undersigned, thereunto duly authorized.

CAPITAL CITIES/ABC, INC.
(Registrant)

/s/ THOMAS S. MURPHY

(Thomas S. Murphy)
Chairman of the Board March 13, 1989

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

Principal Executive Officer:

/s/ THOMAS S. MURPHY
(Thomas S. Murphy) March 13, 1989

Principal Financial Officer:

/s/ RONALD J. DOERFLER
(Ronald J. Doerfler) March 13, 1989

Controller:

/s/ ALLAN J. EDELSON
(Allan J. Edelson) March 13, 1989

Directors:

/s/ ROBERT P. BAUMAN
(Robert P. Bauman) March 13, 1989

/s/ WARREN E. BUFFETT
(Warren E. Buffett) March 13, 1989

/s/ DANIEL B. BURKE
(Daniel B. Burke) March 13, 1989

/s/ FRANK T. CARY
(Frank T. Cary) March 13, 1989

/s/ JOSEPH P. DOUGHERTY
(Joseph P. Dougherty) March 13, 1989

/s/ JOHN B. FAIRCHILD
(John B. Fairchild) March 13, 1989

/s/ LEONARD H. GOLDENSON
(Leonard H. Goldenson) March 13, 1989

/s/ LEON HESS
(Leon Hess) March 13, 1989

/s/ GEORGE P. JENKINS
(George P. Jenkins) March 13, 1989

/s/ FRANK S. JONES
(Frank S. Jones) March 13, 1989

/s/ ANN DIBBLE JORDAN
(Ann Dibble Jordan) March 13, 1989

/s/ THOMAS M. MACIOCE
(Thomas M. Macioce) March 13, 1989

/s/ JOHN H. MULLER, JR.
(John H. Muller, Jr.) March 13, 1989

/s/ THOMAS S. MURPHY
(Thomas S. Murphy) March 13, 1989

/s/ JOHN B. SIAS
(John B. Sias) March 13, 1989

/s/ WILLIAM I. SPENCER
(William I. Spencer) March 13, 1989

/s/ M. CABELL WOODWARD, JR.
(M. Cabell Woodward, Jr.) March 13, 1989

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)
Chairman of the Board March 13, 1989

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

Principal Executive Officer:

(Thomas S. Murphy) March 13, 1989

Principal Financial Officer:

(Ronald J. Doerfler) March 13, 1989

Controller:

(Allan J. Edelson) March 13, 1989

Directors:

(Robert P. Bauman) March 13, 1989

(Warren E. Buffett) March 13, 1989

(Daniel B. Burke) March 13, 1989

(Frank T. Cary) March 13, 1989

(Joseph P. Dougherty) March 13, 1989

(John B. Fairchild) March 13, 1989

(Leonard H. Goldenson) March 13, 1989

(Leon Hess) March 13, 1989

(George P. Jenkins) March 13, 1989

(Frank S. Jones) March 13, 1989

(Ann Dibbie Jordan) March 13, 1989

(Thomas M. Macioce) March 13, 1989

(John H. Muller, Jr.) March 13, 1989

(Thomas S. Murphy) March 13, 1989

(John B. Sias) March 13, 1989

(William I. Spencer) March 13, 1989

(M. Cabell Woodward, Jr.) March 13, 1989

RESTATED CERTIFICATE OF INCORPORATION
OF CAPITAL CITIES/ABC, INC.
Under § 807 of the Business Corporation Law

Pursuant to the provisions of Section 807 of the Business Corporation Law, the undersigned, being the Senior Vice President and Assistant Secretary of Capital Cities/ABC, Inc., do hereby certify as follows:

FIRST: The name of the corporation is Capital Cities/ABC, Inc. The name under which the corporation was incorporated is Hudson Valley Broadcasting Company, Inc. Pursuant to a Certificate of Consolidation filed under Section 91 of the Stock Corporation Law, on October 22, 1957, the name of the corporation was changed to Capitol Cities Television Corporation. Pursuant to a Certificate of Change of Name, filed on December 23, 1959, the name of the corporation was changed to Capital Cities Broadcasting Corporation. The name of the corporation was changed further pursuant to a Certificate of Amendment, filed on May 4, 1973, to Capital Cities Communications, Inc. The name of the corporation was changed pursuant to a Certificate of Amendment, filed on January 3, 1986, to its present name, Capital Cities/ABC, Inc.

SECOND: The Certificate of Incorporation of the corporation was filed by the Department of State under the name Hudson Valley Broadcasting Company, Inc. on April 5, 1946 and a Certificate of Consolidation was filed by the Department of State as aforesaid on October 22, 1957. A Restated Certificate of Incorporation of Capital Cities Broadcasting Corporation ("Restated Certificate of Incorporation") was filed by the Department of State on May 16, 1968.

THIRD: The text of the Certificate of Incorporation as heretofore amended, is hereby restated, without any amendment or change, to read as herein set forth in full:

1. The name of the Corporation is Capital Cities/ABC, Inc.

2. The purpose for which the Corporation is formed is to engage in any lawful act or activity for which corporations may be organized under the Business Corporation Law, provided however, that the Corporation is not formed to engage in any act or activity requiring the consent or approval of any state official, department, board, agency, or other body without first obtaining the consent of such body.

3.A. Authorized Shares. The aggregate number of shares which the Corporation shall have authority to issue is 84,000,000 of which 4,000,000 shares shall be without par value and shall be designated Preferred Stock, and 80,000,000 shares shall be with a par value of $1 per share and shall be designated Common Stock.

B. Preferred Stock. Shares of Preferred Stock may be issued from time to time in one or more series as may be determined from time to time by the Board of Directors. Except in respect of the particulars to be fixed by the Board of Directors as provided below, all shares of Preferred Stock shall be of equal rank. All shares in any one series of Preferred Stock shall be alike in every particular except that shares of any one series issued at different times may differ as to the dates from which dividends thereon shall be cumulative. The voting rights, if any, of each such series and the preferences and relative, participating, optional and other special rights of each series and the qualifications, limitations and restrictions thereof, if any, may differ from those of any and all other series. The Board of Directors shall have the authority to fix by resolutions duly adopted prior to the issuance of any shares of a particular series of Preferred Stock designated by the Board of Directors, the voting rights, if any, of the holders of shares of such series and the designations, preferences and relative, participating, optional and other special rights of each series and the qualifications, limitations and restrictions thereof.

Without limiting the generality of the foregoing authority of the Board of Directors, the Board of Directors from time to time may:

(a) establish and designate a series of Preferred Stock, which may be distinguished by number, letter or title from other Preferred Stock of the Corporation or any series thereof;

(b) fix and thereafter increase or decrease (but not below the number of shares thereof then outstanding) the number of shares that shall constitute such series;

(c) provide for dividends on shares of such series and, if provision is made for dividends, determine the dividend rate and the dates on which dividends, if declared, shall be payable, whether the dividends shall be cumulative and, if cumulative, for what date or dates dividends shall accrue, and the other conditions, if any, including rights of priority, if any, upon which the dividends shall be paid;

(d) provide as to whether the shares of such series shall be redeemable, and if redeemable, the terms, limitations and restrictions with respect to such redemption, including without limitation, the manner of selecting shares for redemption if less than all shares are to be redeemed, the time or times and the price or prices at which the shares of such series shall be subject to redemption, in whole or in part, and the amount, if any, in addition to any accrued dividends thereon which the holders of shares of any series shall be entitled to receive upon the redemption thereof, which amount may vary at different redemption dates and may be different with respect to shares redeemed through the operation of any purchase, retirement or sinking fund and with respect to shares otherwise redeemed;

(e) fix the amount, in addition to any accrued dividends thereon, which the holders of shares of such series shall be entitled to receive upon the voluntary or involuntary liquidation, dissolution or winding up of the Corporation, which amount may vary at different dates and may vary depending on whether such liquidation, dissolution or winding up is voluntary or involuntary, and to determine any other rights, if any, to which holders of the shares of such series shall be entitled in the event of any liquidation, dissolution or winding up of the Corporation;

(f) establish whether the shares of such series shall be subject to the operation of a purchase, retirement or sinking fund and, if so, the terms, limitations and restrictions with respect thereto, including without limitation, whether such purchase, retirement or sinking fund shall be cumulative or noncumulative, the extent to and the manner in which such funds shall be applied to the purchase, retirement or redemption of the shares of such series for retirement or to other corporate purposes and the terms and provisions relative to the operation thereof;

(g) determine the extent of the voting rights, if any, of the shares of such series and determine whether the shares of such series having voting rights shall have multiple votes per share;

(h) provide whether or not the shares of such series shall be convertible into or exchangeable for shares of any other class or classes of capital stock of the Corporation, including Common Stock, Preferred Stock or of any series thereof, and if convertible or exchangeable, establish the conversion or exchange price or rate, the adjustments thereof, and the other terms and conditions, if any, on which such shares shall be convertible or exchangeable; and

(i) provide for any other preferences, any relative participating, optional or other special rights, any qualifications, limitations or restrictions thereof, or any other term or provision of shares of such series as the Board of Directors may deem appropriate or desirable.

Shares of Preferred Stock may be issued by the Corporation for such consideration as is determined by the Board of Directors.

C. Common Stock. Subject to the preferential dividend rights applicable to shares of any series of Preferred Stock, the holders of shares of Common Stock shall be entitled to receive such dividends as may be declared by the Board of Directors. In the event of any voluntary or involuntary liquidation, dissolution or winding up of the Corporation, after distribution in full of the preferential amounts to be distributed to the holders of shares of the

Preferred Stock, the holders of shares of the Common Stock shall be entitled to receive all of the remaining assets of the Corporation available for distribution to its shareholders, ratably in proportion to the number of shares of the Common Stock held by them. Except as otherwise provided in paragraph B of this Article 3, the holders of shares of Common Stock shall be entitled to vote on all matters at all meetings of the shareholders of the Corporation and shall be entitled to one vote for each share of Common Stock entitled to vote at such meeting.

Shares of Common Stock may be issued by the Board of Directors for such consideration, having a value of not less than the par value thereof, as is determined by the Board of Directors.

D. Restrictions Upon Voting Rights of Aliens. Any provisions herein to the contrary notwithstanding, except as otherwise provided by law, not more than twenty percent of the aggregate number of shares outstanding entitled to vote on any matter shall at any time be voted by or for the account of aliens or their representatives, or by or for the account of a foreign government or representative thereof, or by or for the account of any corporation organized under the laws of a foreign country.

The Board of Directors shall make such rules and regulations as it shall deem necessary or appropriate to enforce the provisions of this paragraph D.

E. Transfer of Shares to Aliens. Except as otherwise provided by law, not more than twenty percent of the aggregate number of shares of voting stock outstanding shall at any time be owned of record by or for the account of aliens or their representatives or by or for the account of a foreign government or representative thereof, or by or for the account of any corporation organized under the laws of a foreign country.

Shares of stock shall be transferable on the books of the Corporation to aliens and their representatives, foreign governments and representatives thereof, and corporations organized under the laws of foreign countries, or to any persons holding for the account of aliens and their representatives, foreign governments and representatives thereof, and corporations organized under the laws of foreign countries, only, if after giving effect to such transfer, the aggregate number of shares of stock owned by or for the account of aliens and their representatives, foreign governments and representatives thereof, and corporations organized under the laws of foreign countries, would be not more than twenty percent of the number of shares of voting stock then outstanding.

The Board of Directors shall make such rules and regulations as it shall deem necessary or appropriate to enforce the foregoing provisions of this paragraph E.

4. Neither the holders of the shares of the Common Stock nor the holders of the shares of the Preferred Stock shall have preemptive rights to purchase any shares of stock of any class or any other securities of the Corporation.

5. The office of the Corporation is to be located in the City of New York, County of New York, State of New York. The address to which the Secretary of State shall mail a copy of process in any action or proceeding against the Corporation which may be served on him is: c/o Gerald Dickler, 460 Park Avenue, New York, New York 10022.

6. The Secretary of State of the State of New York is hereby designated as the agent of the Corporation upon whom process in any action or proceeding against it may be served.

7. The duration of the Corporation shall be perpetual.

8. The business and property of the Corporation shall be managed by a Board of not fewer than seven nor more than 21 directors who shall be elected by the shareholders, except as otherwise provided in the By-laws of the Corporation. Directors need not be shareholders.

9. The Board of Directors of the Corporation shall have power by vote of the majority of all the directors and without the assent of the shareholdlers to make, alter, amend and rescind the By-laws of the Corporation.

<u>FOURTH</u>: The manner in which the aforesaid restated Certificate of Incorporation was authorized was by the unanimous written consent of all of the members of the Executive Committee of the Board of Directors of the Corporation.

IN WITNESS WHEREOF, the undersigned have hereunto signed this certificate, this 3rd day of January, 1986, and affirm that the statements made herein are true under penalty of perjury.

Ronald J. Doerfler, Senior Vice President

Allan J. Edelson, Assistant Secretary

CT

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CERTIFICATE OF AMENDMENT

OF THE

CERTIFICATE OF INCORPORATION

OF

CAPITAL CITIES/ABC, INC.

UNDER SECTION 805 OF THE BUSINESS CORPORATION LAW

Pursuant to the provisions of Section 805 of the Business Corporation Law, the undersigned hereby certify:

First: The name of the Corporation is Capital Cities/ABC, Inc. The name under which it was formed is Hudson Valley Broadcasting Company, Inc.

Second: The Certificate of Incorporation was filed by the Department of State on April 5, 1946.

Third: The Certificate of Incorporation is hereby amended to add an Article 10 to provide for the elimination of personal liability of directors under certain circumstances.

Fourth: To effect the amendment set forth in Article Third of this Certificate of Amendment, the following Article 10 is hereby added to the Certificate of Incorporation:

> "10. No director of the Corporation shall be personally liable to the Corporation or any of its shareholders for monetary damages for breach of duty as a director, except in a case where a court of competent jurisdiction finds that the acts or omissions that are the subject of the cause of action were (1) taken in bad faith, or (2) involved intentional misconduct or a knowing violation of law, or (3) that the director personally obtained a financial profit or other advantage to which the director was not legally entitled, or (4) that the director's actions violated Section 719 of the New York Business Corporation Law. Any repeal or modification of this Article 10 shall be prospective only, and shall not adversely affect any right or protection of a director of the Corporation existing at the time of such repeal or modification with respect to acts or omissions occurring prior to such repeal or modification."

Fifth: The foregoing amendment of the Certificate of Incorporation was authorized by vote of the holders of a majority of all outstanding shares entitled to vote on such amendment at the Annual Meeting of Shareholders duly held on May 19, 1988, subsequent to authorization by the Board of Directors.

IN WITNESS WHEREOF, this certificate has been signed this 20th day of May, 1988, and we affirm the statements contained therein as true under penalties of perjury.

Stephen A. Weiswasser, Senior Vice
President and General Counsel

Philip R. Farnsworth, Secretary

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CERTIFICATE OF CHANGE

OF

CAPITAL CITIES/ABC, INC.

UNDER SECTION 805-A OF THE BUSINESS CORPORATION LAW

WE, THE UNDERSIGNED, Stephen A. Weiswasser and Philip R. Farnsworth, being respectively the Senior Vice President and General Counsel and the Secretary of Capital Cities/ABC, Inc. hereby certify:

B645886

1. The name of the Corporation is Capital Cities/ABC, Inc. It was incorporated under the name Hudson Valley Broadcasting Company, Inc.

2. The Certificate of Incorporation of said Corporation was filed by the Department of State on April 5, 1946.

3. The following was authorized by the Executive Committee of the Board of Directors:

To change the post office address to which the Secretary of State shall mail a copy of process in any action or proceeding against the Corporation which may be served on him from c/o Gerald Dickler, 460 Park Avenue, New York, New York 10022, to 1330 Avenue of the Americas, New York, New York 10019, Attention: Secretary.

B645886

IN WITNESS WHEREOF, we have signed this certificate on the 23rd day of May, 1988 and we affirm the statements contained therein as true under penalties of perjury.

Stephen A. Weiswasser, Senior Vice President and General Counsel

Philip R. Farnsworth, Secretary

CERTIFICATE OF CHANGE

OF

CAPITAL CITIES/ABC, INC.

UNDER SECTION 805-A OF THE BUSINESS CORPORATION LAW

WE, THE UNDERSIGNED, Stephen A. Weiswasser and Philip R. Farnsworth, being respectively the Senior Vice President and General Counsel and the Secretary of Capital Cities/ABC, Inc., hereby certify:

1. The name of the Corporation is Capital Cities/ABC, Inc. It was incorporated under the name Hudson Valley Broadcasting Company, Inc.

2. The Certificate of Incorporation was filed by the Department of State on April 5, 1946.

3. The following was authorized by the Executive Committee of the Board of Directors:

To change the post office address to which the Secretary of State shall mail a copy of process in any action or proceeding against the Corporation which may be served on him from 1330 Avenue of the Americas, New York, New York 10019, Attention: Secretary to 77 West 66th Street, New York, New York 10023-6298, Attention: Secretary.

IN WITNESS WHEREOF, we have signed this certificate on the 15th day of February, 1989 and we affirm the statements contained therein are true under penalties of perjury.

Stephen A. Weiswasser, Senior Vice President and General Counsel

Philip R. Farnsworth, Secretary

Exhibit (3)(b)

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

CAPITAL CITIES/ABC, INC.

BY-LAWS

ARTICLE I

Offices

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

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

ARTICLE II

Capital Stock

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

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

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

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

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

ARTICLE III

Meetings of Shareholders

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

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

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

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

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

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

ARTICLE IV

Directors

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

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

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

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

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

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

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

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

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

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

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

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

ARTICLE V

Officers

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

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

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

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

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

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

ARTICLE VI

Dividends and Finances

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

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

ARTICLE VII

Amendments

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

ARTICLE VIII

Indemnification of Directors, Officers and Others

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

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

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

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

Exhibit (4)(d)

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 COMPANY,

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

EXHIBIT 1

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.

EXHIBIT 2

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.

ANNEX A

CAPITAL CITIES/ABC, INC.

(formerly Capital Cities Communications, Inc.)

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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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 1/8 of 1% or, if there is no nearest 1/8 of 1%, the next higher 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 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 1/8 of 1% or, if there is no nearest 1/8 of 1%, the next higher 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 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 1-1/4% and (c) the Federal Funds Effective Rate in effect on such day plus 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.

"<u>Interest Payment Date</u>" 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.

"<u>Interest Period</u>" 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; <u>provided</u>, <u>however</u>, 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.

"<u>Loan</u>" 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:

	Commitment	Percent of Commitments
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 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	93,000,000	9.3%
Bankers Trust Company 280 Park Avenue, 5 East New York, New York 10015 Attention: Alexander T. Mason Managing Director Media Division	75,000,000	7.5%
Marine Midland Bank, N.A. 140 Broadway New York, New York 10015 Attention: Alison E. Melick Assistant Vice President	52,000,000	5.2%
The First National Bank of Chicago 153 W. 51st Street 8th Floor New York, New York 10019 Attention: William J. Hake Vice President	52,000,000	5.2%
Continental Illinois National Bank and Trust Company of Chicago 520 Madison Avenue New York, New York 10022 Attention: Donald E. Pollard Banking Associate	47,000,000	4.7%

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

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 accomodate 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 cancelation and (ii) on such effective date for such cancelation 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 cancelation shall be effective if, at or prior to the effective date for such cancelation, 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 cancelation, 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 preceeding 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 COMPANY,

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 ABC, 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 Section 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]

EXHIBIT B- .

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

[Date]

Attention:

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:

EXHIBIT D

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:

	Principal Amount 1/	Rate
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:

1/ 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.

EXHIBIT E-1

FORM OF COMPETITIVE NOTE

$[insert amount of Bank's Commitment]   New York, New York
[Date of Initial Borrowing]

FOR VALUE RECEIVED, the undersigned, , a corporation (the "Borrower"), hereby promises to pay to the order of (the "Bank"), at the office of Chemical Bank (the "Agent"), at , on (i) the last day of each Interest Period as defined in 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, the aggregate unpaid principal amount of all Competitive Loans made by the Bank to the Borrower pursuant to Sections 2.01 and 2.02 of the Credit Agreement to which such Interest Period applies and (ii) on June 30, 1990, the lesser of the principal sum of Dollars ($) and the aggregate unpaid principal amount of all Competitive Loans made by the Bank to the Borrower pursuant to Sections 2.01 and 2.02 of the Credit Agreement, in lawful money of the United States of America in same day funds, and to pay interest from the date hereof on such principal amount from time to time outstanding, in like funds, at said office, at a rate or rates per annum and payable on such dates as determined pursuant to the Credit Agreement.

The Borrower promises to pay interest, on demand, on any overdue principal and, to the extent permitted by law, overdue interest from their due dates at a rate or rates determined as set forth in the Credit Agreement.

The Borrower hereby waives diligence, presentment, demand, protest and notice of any kind whatsoever. The nonexercise by the holder of any of its rights hereunder in any particular instance shall not constitute a waiver thereof in that or any subsequent instance.

All borrowings evidenced by this Competitive Note and all payments and prepayments of the principal hereof and interest hereon and the respective dates thereof shall be endorsed by the holder hereof on the schedule attached hereto and made a part hereof, or on a continuation thereof which shall be attached hereto and made a part hereof, or otherwise recorded by such holder in its internal records;

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

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

E-1 continued

FORM OF STANDBY NOTE

$[insert amount of Bank's Commitment]   New York, New York
[Date of Initial
Borrowing

FOR VALUE RECEIVED, the undersigned, , a corporation (the "Borrower"), hereby promises to pay to the order of (the "Bank"), at the office of Chemical Bank (the "Agent"), at , on (i) the last day of each Interest Period as defined in 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, the aggregate unpaid principal amount of all portions of Standby Loans made by the Bank to the Borrower pursuant to Sections 2.01 and 2.03 of the Credit Agreement to which such Interest Period applies and (ii) on June 30, 1990, the lesser of the principal sum of Dollars ($) and the aggregate unpaid principal amount of all portions of Standby Loans made by the Bank to the Borrower pursuant to Sections 2.01 and 2.03 of the Credit Agreement, in lawful money of the United States of America in same day funds, and to pay interest from the date hereof on such principal amount from time to time outstanding, in like funds, at said office, at a rate or rates per annum and payable on such dates as determined pursuant to the Credit Agreement.

The Borrower promises to pay interest, on demand, on any overdue principal and, to the extent permitted by law, overdue interest from their due dates at a rate or rates determined as set forth in the Credit Agreement.

The Borrower hereby waives diligence, presentment, demand, protest and notice of any kind whatsoever. The nonexercise by the holder of any of its rights hereunder in any particular instance shall not constitute a waiver thereof in that or any subsequent instance.

All borrowings evidenced by this Standby Note and all payments and prepayments of the principal hereof and interest hereon and the respective dates thereof shall be endorsed by the holder hereof on the schedule attached hereto and made a part hereof, or on a continuation thereof which shall be attached hereto and made a part hereof, or otherwise recorded by such holder in its internal records;

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

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

E-2 continued

Exhibit F

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.

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:

Address for Notices:

Accepted this day of , 19

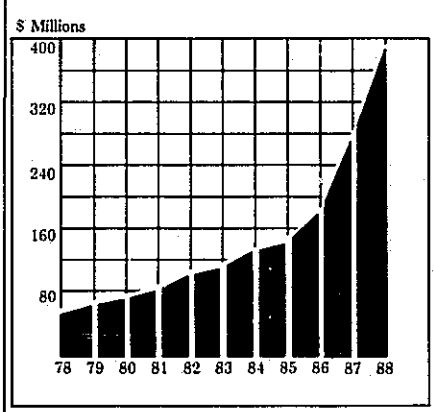
CHEMICAL BANK,
as Agent

By______________________
Title:

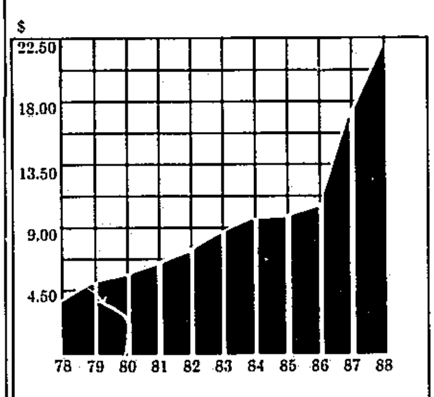
Operating Highlights

	1988	1987
Net revenues	**$4,773,453,000**	$4,440,346,000
Operating income	**$ 816,029,000**	$ 745,990,000
Net income	**$ 387,076,000**	$ 279,078,000
Net income per share	**$22.31**	$16.46
Average shares outstanding	**17,350,000**	16,950,000

Income Before Extraordinary Items



Income Per Share Before Extraordinary Items



To Our Shareholders

Capital Cities/ABC, Inc. had another good year in 1988. Consolidated net revenues increased 8 percent to $4,773,000,000, while income per share rose to $22.31, a gain of 36 percent on approximately 2 percent more average shares outstanding.

Most segments of the Broadcast Group produced fine results. The ABC Television Network Group achieved some encouraging audience ratings improvement, particularly in the prime evening hours. Principally as a result of special-event programming, however, the network incurred a small loss in 1988 compared with a modest profit in 1987. The Publishing Group experienced another reduction in earnings, with gains in newspapers being more than offset by further declines for several of the specialized business and consumer publications.

Though income from operations was up for the year as a whole, much of the substantial gain in earnings per share came from the reduced Federal tax rate and lower net financing expense. A summary of the Company's operating results for 1988 (52-week year ending January 1, 1989) compared with 1987 (53-week year ending January 3, 1988) follows:

(Dollars in millions)	1988	1987	Percent change
Net revenues	$4,773.4	$4,440.4	8%
Operating costs	3,797.6	3,536.1	7%
Depreciation and amortization	159.8	158.3	1%
Total costs	3,957.4	3,694.4	7%
Operating income	816.0	746.0	9%
Interest and other, net	(128.7)	(182.0)	(29)%
Income before taxes	687.3	564.0	22%
Income taxes	(300.2)	(284.9)	5%
Net income	$ 387.1	$ 279.1	39%
Income per share	$22.31	$16.46	36%

At the date of acquisition of ABC, January 3, 1986, the historic value of certain ABC Television Network commitments for entertainment programming and sports rights exceeded their fair market value by approximately $280,000,000, net of related income tax benefits. The resultant reduction in 1988 and 1987 in network program rights benefited earnings by $6.60 and $3.85 per share, respectively. Amortization of intangible assets arising from the ABC acquisition amounted to $3.03 and $3.13 per share being charged to earnings in 1988 and 1987, respectively. Excluding these two noncash acquisition-related factors, earnings per share increased 19 percent from $15.74 in 1987 to $18.74 in 1988.

Most of the general business and industry trends continued to affect the Company in predictable ways during 1988. There was one exception. In past years, the quadrennial combination of Winter and Summer Olympics and presidential election campaign coverage has caused reductions in the amount of television advertising time available for sale in customary patterns. This constriction has historically led to significant upward pressure on prices. In our report to you last year, we expressed doubts that television pricing buoyancy would prevail in 1988, and indeed it did not. More competition for viewing time (particularly in cabled homes), a new audience measurement technique, and high advertising unit-pricing levels for the Calgary and Seoul Games were the primary reasons why revenue growth for the three television networks and the United States television station industry increased by only 8 percent and 6 percent, respectively.

The national rate of inflation was slightly over 4 percent for 1988. The Company was able to keep the rate of increase for internally generated expenses below that level for the year, but the cost of most entertainment programs and sports rights purchased from outside the Company rose more than either the cost of living or the rate of revenue increase.

The Company had another year which resulted in a significant strengthening of its balance sheet. Cash flow from operations, net of amounts reinvested in the business, was $439,700,000. The exercise of 1,767,500 warrants prior to their July 29, 1988 expiration date brought in $441,900,000 of additional cash while adding a comparable number of common shares to the total outstanding. At year-end 1988, debt outstanding, net of cash, had fallen to $560,000,000 from the year-end 1987 total of $1,363,000,000. During the same twelve months, the Company's debt to total capital ratio was reduced from 41 to 34 percent.

The Company continued to maintain a relatively modest $100,000,000 of commercial paper outstanding in order to have ready access to this convenient form of financing. All other debt, aggregating $1,594,000,000, is at fixed interest rates, averaging 10.3 percent. There are no meaningful amounts of principal due until 1991, when the payments on ABC acquisition-related debt of approximately $94,000,000 per year (or less than 25 percent of 1988 cash flow) begins. Since 1986, the Company's cash and short-term cash investments have accumulated to more than $1,100,000,000. There are no current plans to prepay our long-term debt, which is at attractive fixed rates and terms. The combination of such debt, together with the Company's current cash position provides Capital Cities/ABC with great financial flexibility for future internal and external growth opportunities.

Highlights follow for the Company's three operating groups and for corporate activities as well. More details are available in separate sections of this report.

As mentioned, the ABC Television Network Group experienced a small loss in 1988 compared with a modest profit in 1987. Despite this apparent lack of progress, we feel that 1988 was generally satisfactory. Two major events with negative consequences deserve comment. First, although the television network's coverage of the February 1988 Winter Olympics at Calgary was widely acclaimed and developed satisfactory audience levels, the cash loss for the network was substantial, as had been expected. The rights cost negotiated four years earlier was simply much too high. Second, the network's major presentation in November of the first segment of Herman Wouk's World War II epic, *War and Remembrance,* resulted in ratings that were less than anticipated despite the fact that many critics regarded the program as one of the finest productions ever prepared for television. The program appealed mainly to older viewers, and there is evidence that at 18 hours, the time commitment may have been considered excessive.

ABC News had another outstanding year in terms of service to the American people, programming excellence and financial results. Crowded and very lengthy primary campaigns, party conventions and the national election were added to the regular demands on the News Division, but the men and women of ABC News responded very well.

The ABC Sports Division distinguished itself again in 1988. The Company remains very proud of the coverage which ABC Sports brought to America from the Calgary Winter Olympics. Approximately 1,000 employees from ABC Sports, Broadcast Operations and Engineering, and other units of the television network labored very effectively to broadcast 95 hours of highly praised programming. ABC Sports began the year with coverage of Super Bowl XXII and completed the year with its first-ever Rose Bowl telecast.

ABC Entertainment made important progress in 1988. Most new ABC prime-time series introduced in the fall of 1987, with the exception of *thirtysomething, Full House* and *Hooperman,* were not successful. Scheduling changes, the Calgary Olympics and new programs, such as *The Wonder Years,* introduced in the spring of 1988, helped to lift ABC to a second-place finish for the 1987-88 prime-time season. *Roseanne,* which premiered on ABC in the fall of 1988, is the biggest hit of the new season. It is an important building block for future years.

The Broadcast Group achieved another record year. The eight owned television stations improved or maintained their generally excellent ratings positions, and combined earnings for the Group were at an all-time high. Earnings for the 21 owned radio stations were also at record levels, while the radio networks, although down slightly from a record 1987 had a satisfactory year.

All elements of Video Enterprises did very well in 1988. ESPN, Lifetime, and Arts & Entertainment—cable programming networks owned 80 percent, 33 percent and 38 percent, respectively, by Capital Cities/ABC—all experienced substantial growth and record results. In early January 1989, ESPN concluded an agreement with Major League Baseball for the weekly telecast of six national baseball games on Sunday, Tuesday, Wednesday and Friday nights for four seasons starting in the spring of 1990. The rights cost of $400,000,000 is high, and production expenses will also be substantial; but this programming is very important as a means of ensuring ESPN's very promising future. Video Enterprises' developmental activities also continue to show promise for the years ahead.

In 1988 the Company made its first significant off-shore investments. Through ESPN, it increased to 25 percent its equity interest in Screen Sport, a satellite-delivered sports service available throughout Western Europe. In early 1989, Capital Cities/ABC acquired a significant interest in Tele-Munchen K.G., a program production and distribution company headquartered in Munich, West Germany.

The Publishing Group had its third consecutive down year in terms of operating profits. Major expense increases for postage and paper were difficult to offset in a year when adequate price increases for most print media were generally not sustainable. Newspapers and shopping guides were up nicely, but continued revenue weakness for many of the specialized business and consumer publications more than offset these gains.

When we look at 1989, we have several concerns. The television network's major loss on the Calgary Winter Olympics during the first quarter of 1988 was largely obscured by purchase price adjustments. The owned television stations and the radio networks garnered substantial incremental profits from this coverage. This combined positive result will not recur in 1989. The first quarter of 1988 also contained a very profitable NFL Super Bowl, and ABC will not present another one under the current contract which expires in early 1990. The absence of the financial benefits of these events in 1989 will make year-to-year progress more difficult, especially in the first quarter.

We are, on balance, cautiously optimistic about 1989. Though many of Capital Cities/ABC's operating assets might be considered mature, or at least approaching maturity, they are still fine businesses with excellent prospects, particularly when they are vigorously managed in terms of changing viewer, listener, and reader tastes and needs. The rate at which the major television networks are losing audiences continues to moderate. Increases in programming costs will continue to be a problem since many of the cost reduction opportunities presented by the merger have now been achieved. Capital Cities/ABC also has some large and growing assets, such as ESPN, which by no standard would be termed mature. While we continue to have confidence that the Company's established businesses can produce predictable and growing operating profits, we believe that the Company's capacity to annually generate substantial amounts of free cash flow is its greatest asset for continued long-term growth. Management remains committed to a continuing program of investment in business activities which will ensure its prospects in the years ahead.

The American economy continues to demonstrate a capacity to evolve and adapt itself. Capital Cities/ABC clearly has the financial resources necessary to compete effectively in a changing environment. The development of high definition television, new information and entertainment delivery systems based on fiber optics, and modifications in the operation of the financial interest and syndication rules are just a few of the changes which may well lie ahead for broadcasting media companies. We believe the Company has the people, the organizational structure and the determination it will need to meet such challenges effectively and profitably.

The Company's partnership with the Public Broadcasting Service in Project Literacy U.S. (PLUS) continued to both draw attention to and help alleviate the serious national problem of illiteracy. In 1988, PLUS focused on literacy in youth, in an effort to foster a family reading environment and volunteerism for the program. Both the Broadcast and Publishing Groups stepped up their involvement in PLUS in conjunction with the vigorous campaign of the ABC Television Network.

In 1988, Capital Cities/ABC continued its strong support of the Drug-Free America public service advertising campaign. These powerful messages dramatize the consequences of drug abuse, and follow-up research shows that the Drug-Free America campaign is helping reshape public attitudes about illegal drug use. The broadcast and print advertising donated by the Company to this program in 1988 was worth more than $27 million.

During 1988, Gerald Dickler, Frederick S. Pierce and John B. Poole left our Board of Directors. We thank them for their many contributions and wish them well in their future endeavors. We are pleased to welcome to the Board of Directors of Capital Cities/ABC, Inc. Ann Dibble Jordan, former Director of the Social Service Department, University of Chicago Medical School; and Frank S. Jones, Ford Professor of Urban Affairs, Massachusetts Institute of Technology. Mr. Dickler, a founder of the Company and a member of its Board of Directors since 1964, was elected Director Emeritus.

We are most grateful to our 19,700 fellow employees for their loyalty and continuing outstanding contributions, and we also wish to thank our shareholders for their interest and support.

Thomas S. Murphy

THOMAS S. MURPHY
Chairman

Daniel B. Burke

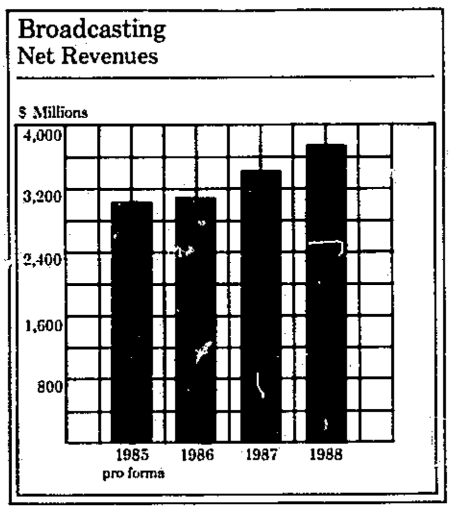
DANIEL B. BURKE
President

Broadcasting

The Company's broadcasting operations, which consist of the ABC Television Network Group and the Broadcast Group, had 1988 net revenues of $3,749,600,000, an increase of $315,900,000 or 9 percent over 1987. Operating earnings of $722,200,000 in 1988 were up $89,300,000, or 14 percent over the prior year. Broadcasting operations' 1988 and 1987 results are summarized as follows:

(Dollars in millions)	1988	1987
Net revenues	$3,749.6	$3,433.7
Operating costs	2,904.7	2,680.6
Depreciation and amortization	122.7	120.2
Total costs	3,027.4	2,800.8
Operating income	$ 722.2	$ 632.9

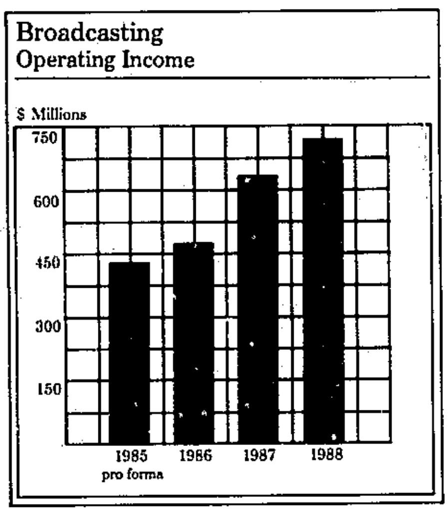
The 1988 and 1987 results include acquisition-related adjustments to fair market value for entertainment programming and sports rights of the ABC Television Network. These adjustments benefited 1988 and 1987 earnings by $191,000,000 and $120,000,000, respectively. Additionally, both 1988 and 1987 results include amortization of intangibles arising from the ABC acquisition of $45,000,000 and $46,000,000, respectively. Excluding these two noncash acquisition-related factors, broadcasting earnings would have been $576,200,000, a 3 percent increase from the $558,900,000 in 1987.



ABC Television Network Group

In 1988, the ABC Television Network made modest progress towards improving its share of three-network revenues and moderating its overall cost growth. Reported operating results, however, were largely influenced by several extraordinary factors, among them the Winter Olympic Games, the presidential election campaign and a 22-week Writers Guild strike. For 1988, net revenues increased 8 percent to almost $2,400,000,000, and operating expenses (excluding purchase price adjustments) increased 11 percent. As a result, the ABC Television Network (excluding purchase price adjustments) operated at a slight loss of $4,000,000, compared with a profit of approximately $50,000,000 in 1987. On a comparable 52-week basis, revenues increased 10 percent and operating expenses increased 13 percent.

The national elections and Olympic Games every four years have historically produced strong revenue growth for the network economy. While three-network revenues did increase 8 percent in 1988, this growth rate was notably lower than historical levels. Furthermore, Olympic and political advertising did not tighten the network marketplace as they had in previous years, and demand for remaining commercial inventory was generally soft throughout the year.



Several diverse factors affected the ABC Television Network's profitability in 1988 and made comparison with 1987 results difficult.

- The Winter Olympic Games in Calgary did not generate sufficient revenues to offset the substantial rights cost and related production expenses, and resulted in an operating loss in excess of $65,000,000 (before purchase price adjustments) on the Games in the first quarter.
- ABC News' thirty hours of primaries, conventions and election night coverage added over $20,000,000 in incremental costs during the year.
- In March 1988, the Writers Guild of America began a 22-week strike which significantly delayed the start of the 1988-89 television season. The ABC Television Network was unable to acquire the normal number of original prime-time entertainment series episodes for the fourth quarter. Therefore, the network broadcast more repeat and special programming than usual, which resulted in lower revenues and costs. Additionally, the delay in the start of the 1988-89 season will result in the network broadcasting more original episodes in 1989, resulting in higher program costs than originally planned.

Competition for the viewer, particularly in prime time, remained as intense as ever. Over the past few years, the growth of independent television stations, the increase in basic cable ratings and the exponential growth in videocassette recorders have combined to reduce the three networks' share of prime-time households to less than 70 percent. Within this environment, however, ABC's development of several new highly rated series enabled it to improve its competitive standing, particularly in the fourth quarter of 1988.

For the 1987-88 season, ABC finished in second place in the three-network prime-time rankings. The Winter Olympics and Super Bowl XXII contributed to the improvement. But more important to its long-term growth, the ABC Television Network benefited from two Emmy Award-winning programs, *The Wonder Years* and *thirtysomething,* and from scheduling changes for other prime-time series. *The Wonder Years* debuted in March, improving the network's performance in its time period, and was named "Outstanding Comedy Series" for the 1987-88 season. *thirtysomething* was named "Outstanding Drama Series" for the season and enabled the ABC Television Network to improve its Tuesday night ratings. This past season was the first time any network had won both the comedy and drama Emmy Awards with new series.

In October 1988, *Roseanne,* a situation comedy starring Roseanne Barr, debuted to strong advertiser and audience appeal. By the end of February 1989, it was the second-highest-rated prime-time show of the 1988-89 season, contributing significantly to the network's strong Tuesday night performance. *Who's The Boss?,* the network's lead-off show on Tuesday night, is also rated among the top-ten prime-time series. *Growing Pains,* a top-rated show with young adults on Tuesday last season, was shifted to Wednesday night and held its audience. The program is followed by *Head of the Class,* and the two comedies were largely responsible for the network's consistent first-place finish on Wednesday. On Friday night, the comedy block of *Perfect Strangers* and *Full House* from 8:00-9:00 PM consistently won the time period. As a result, ABC won Friday night during the fourth quarter for the first time in eleven years. Even though the ABC Television Network's overall prime-time performance was better in 1988, ratings on Thursday, Saturday and Sunday nights continued to be disappointing.

In the fourth quarter of 1988, the ABC Television Network was the only network to improve its audience delivery across key demographic categories. Particularly gratifying was the fact that this improvement was generated in large part by prime-time series. The first part of *War and Remembrance,* a mini-series broadcast over

18 hours during the November sweeps, averaged an 18.6 rating and also boosted overall ratings.

Monday-to-Friday Daytime, a major network profit center, experienced a particularly difficult year. ABC remained the highest-rated network among women aged 18 to 49 due to its afternoon serials, *General Hospital, One Life to Live* and *All My Children,* but the overall delivery of young adult women declined significantly from 1987 levels. Soft advertiser demand also plagued this daypart throughout the year and resulted in a significant profit decline. Early morning programming also suffered an audience decline at all three networks. Despite this falloff, *Good Morning America,* with co-hosts Charles Gibson and Joan Lunden, remained the most popular information show among young adult women. In the fourth quarter of 1988, ABC's Saturday morning children's programming significantly improved its ratings and was the top-rated network in the fourth quarter for the first time in six years.

ABC News distinguished itself in 1988 with a strong lineup of regularly scheduled news broadcasts and 30 hours of election-year coverage. During the Democratic and Republican Conventions and on election night in November, the ABC News team of Peter Jennings and David Brinkley attracted more young adult viewers than any other network. Of particular note, we believe that ABC was the first network news organization to operate at a profit in a presidential election year.

World News Tonight with Peter Jennings was the most-watched evening news program among young adults. In addition, *World News Tonight* was the only network evening news broadcast to show growth in 1988. The program introduced *American Agenda* in 1988, a segment which concentrated on stories and issues of vital importance to the American public which had not received sufficient regular media attention. *Nightline,* hosted by Ted Koppel, was awarded the prestigious duPont-Columbia University Journalism Award for its broadcast of *In the Holy Land* in April. The program featured a discussion of important issues among Israeli and Palestinian officials. *Nightline* also improved its audience demographics and was watched by more young adults in 1988 than in prior years. Barbara Walters' interview specials continued to be extremely popular. Her fiftieth broadcast in November 1988 was the highest-rated news special of the year. *20/20,* hosted by Hugh Downs and Barbara Walters, was a major contributor to the network's improved Friday night ratings.

ABC Sports had an extraordinary year in 1988. The division began the year with the broadcast of the Washington Redskins' victory over the Denver Broncos in Super Bowl XXII. In February, ABC Sports originated approximately 95 hours of coverage of the Calgary Winter Olympic Games over a 16-day period. In prime time, the Winter Olympics averaged a 19.3 rating, marking the first time in 24 years that the Winter Games outperformed the Summer Games. ABC's *Monday Night Football* was the highest-rated regular program for young adult males in the fourth quarter of 1988. ABC Sports presented from Pasadena its first-ever Rose Bowl in January 1989. The division's ongoing coverage of major golf championships, Triple Crown horse racing, the Pro Bowlers Tour and the Indianapolis 500 again proved to be extremely popular.

ABC Sports did not obtain the broadcast rights for the 1992 Winter and Summer Olympics or for the new network Major League Baseball contract beginning in 1990. Although the division's highly competitive bids did not prevail, the Company is committed to the network broadcast of major sports events and fully expects that ABC Sports will compete effectively in subsequent rights negotiations.

The network's 1988 challenges continue in 1989, with several issues commanding immediate attention. In 1988, the network reacted to softening advertiser demand and lower than anticipated revenue growth with greater cost control response. But increased efficiency is needed at every operating level if the network is to achieve consistent profitability. Another issue is the need to further refine the national television audience measurement system. People meters are a considerably more complex measurement methodology than the previously used diary method. It is imperative that this system be constantly reviewed so that delivered audiences accurately reflect viewing levels. Longer-term, the network is hopeful that the sample will incorporate out-of-home viewing, such as hotels and college dormitories, which represent sizable audiences not currently reflected in ratings data or advertising rates.

On a more general level, the ABC Television Network recognizes it must refocus its marketing and pricing strategies. While network television remains the largest and most effective mass advertising medium, new aggressive competition from cable programming, barter syndication and other promotional techniques has weakened the network's status with advertisers and their agencies. Improving ABC's share of three-network revenues, particularly in prime time, remains important, but equally important is a more creative and aggressive approach to attracting the advertising dollars that are flowing away from the networks. To achieve future growth, the ABC Television Network has initiated a campaign to attract new advertising dollars to the network marketplace. *Twenty Questions Facing National TV Advertisers,* a sales presentation for major advertising agencies and their clients, was introduced in the fall of 1988 and represented the first step toward a broader marketing approach.

The strength of the ABC Television Network's affiliate lineup is also an integral part of long-term growth. In March 1988, the network commissioned an independent study to examine the network-affiliate relationship and how both parties might maximize revenue and profit potential. The study reaffirmed the competitive advantages of the current system. To preserve this edge, however, the network and its affiliates need to refine and implement a new performance standard which will maximize network programming clearance and capitalize on cross-promotional capabilities.

We believe that the most important issue facing the ABC Television Network is its need to produce more of its own programs in prime time and acquire financial interest in programs produced by others. Negotiations to date with representatives of the television production community have failed to resolve differences over regulatory restraints which sharply limit the Company in these respects. The Company remains hopeful, however, that agreement might be reached on needed changes in this area.

Broadcast Group

During 1988, the Broadcast Group again reached record levels of revenues and operating income. Net revenues increased by 12 percent to $1,420,000,000. Operating income (before amortization of intangibles) reached $580,000,000, reflecting a 14 percent increase from the $507,000,000 reported in 1987.

Earnings at the television stations showed strong improvement over 1987, derived in part from the incremental revenue generated by the broadcasts of the Olympics and the Super Bowl. The radio division's profits also advanced in 1988, due primarily to the improved performance of the radio stations. Profitability of the radio networks, on the other hand, declined due to the soft radio network advertising marketplace. Video Enterprises significantly increased its revenues and operating profits in 1988 as ESPN and the division's other cable services achieved greater acceptance in the expanding cable universe.

Television Stations

Advertising revenues for the television stations increased 7 percent (on a comparable 52-week basis) over 1987, again exceeding the rate of growth within the industry. Local advertising revenues continued to outpace significantly the growth rate of national sales. These levels were achieved despite a flat Houston marketplace. Although there are no clear indications that the economic climate in Houston has improved, the Company is encouraged by current signs.

Effective cost management continued to play a prominent role in the success of the Company's television stations. Although the dramatic cost decreases achieved in 1986 and 1987 were not equaled, cost increases were held to less than 2 percent, despite escalating costs of top-rated syndicated programming and the pressure on programming costs in general.

The Company's eight television stations remain the largest group in the country, reaching 24.39 percent of total ADI (Area of Dominant Influence) television homes, just under the 25 percent limitation established in rules of the Federal Communications Commission.

The Oprah Winfrey Show, carried on seven of the eight television stations in 1988, was once again the number one talk show in national syndication. This show, previously owned by WLS-TV, was transferred to a company owned by Oprah Winfrey in 1988. The benefit of owning and producing *The Oprah Winfrey Show* for a limited future period was exchanged for a longer-term arrangement with the Group's television stations at equitable financial terms.

In 1988, the stations continued to maintain their enviable market ratings. According to November 1988 ratings data, from sign-on to sign-off, all eight stations were number one in audience delivery. These results were achieved with a combination of effective local programming and a modestly improved ABC Television Network program schedule.

The Company's television stations maintained their commitment to a strong local news presence. The following table reflects the ranking of principal news programs:

		News program rank	
Station and Market	Market rank	Early evening	Late evening
WABC-TV (New York)	1	1	2
KABC-TV (Los Angeles)	2	1(T)	2
WLS-TV (Chicago)	3	1	1(T)
WPVI-TV (Philadelphia)	4	1	1
KGO-TV (San Francisco)	5	1	1
KTRK-TV (Houston)	10	1	1
WTVD (Durham-Raleigh)	34	2	1
KFSN-TV (Fresno)	62	1	1

Sources: *Nielsen, November 1988, except KFSN-TV which is Arbitron, November 1988.*
(T) Tied

Capital Cities/ABC National Television Sales, (the in-house national sales representation operation launched late in 1986), has responsibility for national spot sales at all eight owned stations. In its second full year of operation, this unit met its goals.

Radio

Radio division profits rose in 1988 as a result of the excellent performance by the radio stations. The radio networks, while increasing their share of revenue in a declining marketplace, reported reduced profits as a result of increased programming costs and expanded program activity.

The Company owns 21 radio stations, eleven AM and ten FM. Seven of the radio stations (AM and FM stations in New York, Chicago and Los Angeles, and an AM station in San Francisco) continue to operate subject to a temporary FCC cross-ownership waiver which resulted from the ABC acquisition. Late in 1988, the FCC announced it would look favorably upon waiver requests that would permit radio and television ownership in large markets. Continued ownership of these stations would be consistent with the new relaxed standard, and the Company has filed a request for a permanent waiver.

Radio station revenues, excluding the Denver stations which were acquired late in 1987, rose by 9 percent. The aggregate ratings performance of the stations showed significant improvement in 1988, and produced improved revenues and earnings.

The Company's 21 radio stations reach 25.2 percent of the United States population as shown below:

Station and market	Market rank	# of stations in market	1988 Metro population (age 12 +) # (000's)	% of U.S.
WABC-AM/WPLJ-FM (New York)	1	46	14,057	6.9%
KABC-AM/KLOS-FM (Los Angeles)	2	43	9,086	4.4%
WLS-AM/WYTZ-FM (Chicago)	3	39	6,705	3.3%
KGO-AM (San Francisco)	4	52	4,954	2.4%
WJR-AM/WHYT-FM (Detroit)	6	28	3,570	1.7%
WBAP-AM/KSCS-FM (Fort Worth-Dallas)	8	30	3,112	1.5%
WMAL-AM/WRQX-FM (Washington, D.C.)	9	27	3,077	1.5%
WKHX-AM/FM (Atlanta)	13	23	2,219	1.1%
KQRS-AM/FM (Minneapolis-St. Paul)	19	19	1,945	1.0%
KRXY-AM/FM (Denver)	24	31	1,593	0.8%
WPRO-AM/FM (Providence)	28	22	1,259	0.6%
Total			51,577	25.2%

Source: *Arbitron, 1988-89 Populations in U.S. Radio Markets.*

The ABC Radio Networks consist of six basic networks that serve more than 2,100 affiliates nationwide. The networks continue to expand their broad-based audience appeal by signing new talent. In 1987 and early 1988, Tom Snyder and Sally Jessy Raphael were added in programs with talk-show formats. In 1988, Shadoe Stevens, a popular and rising entertainment personality whose career began in radio, became the new host of *American Top 40*. These talent and programming additions continue to strengthen the ABC Radio Networks which also carry exclusively the radio broadcasts of Paul Harvey. He is the most popular national commentator on radio.

The ABC Radio Networks remain the pre-eminent group in the radio network industry as shown by the ratings chart below:

Network	Audience share	National rank
Entertainment	8.7%	2
Information	8.5%	4
Contemporary	7.4%	5
FM	5.8%	8
Rock	5.4%	11
Direction	4.8%	13

Source: *RADAR 38, fall '38 All Broadcast. Total persons 12 +.*

In 1987, the ABC Radio Networks entered into a national sales representation arrangement with Satellite Music Network, a producer of nine 24-hour live music formats delivered via satellite. During 1988, the Company acquired approximately 14 percent of Satellite Music Network's outstanding shares. In December 1988, Capital Cities/ABC offered to acquire, through a cash merger, the remaining shares of Satellite Music Network. The transaction is expected to be completed by the end of April 1989 for an aggregate purchase price of approximately $50,000,000.

Video Enterprises

Video Enterprises, which consists of cable program services, program distribution and technology development activities, had another highly successful year in 1988. ESPN enjoyed an exceptional year and solidified its position as the premier cable sports programmer in the country. The progress of Arts & Entertainment (A&E) and Lifetime, partially owned by the Company, continued to exceed expectations. Consequently, in 1988, division revenues and operating earnings increased significantly over 1987.

Subscriber growth for each of these networks and cable household data follow:

	Average subscribers				
(Millions)	1988	1987	1986	1985	1984
ESPN (Launched Sept. 1979)	47.7	41.8	37.3	36.0	32.6
A&E (Launched Feb. 1984)	31.0	26.8	20.5	18.7	10.5
Lifetime (Launched Feb. 1984)	39.0	30.9	25.9	23.0	18.5
Cable TV HH	47.8	43.8	41.7	39.2	36.3
Total TV HH	90.4	88.6	87.4	85.9	84.9

Source: *Nielsen Universe based on NTI metered service.*

ESPN, 80 percent-owned by the Company, is the largest of the Company's cable program ventures and reached approximately 49,000,000 households at year-end 1988, or 56 percent of the nation's television households, more than any other cable network. In 1987, ESPN entered into a three-year contract with the National Football League to televise 13 NFL games annually. Early in 1989, ESPN further enhanced its premier position by entering into an agreement with Major League Baseball to televise approximately 175 games annually for four years, beginning in 1990. This agreement represents a $400,000,000 commitment by ESPN. During 1988, ESPN increased to 25 percent its investment in Screen Sport, a satellite-delivered sports service available throughout Western Europe.

A&E, which is 38 percent-owned by Capital Cities/ABC, is a supplier of entertainment and cultural programming to a subscriber base that reached approximately 33,000,000 households at year-end 1988. Lifetime programming is primarily targeted toward women viewers. Its schedule and ratings have been enhanced by off-network programming acquisitions. The Company owns 33 percent of Lifetime, which has a subscriber base that had grown to 42,000,000 households at year-end 1988. Both A&E and Lifetime continue to increase significantly in profitability.

ABC Distribution is responsible for the international sales and licensing of ABC-owned entertainment, sports and news programs and for other programs not produced for over-the-air television broadcasting. This unit is also involved in the sale of ABC-owned programs on videocassettes. In early 1989, the Company acquired an interest in Tele-Munchen K.G., a program production and distribution company headquartered in Munich, West Germany.

Video Enterprises also continues to function as Capital Cities/ABC's primary research and development arm in the electronic media, and is responsible for several projects in different stages of development. Current projects include Indesys, an operation with several promising orders for its high-speed communications service employing satellite and FM sideband transmissions and Playcount, which expects to begin a video-cassette revenue-sharing system.

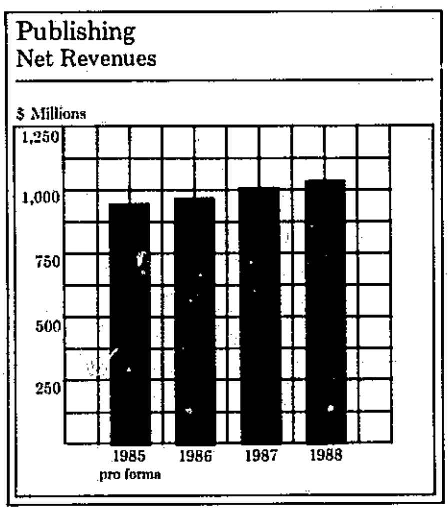
The Broadcast Group continues to serve its local and national cable communities with quality programming. Award highlights in 1988 include:

- WTVD — Radio/TV News Directors Association of the Carolinas Award for "Best Feature Story" for an investigative report, "Hazardous Waste Plant".
- WPVI-TV — IRIS Award for the program *Prime Time* for Best Magazine Format Program.
- ESPN — Emmy Award in Graphics by the Academy of Television Arts & Sciences.
- ABC Radio Networks — Peabody Award for its program *Ernest Will — Americans in the Gulf* and CEBA Awards for the programs *Freedom March* and *From the Pages of History.*
- WJR-AM — United Press International Award for "Station of the Year" in Michigan.
- WMAL-AM — Chesapeake Associated Press Broadcasters Award for overall excellence in news operations.

The Publishing Group had another difficult year in 1988. Net revenues of $1,023,900,000 were up only 2 percent from 1987. Expenses were $894,200,000, an increase of $34,300,000, or 4 percent. Operating income was down for the third consecutive year to $129,700,000, a decline of $17,000,000 or 12 percent from 1987, as summarized below:

(Dollars in millions)	1988	1987
Net revenues	$1,023.9	$1,006.6
Operating costs	858.1	822.1
Depreciation and amortization	36.1	37.8
Total costs	894.2	859.9
Operating income	$ 129.7	$ 146.7

Lower profitability did not occur throughout all the operating units of the Group. The combined profits of the Company's newspapers and shopping guides were at record levels in 1988, as were several Fairchild titles and the majority of the ABC Publishing units. These gains, however, were more than offset by significant declines elsewhere. The problems encountered were varied—general market softness, competitive factors, and cost increases which could not be passed along in higher advertising rates. Nine small acquisitions took place in 1988, for an aggregate purchase price of $10,120,000. All were either in geographic areas where the Company currently operates or in specialized publishing markets the Company presently serves.



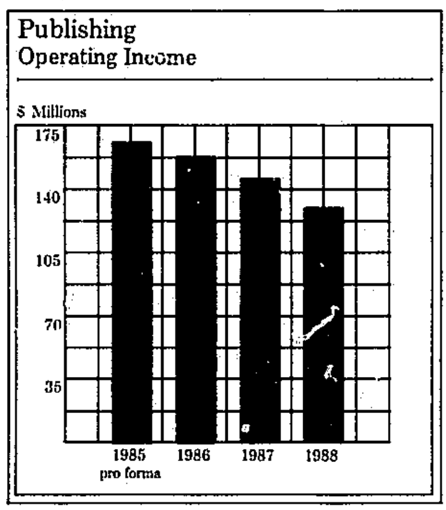
Specialized Publications

Overall revenues of the specialized publications division were approximately flat with 1987. Total expenses increased 6 percent, and operating income was down 30 percent.

Revenues at Fairchild Publications were virtually unchanged from 1987. Higher expenses, related principally to start-ups, publication repositioning and circulation and postal increases, resulted in a substantial decline in operating profits. At the end of 1988, several publications were realigned by market category. The largest change was the creation of the Fairchild Fashion Group. This combination of 10 publications will enable Fairchild to consolidate its market position and react more quickly to changing conditions.

W and *M*, Fairchild's two consumer fashion publications, achieved record revenues and paid circulation levels. *Women's Wear Daily* revenues were down slightly from 1987. Publication of *Scene* as a stand-alone younger women's consumer fashion magazine was halted while still in the test phase and is now a feature section of *W*.

Several publications achieved new highs in revenues and profits. *HFD* reached the $20,000,000 advertising mark for the first



time. *American Metal Market* had the largest one-year circulation gain in its more than 100-year history, while *Multichannel News* continued to dominate its market with a redesigned and upgraded product. The International Medical News Group's sales and profit increases came in the face of declining revenues in several medical categories.

Children's Business became profitable in its third year of operation, while winning its industry's award for excellence in graphic design and fashion photography. *Electronic News* reversed its profit erosion through careful cost control, while at the same time upgrading its printing and editorial product. *Metalworking News* increased its market share significantly.

Investments were made in redesigning and expanding the circulation of *Travel Agent* magazine; launching *Automotive Electronic News,* which debuted in 1989; creating a commercially printed edition of *Daily News Record* on Monday; and producing a consumer publication, *Travel Today,* which was subsequently suspended when initial reader acceptance did not materialize. These investments had a significant negative impact on Fairchild operating income.

ABC Publishing experienced slight revenue growth in 1988, with a moderate decline in operating profits due largely to an increase in non-controllable costs related to the production and delivery of its publications.

The Chilton Company, the largest of the ABC Publishing operations, once again achieved a year-to-year profit increase, along with continuing growth in revenues. During the year, the Chilton Company assumed responsibility for all financial and administrative support functions of the ABC Consumer Magazines group, another operation of ABC Publishing, in an effort to generate operating efficiencies. At year-end, Chilton acquired *Outdoor Power Equipment* magazine, adding to its successful line of trade publications.

ABC Consumer Magazines experienced a very disappointing year in 1988, with both revenues and operating income substantially below prior year levels. The move to consolidate support functions with the Chilton Company will position the group more effectively to compete in its very challenging marketplaces.

Los Angeles Magazine finished 1988 ahead of 1987 in revenues, with flat operating income. The national sales office, established in 1987, continued to be a major contributor to national advertising sales for *Los Angeles Magazine,* as well as for a combined group of California city magazines.

NILS (National Insurance Law Service) experienced another record year in 1988, with both revenues and operating income up over 1987 results. NILS' indispensible national data base of regulatory information for the insurance industry is delivered in both print and electronic form to customers in the insurance and legal professions.

Word, Incorporated had a strong year in 1988, with revenue growth and operating income up substantially over the prior year. Word's performance was bolstered by exceptionally strong product releases during the year, combined with streamlined operations. At year-end, Word acquired Worthy Publishing, bringing a respected line of bible products and other religious publications to augment Word's established presence in the market.

Hitchcock Publishing was down in both revenues and operating income in 1988, due to softness in the manufacturing industries served by its publications. As a result of the softening market demand, Hitchcock suspended publication of *MITE,* a 1987 start-up publication, and *Infosystems.* PEMCO, Hitchcock's trade show operation, had a strong year in 1988 and acquired a new show, the International Fastener Exposition, during the year.

The ABC Publishing Agricultural Group experienced a slight revenue increase in 1988 and a decline in operating income. The expansion into eight editions of the state farm publications strengthened its position in the market, with the initial costs to develop and promote the expansion causing some short-term profit deterioration. The national agricultural publications had a strong year, driven by improvements in editorial, sales and circulation.

Institutional Investor's revenues and operating income significantly declined in 1988 as a consequence of contraction in the worldwide financial services industry following the October 1987 stock market decline. The decrease in advertising revenue in *Institutional Investor* magazine was partially offset by strength in reader demand for that company's other magazines and newsletters, as well as attendance at the company's sponsored conferences. The company also launched the European Institutional Investor Institute as well as a daily newspaper edition of *Institutional Investor* published for the annual meetings of The International Monetary Fund and The World Bank.

In late 1988, Capital Cities/ABC became the majority investor in *Practical Homeowner,* a 750,000 circulation special-interest consumer magazine.

Newspapers and Shopping Guides

The Company's newspapers achieved record revenues, operating income and unduplicated daily, Saturday and Sunday circulation levels in 1988. Total revenues, expenses and operating income were all up approximately 6 percent from 1987. Newsprint prices per ton averaged 9 percent higher in 1988 compared with 1987. Total newsprint expense, however, was up only slightly because of lower consumption, attributed to the continuing shift from ROP linage to inserts, and a planned reduction in evening circulation in Kansas City. There were also dramatic reductions in newsprint waste in Fort Worth compared with the higher levels experienced in 1987 in connection with the introduction of its new offset press.

The Kansas City Star and *Times* again achieved new records for total revenues and operating profit. In-paper advertising linage was down 6 percent from 1987, but a strong performance in inserts and classified generated a 6 percent increase in advertising revenues. Classified linage remained particularly strong, registering a gain of almost 4 percent.

Circulation gains were achieved in the morning and Saturday editions while Sunday circulation remained at 1987 levels. Evening circulation decreased 29,000, due largely to a decision to eliminate delivery of the evening *Kansas City Star* in areas outside the Kansas City metropolitan area. Net unduplicated daily circulation remained unchanged, with circulation revenue increasing 6 percent.

After two years of revenue declines and sharply lower earnings, the *Fort Worth Star-Telegram* experienced a turnaround in 1988. Revenues increased less than 1 percent, but operating income was up 3 percent because expenses were virtually unchanged from 1987 levels. Circulation was flat due to a year-long effort to discontinue some forms of discounting and the effect of a fourth quarter increase of $1.00 a month in home delivery prices. Introduction in the spring of a new tabloid business section, *Tarrant Business,* in the Monday morning edition, was met with wide reader and advertiser acceptance.

At *The Oakland Press* in Pontiac, Michigan, advertising revenues grew a healthy 10 percent, but circulation revenues were flat as the overall Detroit market awaited approval of a joint operating agreement between the Detroit newspapers (announced and then deferred in August). The newspaper's investment in promotion and product, associated with the upcoming Detroit market change, caused profits to drop slightly from 1987, but advertising levels improved. Installation of a new offset press commenced, with conversion expected early in 1989.

The *Belleville News-Democrat* experienced another record year in revenues and operating income. During 1988, the acquisition of the remaining 50 percent ownership of Legal Communications Corporation in St. Louis, Missouri, and the O'Fallon, Illinois *Progress,* were completed. The Company now owns and operates 10 daily and weekly newspapers in the Greater St. Louis area.

The Times Leader in Wilkes-Barre, Pennsylvania completed its first full year of seven-day publication and its second consecutive year of profitable operations. The Sunday edition helped boost net revenue 10 percent. Paid circulation on Sunday was 52,000 at year-end, 8 percent ahead of the daily average.

The New England Newspaper group continued to expand operations. One publication was acquired and five were started in Connecticut. In Rhode Island, two publications increased their frequency to twice-weekly.

The Oregon Newspaper group of two small dailies and six weeklies had lower revenues and expenses than in 1987. Operating income declined slightly.

Record operating income and profit margins were achieved at Sutton Industries in 1988. Advertising revenues were flat, while expenses were 4 percent below 1987. Sutton distributes over 1,500,000 copies of the weekly *PennySaver* in Southern and Northern California.

Pennypower Shopping News headquartered in Wichita, Kansas had a positive year. With relatively flat revenues and lower expenses than in 1987, operating income was up 20 percent. Pennypower distributes 370,000 shopping guides weekly in Wichita and Topeka, Kansas, and Springfield, Missouri. "Nickel" publications in Seattle-Tacoma and Spokane, Washington, and in Portland, Oregon, with approximately 500,000 in total weekly distribution, suffered their first year-to-year decline in operating income since being acquired by the Company.

The Company's newspapers continued to strive for editorial excellence. Significant awards received in 1988 include:

- *The Kansas City Times* received the National Press Club's Edwin M. Hood Award for diplomatic correspondence and a first-place award for investigative reporting by the Inland Daily Press Association. The evening *Kansas City Star* received Missouri Press Association Awards for best news content and best news story.
- The *Fort Worth Star-Telegram* received two first-place awards of particular merit. Coverage of Delta's Flight 1141 crash at Dallas-Fort Worth Airport won first place for spot news in the Texas Headliners contest in direct competition with the two Dallas newspapers. The paper's series on the drug problem in North Texas, *Tragic Pleasures*, won first place in the state Gavel Awards.
- The *Belleville News-Democrat* won 13 Illinois Press Association Awards (four first places) and the Associated Press Illinois Member Paper of the Year Award.
- For the third time in the past seven years, *The Times Leader* received the Sweepstakes Award in state press association competition.

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

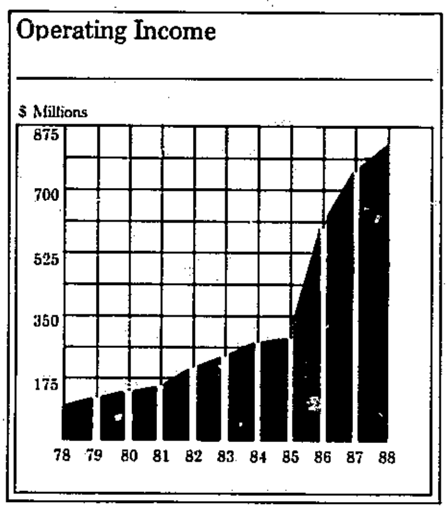
Results of Operations — 1988 Compared to 1987

Consolidated net revenues for 1988 (52-week year ending January 1, 1989) were $4,773,453,000, compared with $4,440,346,000 in 1987 (53-week year ending January 3, 1988), an 8% increase. Broadcasting net revenues for 1988 were $3,749,557,000, compared with $3,433,749,000 in 1987, a 9% increase. Publishing Group net revenues increased only 2%, from $1,006,597,000 in 1987 to $1,023,896,000 in 1988. On a comparable 52-week basis consolidated net revenues increased 9% in 1988.

Net revenues in 1988 for the ABC Television Network, on a comparable 52-week basis, increased 10% compared with 1987, primarily as a result of the telecasts of the 1988 Winter Olympic Games and the Super Bowl. Local advertising strength at several major-market television stations and a strong performance at ESPN also contributed to the 1988 increase in broadcasting revenues. The Company's radio operations reported modest revenue gains in 1988. Newspaper revenues increased moderately, principally as a result of increased classified advertising and insert revenue. These gains, however, were largely offset by advertising shortfalls at certain of the specialized business and consumer publications.

Total costs and expenses for 1988 were $3,957,424,000 compared with $3,694,356,000 in 1987, a 7% increase. Excluding purchase price adjustments and the 53rd week in 1987, total costs and expenses for the Company increased 10%. Broadcasting costs in 1988 (excluding purchase price adjustments and the 53rd week) increased 12% from 1987. Virtually all of the increase in broadcasting expenses was related to costs associated with the telecasts of special-event programming such as the Winter Olympic Games, *War & Remembrance* and coverage of the presidential election campaign. Costs at the ABC Television Network were favorably influenced by the impact of expense savings associated with the delay in the start of the fall prime-time season as a result of the Writers Guild strike. Costs and expenses in 1988 for the Company's publishing operations were 4% higher than 1987. Higher postage and paper expense and investment spending in start-up publications were responsible for much of the increase.

Operating income for 1988 was $816,029,000, compared with $745,990,000 in 1987, a 9% increase. Broadcasting operations reported a 14% increase, while publishing operations declined 12%. Results for 1988 and 1987 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 $191,000,000 and $120,000,000, respectively. These reduced costs (net of income taxes) benefited per share earnings by $6.60 and $3.85 in 1988 and 1987, respectively. The Company anticipates the effect of such reductions will be approximately $90,000,000 in 1989 ($3.00 per share, net of income taxes) and immaterial amounts in 1990 and thereafter. Results for 1988 and 1987 include a charge of $3.03 per share and $3.13 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 reduce earnings per share by $3.70 and $3.86 in 1988 and 1987, respectively.

Net financial expense (interest expense less interest income) for 1988 decreased $45,762,000 from 1987. This net decline resulted primarily from higher interest income due to a substantially increased level of cash invested at higher interest rates. Interest of $10,304,000 and $8,067,000 was capitalized in 1988 and 1987, respectively.

The Company's effective tax rate was 43.7% in 1988 and 50.5% in 1987. 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 1988 amounted to $387,076,000, an increase of 39% from the $279,078,000 earned in 1987. Earnings per share for 1988 were $22.31, a 36% gain over the $16.46 reported in 1987. Average shares outstanding for 1988 were 17,350,000 compared with 16,950,000 in 1987, the increase primarily reflecting the exercise of warrants issued in connection with the acquisition of ABC.

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 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 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 6 to the Consolidated Financial Statements).

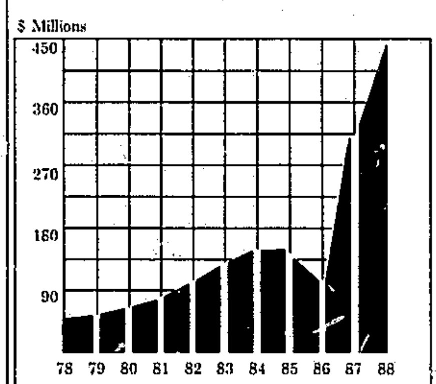
Available Cash Flow

Available cash flow is defined by the Company as cash from operations before changes in operating assets and liabilities, less amounts reinvested in such operations for capital expenditures and program licenses and rights. In 1988, the Company's available cash flow was $439,714,000, representing an increase of $131,977,000, or 43%, over the $307,737,000 reported in 1987. This growth was primarily attributable to the increase in net income.

Unlike most industrial companies, the Company has not been required to reinvest large amounts of capital each year in physical assets, inventories and programming licenses and rights to maintain the same level of operations. As a result of the acquisition of ABC, the Company acquired a substantial investment in prepaid entertainment programming and sports rights at the ABC Television Network and at ESPN. The Company, however, does not anticipate significant year to year increases in prepaid rights in the future.

The Company's available cash flows have historically been almost equal to or higher than reported net income. In 1988 and 1987, available cash flow exceeded net income by $52,638,000 and $28,659,000, 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

Available Cash Flow



stockholders' equity and enable it to reduce outstanding debt.

The available cash flow for 1988 of $439,714,000 was increased by $407,604,000 of net proceeds from common stock warrant activity, $19,072,000 from the disposition of an operating property and $17,742,000 from other sources, and resulted in total cash provided of $884,132,000. The decrease in working capital items required $55,096,000, acquisitions of operating properties required $18,143,000 and other applications required $10,529,000 which resulted in total cash applied of $83,768,000. The excess of cash provided over cash applied resulted in an increase of $800,364,000 in cash and cash investments from January 3, 1988.

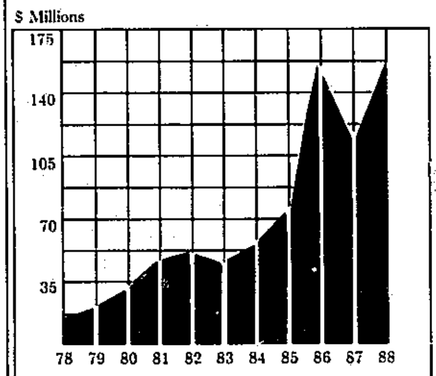
Capital Expenditures and Program Commitments

In 1988, capital expenditures amounted to $153,413,000 compared with $116,309,000 in 1987. The largest portion of 1988 capital spending was in the Company's broadcasting operations where $138,043,000 was spent. Of this amount, $51,322,000 was for the continued construction of a new headquarters building. Also, $34,430,000 was for other facility improvements including a new studio at the ABC Television Center in Los Angeles, and the completion of rebuilding the WLS-TV broadcasting facilities in Chicago. The remaining $52,291,000 was for broadcast equipment to support current operations. In 1988, the Publishing Group spent $15,085,000 for ongoing operations, with an offset press conversion at *The Oakland Press* representing the largest expenditure.

The Company anticipates that 1989 capital expenditures will approximate $140,000,000. This amount includes $38,000,000 for the completion of the new headquarters building along with $20,000,000 for other facility improvements. The remaining expenditures for broadcast and publishing equipment to support ongoing operations is expected to be $82,000,000, which is less than annual depreciation expense.

As the operator of the ABC Television

Capital Expenditures



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 $1,715,000,000 at the end of 1988 (including ESPN's commitment with Major League Baseball made on January 5, 1989). 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 $3,025,505,000 at January 1, 1989, an increase of $800,584,000 from the 1987 year-end total of $2,224,921,000. The increase was primarily attributable to the addition of $387,076,000 of net income and $407,604,000 of net proceeds from common stock warrant activity. The warrants were issued in connection with the acquisition of ABC.

At January 1, 1989, total interest-bearing debt was $1,693,543,000, a net decrease of $3,358,000 from 1987. As more fully described in Note 5 to the Consolidated Financial Statements, total interest-bearing debt at January 1, 1989 includes $100,000,000 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 $18,543,000 of other long-term debt. At January 1, 1989, the weighted average interest rate of the commercial paper, and of all other long-term instruments, was 9.0% and 10.3%, respectively.

At January 1, 1989, deferred income taxes amounted to $168,836,000 and minority interest in the Company's consolidated subsidiaries was $60,591,000.

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
1988	$1,693.5	$4,948.5	34%
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%

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 14.7% in 1988, 13.4% in 1987 and 9.7% in 1986. 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, the return on equity dropped substantially as a result of transactions related to the acquisition of ABC. The significant resulting decline in return on equity was reversed beginning in 1987 as the Company's historical operating patterns returned.

On May 19, 1988, the Board of Directors of the Company authorized the repurchase of up to 1,000,000 shares of the Company's common stock. The repurchases will be made from time to time in the open market at prices then prevailing. As of February 28, 1989, the Company has repurchased 39,300 shares of its common stock under this authorization.

Intangible Assets

At January 1, 1989, the Company's intangible assets, before accumulated amortization, totaled $2,454,215,000 of which $2,060,332,000 arose from the acquisition of ABC. These intangible assets accounted for approximately 40% of the Company's total assets.

Intangible assets represent the excess of the purchase price over the underlying fair market value of tangible assets acquired. In accordance with *Accounting Principles Board Opinion No. 17,* the Company amortizes substantially all intangible assets over 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 substantially increased in value and have long and productive lives. We believe that the Company's intangible assets have appreciated in value, and that the requirements of *Opinion No. 17,* when applied to such publishing and broadcasting assets, understate net income and stockholders' equity. The amortization of intangible assets had the effect of reducing 1988 net income by $64,128,000, or $3.70 a share. The amortization of substantially all intangible assets is not a deductible item in computing income taxes.

Financial Summary 1978-1988

(Dollars in thousands except per share data)

	1988	1987	1986
RESULTS FOR THE YEAR			
Net revenues			
Broadcasting	$3,749,557	$3,433,749	$3,153,619
Publishing	1,023,896	1,006,597	970,755
Total	4,773,453	4,440,346	4,124,374
Operating income			
Broadcasting	$ 722,171	$ 632,910	$ 474,535
Publishing	129,720	146,717	158,999
Income from operations	851,891	779,627	633,534
General corporate expense	(35,862)	(33,637)	(30,856)
Total	816,029	745,990	602,678
Income before extraordinary items (a)	$ 387,076	$ 279,078	$ 181,943
Income per share before extraordinary items (a)	$22.31	$16.46	$11.20
Cash dividends per common share	$ 0.20	$ 0.20	$ 0.20
Average shares (000's omitted)	17,350	16,950	16,250
Return on average stockholders' equity (b)	14.7%	13.4%	9.7%
SELECTED CASH FLOW DATA			
Cash provided			
Operations, before changes in operating assets and liabilities	$ 558,633	$ 468,380	$ 268,162
Available cash flow (c)	439,714	307,737	112,343
Proceeds from issuance of long-term debt	500	—	1,350,507
Proceeds from disposition of operating companies	19,072	—	703,378
Cash applied			
Acquisition of operating companies	$ 18,143	$ 13,248	$3,162,661
Common stock purchased for treasury	3,644	576	1,075
Capital expenditures	153,413	116,309	153,082
Reduction of long-term debt	3,458	124,904	367,528
Dividends	3,427	3,231	3,219
AT YEAR-END			
Working capital	$1,504,954	$ 640,574	$ 416,230
Total assets	6,088,871	5,378,372	5,191,416
Long-term debt	1,693,543	1,696,901	1,821,805
Stockholders' equity	3,025,505	2,224,921	1,948,627
Number of shares outstanding (000's omitted)	17,999	16,193	16,126
Price range of common stock			
Closing market price	$362¼	$345	$267½
High for the year	369¾	450	279¾
Low for the year	297	267¼	208¼

(a) Extraordinary items amounted to $265,746,000 ($16.35 per share) in 1986, $7,585,000 ($0.58 per share) in 1984 and $2,430,000 ($0.18 per share) in 1980.
(b) Income before extraordinary items divided by average stockholders' equity.
(c) Cash provided from operations before changes in operating assets and liabilities, less amounts reinvested for capital expenditures and program license and rights.

1985	1984	1983	1982	1981	1980	1979	1978
$ 378,297	$ 348,106	$ 302,785	$274,298	$214,498	$167,010	$151,327	$133,360
642,583	591,616	459,510	389,282	359,286	305,098	263,563	234,116
1,020,880	939,722	762,295	663,580	573,784	472,108	414,890	367,476
$ 150,970	$ 144,182	$ 124,696	$117,906	$ 99,134	$ 85,394	$ 80,319	$ 70,080
138,512	133,179	104,034	79,010	67,520	58,186	50,668	48,781
289,482	277,361	228,730	196,916	166,654	143,580	130,987	118,861
(11,981)	(9,849)	(8,366)	(7,128)	(7,468)	(6,205)	(5,334)	(4,563)
277,501	267,512	220,364	189,788	159,186	137,375	125,653	114,298
$ 142,222	$ 135,193	$ 114,704	$ 96,317	$ 80,518	$ 70,783	$ 63,758	$ 54,033
$10.87	$10.40	$8.53	$7.25	$6.12	$5.38	$4.68	$3.80
$ 0.20	$ 0.20	$0.20	$0.20	$0.20	$0.20	$0.20	$0.175
13,080	13,000	13,455	13,280	13,150	13,165	13,615	14,220
17.5%	19.9%	19.6%	19.5%	20.1%	21.5%	22.9%	21.8%
$ 223,296	$ 196,600	$ 169,363	$137,529	$108,208	$ 86,589	$ 77,888	$ 66,811
146,179	142,734	124,945	103,677	79,940	62,978	59,710	50,497
493,329	18,065	202,527	1,944	111,640	3,834	1,900	2,696
7,222	5,000	3,200	—	13,808	—	—	15,526
$ 51,109	$ 146,843	$ 22,016	$ 21,588	$157,128	$ 32,308	—	$ 10,017
484	46,135	43,619	676	125	14,753	$ 24,736	31,097
75,384	53,866	47,595	51,651	48,634	23,611	18,178	16,314
7,872	16,030	32,766	55,867	67,935	23,122	26,928	25,970
2,595	2,570	2,656	2,627	2,603	2,573	2,669	2,438
$ 830,986	$ 240,985	$ 265,847	$ 16,353	$ 4,288	$ 35,408	$ 34,428	$ 18,980
1,884,931	1,208,172	1,052,912	776,013	697,620	519,958	473,134	444,797
714,298	222,995	220,960	48,449	102,372	58,667	77,955	102,983
889,260	734,455	625,255	544,267	443,822	359,081	298,497	259,691
12,998	12,867	13,103	13,180	13,025	12,902	13,058	13,514
$224½	$164⅝	$144	$119⅝	$73¾	$58¾	$48⅝	$39⅝
229	174½	157½	136¾	80½	72	49⅞	47¾
152¼	123½	114¾	64⅜	56½	40	36¾	27⅛

Consolidated Statement of Income

(Dollars in thousands except per share amounts)

	1988	1987	1986
Net revenues	**$4,773,453**	$4,440,346	$4,124,374
Costs and expenses			
Direct operating expenses	**2,908,481**	2,664,444	2,534,503
Selling, general and administrative	**889,110**	871,606	828,590
Depreciation	**95,705**	92,900	95,201
Amortization of intangible assets	**64,128**	65,406	63,402
	3,957,424	3,694,356	3,521,696
Operating income	**816,029**	745,990	602,678
Other income (expense)			
Interest expense	**(182,362)**	(190,806)	(185,511)
Interest income	**53,092**	15,774	8,939
Miscellaneous, net	**517**	(6,980)	(3,363)
	(128,753)	(182,012)	(179,935)
Income before income taxes	**687,276**	563,978	422,743
Income taxes			
Federal	**241,500**	235,400	206,400
State and local	**58,700**	49,500	34,400
	300,200	284,900	240,800
Income before extraordinary items	**387,076**	279,078	181,943
Extraordinary items, net of taxes	**—**	—	265,746
Net income	**$ 387,076**	$ 279,078	$ 447,689
Income per share			
Before extraordinary items	**$22.31**	$16.46	$11.20
Extraordinary items	**—**	—	16.35
Net income	**$22.31**	$16.46	$27.55
Average shares outstanding (000's omitted)	**17,350**	16,950	16,250

See accompanying notes

Consolidated Statement of Cash Flows

(Dollars in thousands)

	1988	1987	1986
Cash flows from operating activities			
Net income	$ 387,076	$ 279,078	$ 447,689
Adjustments to reconcile net income to net cash			
Noncash and nonoperating items			
Depreciation	95,705	92,900	95,201
Amortization of intangible assets	64,128	65,406	63,402
Increase in deferred liabilities	9,866	16,029	98,032
Extraordinary gain on disposition of operating companies	—	—	(436,796)
Other noncash items	1,858	14,967	634
Cash from operations before changes in operating assets and liabilities	558,633	468,380	268,162
Decrease (increase) in program assets and liabilities, net	34,494	(44,334)	(2,737)
(Increase) decrease in accounts receivable	(1,107)	86,874	(152,034)
(Decrease) increase in accounts payable, accrued expenses and other current liabilities	(34,506)	48,044	35,573
(Increase) decrease in other operating assets, net	(19,483)	(30,642)	26,465
Net cash provided by operating activities	538,031	528,322	175,429
Cash flows from investing activities			
Capital expenditures	(153,413)	(116,309)	(153,082)
Acquisition of operating companies	(18,143)	(13,248)	(3,162,661)
Proceeds from disposition of operating companies	19,072	—	703,378
Proceeds from disposition of real estate	—	20,161	162,165
Other investing activities, net	4,267	26,583	24,257
Net cash used in investing activities	(148,217)	(82,813)	(2,425,943)
Cash flows from financing activities			
Net proceeds (payments) from common stock warrant activity	407,604	(12,120)	(16,569)
Common stock purchased for treasury	(3,644)	(576)	(1,075)
Dividends	(3,427)	(3,231)	(3,219)
Reduction of long-term debt	(3,458)	(124,904)	(367,528)
Proceeds from issuance of long-term debt	500	—	1,350,507
Proceeds from common stock sold to Berkshire Hathaway Inc.	—	—	517,500
Other financing activities	12,975	13,143	17,848
Net cash provided by (used in) financing activities	410,550	(127,688)	1,497,464
Net increase (decrease) in cash and short-term cash investments	800,364	317,821	(753,050)
Cash and short-term cash investments			
Beginning of period	333,630	15,809	768,859
End of period	$1,133,994	$ 333,630	$ 15,809

See accompanying notes

Consolidated Balance Sheet

January 1, 1989 and January 3, 1988
(Dollars in thousands)

Assets	1988	1987
Current assets		
Cash	$ 25,714	$ 9,946
Short-term cash investments	1,108,280	323,684
Accounts and notes receivable (net of allowance for doubtful accounts of $37,702 in 1988 and $37,798 in 1987)	694,955	695,426
Program licenses and rights	375,273	369,844
Other current assets	166,927	146,602
Total current assets	2,371,149	1,545,502
Property, plant and equipment, at cost		
Land	399,400	395,097
Buildings and improvements	495,313	459,766
Broadcasting and publishing equipment	512,427	456,360
Other, including construction-in-progress	165,174	113,325
	1,572,314	1,424,548
Less accumulated depreciation	376,433	287,415
Property, plant and equipment, net	1,195,881	1,137,133
Intangible assets (net of accumulated amortization of $236,848 in 1988 and $177,878 in 1987)	2,217,367	2,272,799
Program licenses and rights, noncurrent	181,614	298,984
Other assets	122,860	123,954
	$6,088,871	$5,378,372

See accompanying notes

Liabilities and Stockholders' Equity	1988	1987
Current liabilities		
Accounts payable	$ 67,667	$ 80,404
Accrued compensation	112,246	114,753
Accrued interest	55,778	56,289
Accrued expenses and other current liabilities	213,511	208,338
Program licenses and rights	265,383	272,478
Taxes on income	150,084	171,124
Long-term debt due within one year	1,526	1,542
Total current liabilities	866,195	904,928
Deferred compensation	64,117	66,079
Deferred income taxes	168,836	159,080
Unearned subscription revenue	43,090	40,617
Program licenses and rights, noncurrent	72,316	142,668
Other liabilities	96,204	96,697
Long-term debt due after one year	1,692,017	1,695,359
Total liabilities	3,002,775	3,105,428
Minority interest	60,591	48,023
Stockholders' equity		
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	961,647	646,124
Retained earnings	2,101,193	1,717,544
	3,081,234	2,382,062
Less common stock in treasury, at cost (394,073 shares in 1988 and 2,200,957 shares in 1987)	55,729	157,141
Total stockholders' equity	3,025,505	2,224,921
	$6,088,871	$5,378,372

Consolidated Statement of Stockholders' Equity

(Dollars in thousands)

	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Total
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
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
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	18,394	646,124	1,717,544	(157,141)	2,224,921
Net income for 1988	—	—	387,076	—	387,076
541,016 warrants purchased	—	(34,266)	—	—	(34,266)
1,767,478 warrants exercised	—	339,451	—	102,419	441,870
27,701 shares issued under Employee Stock Purchase Plan	—	7,215	—	996	8,211
22,432 shares issued on exercise of employee stock options	—	3,123	—	1,641	4,764
10,727 shares purchased for treasury	—	—	—	(3,644)	(3,644)
Cash dividends	—	—	(3,427)	—	(3,427)
Balance January 1, 1989	$18,394	$961,647	$2,101,193	$ (55,729)	$3,025,505

See accompanying notes

1. Accounting Policies

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

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

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.

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.

Capitalized Interest—Interest is capitalized in accordance with *Financial Accounting Standards Board Statement No. 34*. As a result, $10,304,000, $8,067,000, and $11,414,000 was capitalized in 1988, 1987 and 1986, respectively.

Consolidated Statement of Cash Flows—In 1988, the Company adopted *Financial Accounting Standards Board Statement No. 95*, "Statement of Cash Flows," and accordingly, prior years' statement of changes in financial position has been restated to conform to the 1988 presentation. For purposes of the Statement, short-term investments which have a maturity of three months or less at the time of purchase, are considered cash equivalents.

Reporting Year—The Company's reporting year is a fiscal year ending the Sunday closest to December 31. Results for 1988 are for the 52-week year ended January 1, 1989, for 1987 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):

	1988	1987	1986
Common shares	16,965	16,165	16,090
Stock options	75	90	95
Warrants	310	695	65
Total	17,350	16,950	16,250

Notes to Consolidated Financial Statements—(Continued)

3. Acquisitions

1988—During 1988, the Company increased its equity interest to 25% in a European cable television programming service, and also acquired several small publishing operations. The combined cash purchase price for these acquisitions was $18,143,000.

1987—In 1987, the Company acquired radio stations KRXY-AM/FM, serving the Denver, Colorado market, and several small publishing operations for a combined cash purchase price of $13,248,000.

1986—On January 3, 1986, the Company acquired American Broadcasting Companies, Inc. (ABC) for an aggregate cash purchase price of $3,150,102,000. Each share of ABC common stock entitled the holder to receive $118.108 plus 0.1024 of a warrant. Each warrant provided the holder the right to purchase one share of the Company's common stock at $250.00 per share until July 29, 1988. The non-cash value of the 2,906,703 warrants of $97,193,000 was included in additional paid-in capital.

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 6), 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.

In 1986, the Company also acquired radio stations KQRS-AM/FM serving the Minneapolis-St. Paul, Minnesota market, and PEMCO, a trade show exhibition company, for a combined cash purchase price of $12,559,000.

In connection with the above acquisitions, liabilities assumed and other non-cash transactions were as follows (000's omitted):

	1988	1987	1986
Recorded value of assets acquired	$25,547	$17,689	$4,804,169
Liabilities assumed	(7,112)	(4,441)	(1,320,562)
Common stock warrants issued	—	—	(97,193)
Less cash acquired	(292)	—	(223,753)
Net cash paid for acquisitions	$18,143	$13,248	$3,162,661

4. Commitments

At January 1, 1989, the Company is committed for the purchase of broadcast rights for various feature films, sports events and other programming aggregating approximately $1,715,000,000. This amount includes ESPN's commitment with Major League Baseball made on January 5, 1989.

The aggregate payments related to these commitments during the next five years are summarized as follows: 1989 — $762,161,000; 1990 — $267,635,000; 1991 — $204,073,000; 1992 — $203,151,000; 1993 — $166,467,000.

The Company anticipates 1989 capital expenditures for property, plant and equipment will approximate $140,000,000.

Rental expense under operating leases amounted to $88,008,000, $85,678,000 and $83,814,000 for 1988, 1987 and 1986, respectively.

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

	Capital leases	Operating leases
1989	$ 5,256	$ 77,223
1990	4,738	58,537
1991	3,735	52,890
1992	3,320	44,531
1993	2,919	36,743
1994 and thereafter	134,709	152,541
Minimum lease payments	154,677	$422,465
Imputed interest	(124,389)	
Present value of minimum lease payments	$ 30,288	

Total minimum payments for operating leases have not been reduced for future minimum sublease rentals aggregating $60,237,000.

5. Long-Term Debt

Long-term debt at January 1, 1989 and January 3, 1988, is as follows (000's omitted):

	1988	1987
Commercial paper supported by bank revolving credit agreement	$ 100,000	$ 101,916
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
11⅝% debentures due 2015, with annual sinking fund payments beginning in 1996	300,000	300,000
8¾% debentures due 2016, with annual sinking fund payments beginning in 1997	300,000	300,000
Other long-term debt	18,543	19,985
	$1,693,543	$1,696,901

The aggregate payments of long-term debt outstanding at January 1, 1989 for the next five years, excluding commercial paper, are summarized as follows: 1989—$1,526,000; 1990—$2,429,000; 1991—$95,306,000; 1992—$95,307,000; 1993—$95,140,000.

Interest paid on long-term debt during 1988, 1987 and 1986, amounted to $193,177,000, $196,908,000 and $164,202,000, respectively.

A subsidiary of the Company has issued commercial paper, $100,000,000 of which was outstanding at January 1, 1989, at a weighted average interest rate of 9.0%. 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 ⅛%. Under terms of the bank revolving credit agreement, the Company and its consolidated subsidiaries are required to maintain a consolidated net worth of $1,552,137,000 at January 1, 1989, increasing annually by 33 percent of the consolidated net income of the previous year.

The commercial paper outstanding at January 1, 1989 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 1989 is expected to fluctuate and may be reduced from time to time.

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

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

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)

6. Extraordinary Items—1986

In transactions related to the acquisition of ABC, and to comply with certain regulations of the Federal Communications Commission, during January 1986 the Company sold certain broadcasting properties and all of its cable television systems. The cash proceeds of these sales were $703,378,000 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 resulted in an extraordinary charge of $14,250,000 (net of income taxes of $14,252,000).

7. Employees' Profit Sharing and Pension Plans

The Company has defined benefit pension plans or qualified profit sharing 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 $6,616,000, $6,261,000 and $5,339,000 were charged to expense in 1988, 1987 and 1986, 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.

The weighted average discount rate used in determining the actuarial present value of the projected benefit obligation was 9% and 8% at year-end 1988 and 1987, respectively. The rate of increase in future compensation levels and the expected long-term rate of return on assets were 5% and 8%, respectively, in 1988 and 1987.

The components of net pension cost for 1988, 1987 and 1986 were as follows (000's omitted):

	1988	1987	1986
Service cost of current period	$ 13,078	$ 11,900	$ 13,142
Interest cost on projected benefit obligation	25,419	23,088	22,177
Actual return on plan assets	(42,729)	(24,897)	(51,112)
Net amortization and deferral	10,474	(6,819)	21,991
Net pension cost	$ 6,242	$ 3,272	$ 6,198

The following table sets forth the pension plans' funded status and amounts recognized in the balance sheet at January 1, 1989 and January 3, 1988 (000's omitted):

	1988	1987
Actuarial present value of accumulated plan benefits including vested benefits of $230,911 ($234,024 in 1987)	$ 244,802	$ 250,087
Plan assets at fair value, primarily publicly traded securities and short-term cash investments	$ 414,849	$ 386,736
Projected benefit obligation for service rendered to date	(299,532)	(304,098)
Plan assets in excess of projected benefit obligation	115,317	82,638
Prior service cost not yet recognized in net periodic pension cost	5,877	(1,164)
Unrecognized net gain from past experience different from that assumed	(68,077)	(24,677)
Unrecognized net asset (transition amount) being recognized principally over 15 years	(26,961)	(29,206)
Prepaid pension cost included in balance sheet	$ 26,156	$ 27,591

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. The segment data follows (000's omitted):

	1988	1987	1986	1985	1984
Broadcasting					
Net revenues	$3,749,557	$3,433,749	$3,153,619	$ 378,297	$ 348,106
Direct operating costs	2,904,668	2,680,582	2,554,932	192,249	172,867
Depreciation	76,303	73,730	78,952	26,711	23,257
Amortization of intangible assets	46,415	46,527	45,200	8,367	7,800
Total operating costs	3,027,386	2,800,839	2,679,084	227,327	203,924
Income from operations	$ 722,171	$ 632,910	$ 474,535	$ 150,970	$ 144,182
Assets at year-end	$3,927,891	$4,018,775	$4,186,650	$ 537,797	$ 507,433
Capital expenditures	138,043	102,425	104,278	26,327	26,370
Publishing					
Net revenues	$1,023,896	$1,006,597	$ 970,755	$ 642,583	$ 591,616
Direct operating costs	858,102	822,123	778,201	482,333	438,414
Depreciation	18,361	18,878	15,353	10,395	10,190
Amortization of intangible assets	17,713	18,879	18,202	11,343	9,833
Total operating costs	894,176	859,880	811,756	504,071	458,437
Income from operations	$ 129,720	$ 146,717	$ 158,999	$ 138,512	$ 133,179
Assets at year-end	$ 898,608	$ 908,193	$ 920,896	$ 455,274	$ 430,997
Capital expenditures	15,085	13,114	48,589	45,869	26,700
Consolidated					
Net revenues	$4,773,453	$4,440,346	$4,124,374	$1,020,880	$ 939,722
Income from operations	$ 851,891	$ 779,627	$ 633,534	$ 289,482	$ 277,361
General corporate expense	(35,862)	(33,637)	(30,856)	(11,981)	(9,849)
Operating income	816,029	745,990	602,678	277,501	267,512
Interest expense	(182,362)	(190,806)	(185,511)	(22,738)	(27,161)
Interest and other income	53,609	8,794	5,576	22,059	28,442
Income before income taxes	$ 687,276	$ 563,978	$ 422,743	$ 276,822	$ 268,793
Assets employed by segments	$4,826,499	$4,926,968	$5,107,546	$ 993,071	$ 938,430
Cash investments and other corporate assets	1,262,372	451,404	83,870	891,860	269,742
Total assets at year-end	$6,088,871	$5,378,372	$5,191,416	$1,884,931	$1,208,172

Notes to Consolidated Financial Statements—(Continued)

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):

	1988		1987		1986	
	Amount	%	Amount	%	Amount	%
Income before income taxes	$687,276		$563,978		$422,743	
Income tax expense at statutory Federal rate	$233,674	34.0	$225,591	40.0	$194,462	46.0
State and local income taxes, net of Federal benefit	38,750	5.6	29,700	5.3	18,576	4.4
Amortization of intangibles	21,804	3.2	26,162	4.6	28,705	6.8
Other, net	5,972	0.9	3,447	0.6	(943)	(0.2)
Total	$300,200	43.7	$284,900	50.5	$240,800	57.0

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

	1988	1987	1986
Federal			
Current	$239,600	$246,700	$205,800
Deferred	1,900	(11,300)	600
	241,500	235,400	206,400
State and local			
Current	58,000	52,600	34,300
Deferred	700	(3,100)	100
	58,700	49,500	34,400
Total	$300,200	$284,900	$240,800

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):

	1988	1987	1986
Accelerated depreciation	$ 13,600	$ 19,200	$ 22,500
Program costs	(1,800)	(12,900)	(15,600)
Deferred compensation	(1,900)	(12,600)	(8,100)
Other	(7,300)	(8,100)	1,900
Total	$ 2,600	$ (14,400)	$ 700

Income taxes paid, net of refunds received, during 1988, 1987 and 1986 amounted to $228,570,000, $135,767,000 and $107,302,000, respectively.

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 6). 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 1, 1989 also include approximately $66,000,000 of taxes relating to the disposition of broadcasting properties by ABC, in 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 1990. Upon adoption of FAS No. 96, the Company has the option of restating prior years' financial statements. The Company does not expect to adopt the standard prior to 1990 and does not presently intend to restate the financial statements of prior years upon adoption. Accordingly, there would be no effect on the 1988 financial statements, and the effect on the 1990 financial statements of implementing the change is not estimated to be material.

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 cumulatively exercisable as to 25% of the total shares represented thereby for each of the first four years after grant, provided that the individual remains in the employ of the Company. The following information pertains to the Company's stock option plans:

	1988	1987	1986
Outstanding options, beginning of year	143,055	166,433	265,799
Granted	—	4,500	—
Cancelled or expired	(250)	(1,150)	(11,700)
Exercised	(22,432)	(26,728)	(87,666)
Outstanding options, end of year	120,373	143,055	166,433
Average price of options exercised during the year	$75.74	$96.19	$41.90
Exercise price of outstanding options, end of year	$40.13 to $383.38	$23.94 to $383.38	$23.94 to $220.69
Options exercisable, end of year	112,037	128,083	132,525
Options available for future grant	501,455	501,205	204,555

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 27,701, 33,893 and 44,674 shares under the Plan in 1988, 1987 and 1986, respectively. As of January 1, 1989, 395,872 shares remain available to be purchased through the period ending April 1992.

The Company also has the 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. In 1988, 1987 and 1986, the cost of this plan (net of forfeitures) was $6,942,000, $6,479,000 and $5,877,000, respectively.

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

As of February 28, 1989, the approximate number of holders of common stock was 6,270. Dividends of $.05 per share have been paid for each quarter of 1988 and 1987. 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 1988 and 1987 are as follows:

	1988			1987		
	High	Low	Close	High	Low	Close
1st quarter	$357½	$309	$341½	$355	$267¼	$347⅝
2nd quarter	364	297	317⅛	394	324	385¾
3rd quarter	362	307	355½	450	378¼	419½
4th quarter	369¾	343	362¼	447	297	345

In connection with the 1986 acquisition of ABC, 2,906,703 warrants were issued. Each warrant entitled the holder to purchase one share of common stock at $250.00 per share until July 29, 1988. During the time the warrants were outstanding, the Company purchased and redeemed 1,108,607 warrants at an average cost of $58.48 per warrant, and received $443,750,000 from the exercise of 1,774,999 warrants.

Notes to Consolidated Financial Statements—(Continued)

12. Quarterly Financial Data (Unaudited)

The following summarizes the Company's results of operations for each quarter of 1988, 1987 and 1986 (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
1988					
Net revenues	$1,288,807	$1,159,486	$1,009,555	$1,315,605	$4,773,453
Costs and expenses	1,121,846	914,809	871,295	1,049,474	3,957,424
Operating income	166,961	244,677	138,260	266,131	816,029
Interest expense	(46,370)	(45,805)	(45,494)	(44,693)	(182,362)
Interest and other income	6,754	8,014	17,068	21,773	53,609
Income before income taxes	127,345	206,886	109,834	243,211	687,276
Income taxes	57,000	93,000	47,200	103,000	300,200
Net income	$ 70,345	$ 113,886	$ 62,634	$ 140,211	$ 387,076
Net income per share	$4.16	$6.78	$3.55	$7.76	$22.31
1987					
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	(48,004)	(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	$ 23,926	$ 99,732	$ 38,436	$ 116,984	$ 279,078
Net income per share	$1.43	$5.88	$2.23	$6.91	$16.46
1986					
Net revenues	$ 912,337	$1,065,674	$ 959,039	$1,187,324	$4,124,374
Costs and expenses	855,574	866,273	830,806	969,043	3,521,696
Operating income	56,763	199,401	128,233	218,281	602,678
Interest expense	(42,343)	(47,387)	(45,152)	(50,629)	(185,511)
Interest and other income	1,950	2,015	39	1,572	5,576
Income before income taxes	16,370	154,029	83,120	169,224	422,743
Income taxes	14,400	87,000	50,500	88,900	240,800
Income before extraordinary items	1,970	67,029	32,620	80,324	181,943
Extraordinary items	279,996	—	(14,250)	—	265,746
Net income	$ 281,966	$ 67,029	$ 18,370	$ 80,324	$ 447,689
Income per share					
Before extraordinary items	$ 0.12	$4.15	$2.01	$4.90	$11.20
Extraordinary items	17.36	—	(0.88)	—	16.35
Net income per share	$17.48	$4.15	$1.13	$4.90	$27.55

Report of Independent Public Accountants

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

We have audited the accompanying consolidated balance sheet of Capital Cities/ABC, Inc. at January 1, 1989 and January 3, 1988, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended January 1, 1989. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Capital Cities/ABC, Inc. at January 1, 1989 and January 3, 1988, and the consolidated results of operations and cash flows for each of the three years in the period ended January 1, 1989 in conformity with generally accepted accounting principles.

Arthur Young & Company
Arthur Young & Company

New York, New York
February 28, 1989

Report of Management

The management of Capital Cities/ABC, Inc. is responsible for the information included in the consolidated financial statements. These statements, including the accompanying notes, have been prepared in accordance with generally accepted accounting principles and include amounts which are based upon management's best estimates and judgments.

In recognition of its responsibility for the integrity and reliability of the data contained in the financial statements, management maintains a system of internal controls. Internal controls are designed to provide reasonable but not absolute assurance at appropriate cost that assets are safeguarded from loss or unauthorized use, and that the financial records are reliable for the preparation of financial statements.

The Audit Committee of the Board of Directors, which is composed of five outside directors, meets periodically with management, the independent auditors and the internal auditors to ensure that each is carrying out its responsibilities. The Audit Committee reports its conclusions and recommendations to the Board of Directors. Both the independent and internal auditors have free and direct access to the Audit Committee.

The financial statements have been audited by the Company's independent public accountants in accordance with generally accepted auditing standards. In that connection, the independent public accountants develop and maintain an understanding of the Company's accounting controls and conduct such tests and related procedures as they deem necessary to render their opinion as to the fairness of the presentation in all material respects of the financial statements in conformity with generally accepted accounting principles.

Thomas S. Murphy

Thomas S. Murphy
Chief Executive Officer

Ronald J. Doerfler

Ronald J. Doerfler
Chief Financial Officer

Publishing Group

Phillip J. Meek, *President*

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Donald W. Chestnut, *Senior Vice President*
Ronald A. Hoxter, *Senior Vice President*

ABC CONSUMER MAGAZINES (New York, NY and Greensboro, NC)

HITCHCOCK PUBLISHING COMPANY (Carol Stream, 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, INCORPORATED (Irving, TX)
Gary R. Ingersoll, *President*

Newspapers

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FORT WORTH STAR-TELEGRAM (Fort Worth, TX)
Richard L. Connor, *President, Publisher*

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

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

THE TIMES LEADER (Wilkes-Barre, PA)
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HIGHLAND NEWS-LEADER (Highland, IL)

O'FALLON PROGRESS (O'Fallon, IL)

LEGAL COMMUNICATIONS (St. Louis, MO)

Shopping Guides

SUTTON INDUSTRIES (Orange and San Diego Counties, Sacramento and Stockton, CA)
Wesley R. 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)

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Daniel B. Burke
President and Chief Operating Officer

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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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Daniel B. Burke, *President and Chief Operating Officer*
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Allen S. Bomes, *Assistant Treasurer*

* * * * * *

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Alan Wurtzel, *Senior Vice President*

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Brandon Stoddard, *President*

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

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Roone Arledge, *President*
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Robert O. Niles, *Vice President*

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

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

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

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Terry Crofoot, *President, General Manager*

KGO-TV (San Francisco, CA)
James G. Topping, *President, General Manager*

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

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

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Roger L. Werner, Jr., *President*

ARTS & ENTERTAINMENT (New York, NY)

LIFETIME (New York, NY)

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Radio

James P. Arcara, *President*

ABC Radio Networks

Aaron M. Daniels, *President*

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WPLJ-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*

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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)
Thomas J. Bresnahan, *President, General Manager*

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*

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Chairman of the Board and Chief Executive Officer

DANIEL B. BURKE
President and Chief Operating Officer

ROBERT P. BAUMAN
Chairman of the Board, 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

JOSEPH P. DOUGHERTY
Former 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

FRANK S. JONES
Ford Professor of Urban Affairs, Massachusetts Institute of Technology

ANN DIEBLE JORDAN
Former Director of Social Service Department, University of Chicago Medical School

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.

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

Director Emeritus
GERALD DICKLER
Senior Counsel, Hall, Dickler, Lawler, Kent & Friedman, Attorneys at Law

Transfer Agent and Registrar
Harris Trust Company of New York
77 Water Street
New York, New York 10005

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

Exhibit (22)

As of January 1, 1989

Subsidiaries of Capital Cities/ABC, Inc.

	Jurisdiction of Incorporation
Capital Cities/ABC, Inc. (parent)	New York
ABC Holding Company, Inc.	Delaware
ABC Consumer Magazines Holding Company, Inc.	Delaware
ABC Consumer Magazines, Inc.	Delaware
ABC Daytime Circle, Inc.	Delaware
ABC Network Holding Company, Inc.	Delaware
ABC Equipment Leasing, 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
SMN Holding Company, 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 Sports International, Inc.	Delaware

Capital Cities/ABC, Inc. (parent)(continued)	
ABC Holding Company, Inc. (continued)	
Capital Cities/ABC Video Enterprises, Inc. (continued)	
Capital Cities/ABC Video Publishing, Inc.	Delaware
Capital Cities/ABC Video Systems, Inc.	Delaware
Capital Cities/ABC Video Worldwide Holdings, 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
English Sports, Inc.	Delaware
ESPN 88	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
KLOS-FM Radio, Inc.	Delaware
L.I.C. Warehouse Realty Company, Inc.	Delaware
Los Angeles Magazine Holding Company, Inc.	Delaware
Los Angeles Magazine, Inc.	Delaware
NILS Holding Company, Inc.	Delaware
NILS Publishing Company	Delaware
National Price Service, Inc.	Delaware
Schwann Publications, 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)	
WWPR-FM Radio, Inc. (name changed to WPLJ-FM Radio, Inc. on January 5, 1989)	Delaware
WYTZ-FM Radio, Inc.	Delaware
ABC/Kane Productions International, 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
Practical Homeowner Holding Company, Inc.	New York
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. (name changed to KTRK Television, Inc. on 1/3/89)	Michigan
Southfield Realty Company, Inc.	Michigan
CCC Properties, Inc.	New York
Institutional Investor, Inc.	Delaware
The Kansas City Star Company (also owns the preferred stock of Capital Cities Media, Inc.)	Missouri
KQRS Holding Corporation	Delaware
KQRS, Inc.	Delaware
KRXY Holding Corporation	Delaware
KRXY Radio, Inc.	Delaware
Legal Com of Delaware, Inc.	Delaware
Legal Communications Corporation	Missouri
The Oakland Press Company	Michigan
Tri-County Newspapers, Inc.	Michigan
Pennypower of Kansas, Inc. (formerly Capital Cities of Kansas, Inc.)	Delaware
Pennypower Shopping News, Inc.	Kansas
Star-Telegram, Inc.	Delaware
Media Transport, Inc.	Texas
Sutton Industries, Inc.	Delaware
Texas Media Holding Company, Inc.	Delaware
TV Connection, Inc.	Delaware
WBAP-KSCS, Inc.	Delaware
Wilson Publishing Company	Rhode Island

Exhibit (28)(a)

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, 1988

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
(effective January 1, 1989: Captial Cities/ABC, Inc. Savings & Investment Plan)
77 West 66 Street
New York, New York 10023

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

CAPITAL CITIES/ABC, INC.
77 West 66 Street
New York, New York 10023

Item 1 Changes in the Plan

This item is not applicable.

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 6,919 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. The members of such Committee as of December 31, 1988 are Ronald J. Doerfler, Thomas J. Gorey, Jr. and David J. Vondrak. Communications to members of the Committee should be addressed to them at 77 West 66 Street, New York, New York 10023.

Ronald J. Doerfler is Senior Vice President and Chief Financial Officer, Thomas J. Gorey, Jr. is Vice President, Employee Benefits and Human Resources Information Systems and David J. Vondrak is Vice President and Treasurer of Capital Cities/ABC, 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 by the Trustee:

None from 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 $171,449.

(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, totaling $66,073. During 1988, the commissions paid to Neuberger & Berman, Inc. constituted 32.8 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 19.9 percent of the aggregate dollar amount of transactions during 1988. 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.

Item 8 Investment of Funds (cont'd)

(b) During the calendar year 1988, 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:

Independent Public Accountants' Report

Combined Statements of Financial Condition as of December 31, 1988 and 1987

Combined Statements of Income and Changes in Plan Equity for the years ended December 31, 1988, 1987 and 1986.

Notes to Financial Statements

Supplemental Schedules:

Investments at December 31, 1988

Combining Statements of Financial Condition as of December 31, 1988 and 1987

Combining Statements of Income and Changes in Plan Equity for the years ended December 31, 1988, 1987 and 1986.

Consent of Arthur Young & Company

(b) Exhibits:

None.

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.

Capital Cities/ABC, Inc. Savings & Investment Plan

Date: March 24, 1989

By David J. Vondrak

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

ABC SAVINGS & INVESTMENT PLAN

Financial Statements and Schedules

December 31, 1988

(With Independent Public Accountants' Report Thereon)

ABC SAVINGS & INVESTMENT PLAN

Table of Contents

INDEPENDENT PUBLIC ACCOUNTANT'S REPORT

The Board of Directors
Capital Cities/ABC, Inc.

We have audited the combined statements of the ABC Savings & Investment Plan and related schedules listed in the accompanying index to financial statements (Item 9 (a)). These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements and supplemental schedules as mentioned above present fairly, in all material respects, the financial position of the ABC Savings & Investment Plan at December 31, 1988 and 1987 and the income and changes in plan equity for the three years in the period ended December 31, 1988 in conformity with generally accepted accounting principles.

Arthur Young & Company

ARTHUR YOUNG & COMPANY

New York, New York
March 24, 1989

ABC SAVINGS & INVESTMENT PLAN

Combined Statements of Financial Condition

December 31, 1988 and 1987

Assets	1988	1987
Investments, at market (notes 1 and 3):		
Equity Securities:		
Capital Cities/ABC Inc. common stock (cost of $99,311,722 and $89,974,304 in 1988 and 1987, respectively)	$151,784,561	$ 136,060,065
Other (cost of $14,616,048 and $12,542,504 in 1988 and 1987, respectively)	14,766,733	11,122,815
Total equity securities	166,551,294	147,182,880
Other investments:		
Bankers Trust Generalized Employee Benefit Trust Interim Investment Fund	2,132,519	5,212,540
Funds on deposit with insurance company	46,877,947	37,451,233
Total other investments	49,010,466	42,663,773
Total investments	215,561,760	189,846,653
Due from participants (note 2)	2,875,333	1,292,483
Interest and dividends receivable	422,194	365,457
Due from Capital Cities/ABC, Inc.	417,374	2,031,769
Receivables from sales of investments	120,187	173,938
Total assets	$219,396,848	$ 193,710,300
Liabilities and Plan Equity		
Due to former participants	$ 2,720,083	$ 3,977,236
Payables for purchases of investments	1,296,263	306,491
Plan equity	215,380,502	189,426,573
Total liabilities and plan equity	$219,396,848	$ 193,710,300

See accompanying notes to combined financial statements.

ABC SAVINGS & INVESTMENT PLAN

Combined Statements of Income and
Changes in Plan Equity

Years ended December 31, 1988, 1987 and 1986

	1988	1987	1986
Investment income:			
Dividends	$ 587,779	$ 484,844	$ 432,733
Interest	3,886,479	3,235,858	5,172,428
Total investment income	4,474,258	3,720,702	5,605,161
Appreciation of Capital Cities/ABC, Inc. common stock and warrants distributed to terminated and withdrawing participants (note 1)	1,296,099	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	1,027,944	1,561,690	1,609,427
Net increase in unrealized appreciation of plan assets held at year end (note 1)	7,957,446	28,088,133	16,166,936
	14,755,747	34,510,295	24,765,857
Contributions:			
Participants (note 2)	20,674,930	15,849,443	13,670,223
Employer (notes 1 and 2)	7,186,990	6,089,889	5,741,290
Total contributions	27,861,920	21,939,332	19,411,513
Interest on participants' loans (note 2)	106,786	93,349	59,331
Total	42,724,453	56,542,976	44,236,701
Distributions to terminated and withdrawing participants (note 1):			
Capital Cities/ABC, Inc. common stock at market value	3,167,098	4,534,258	6,817,473
Cash	13,603,426	13,202,448	36,416,106
Total distributions	16,770,524	17,736,706	43,233,579
Change in plan equity	25,953,929	38,806,270	1,003,122
Plan equity:			
Beginning of year	189,426,573	150,620,303	149,617,181
End of year	$215,380,502	$189,426,573	$150,620,303

See accompanying notes to combined financial statements.

ABC SAVINGS & INVESTMENT PLAN

Notes to Combined Financial Statements

December 31, 1988, 1987 and 1986

(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 Income Fund

(b) The investment in common stock of Capital Cities/ABC, Inc. (Capital Cities/ABC) 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 Merger), 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.

Realized gains and losses on sales or distributions of securities are accounted for on a weighted average cost basis. Purchases and sales are recorded on a trade date basis. Dividend income is accrued on the ex-dividend date. Interest income is recorded on a accrual basis as earned.

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 Income Fund consist of funds on deposit with an insurance company under contract which provides for a guaranteed minimum annual rate of interest of 9.5% for 1988. The Guaranteed Income Fund is valued at cost plus interest earned.

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 for each year included in the accompanying statements of income and change in plan equity are as follows:

	1988	1987	1986
Balance at beginning of year	$44,666,078	$16,577,945	$79,060,972
Less: Amount realized due to tender of American Broadcasting Companies, Inc. common stock	-	-	78,649,963
	44,666,078	16,577,945	411,009
Balance at end of year	52,623,524	44,666,078	16,577,945
Net increase	$ 7,957,446	$28,088,133	$16,166,936

ABC SAVINGS & INVESTMENT PLAN

Notes to Combined Financial Statements

December 31, 1988, 1987 and 1986

(1) Summary of Significant Accounting Policies cont'd

(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 $309,730, $497,643 and $871,772 for 1988, 1987 and 1986, respectively.

(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 those other subsidiaries and divisions of Capital Cities/ABC, Inc. which were previously a part of or affiliates of ABC. Individuals who become employees of the corporate and other broadcasting properties of Capital Cities/ABC, Inc. subsequent to 1988 are eligible to participate in the Plan.

In 1988 an employee eligible to participate in the Plan who was also eligible to participate in the Capital Cities/ABC Employee Stock Purchase Plan and who authorized a contribution to the Employee Stock Purchase Plan at any time after April 1, 1988 was ineligible to make any further contributions to the Plan. However, the employee was 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 became ineligible to make further contributions to the Plan. Effective April 3, 1989 this restriction has been removed.

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 compensation, which may be designated either taxable or 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. For periods covered in these financial statements, 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 was considered fully vested. Effective January 1, 1989 in compliance with the Tax Reform Act of 1986, the 10 year vesting period mentioned above was amended to be five years of service.

(continued)

ABC SAVINGS & INVESTMENT PLAN

Notes to Combined Financial Statements

December 31, 1988, 1987 and 1986

(2) Continued

The Plan permits the Employee Benefits Committee to postpone distributions of a member's account in instances where a member's termination of services 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.

Under the Plan members are allowed 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.

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 employer 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 company. 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 permit later substitution of common stock of Capital Cites/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, 1988 there were 6,906 participants in Fund A, 2,268 participants in Fund B and 4,335 participants in Fund C.

As of December 31, 1988 there were 3,822,501 total units in Fund B and 17,813,433 total units in Fund C with unit values of 4.04 and 2.66 respectively.

(continued)

ABC SAVINGS & INVESTMENT PLAN

Notes to Combined Financial Statements

December 31, 1988, 1987 and 1986

(3) Changes in Investment in Equity Securities

Changes in investment in equity securities, at cost, for the years ended December 31, 1988 and 1987 were as follows:

	Shares	Cost
Capital Cities/ABC, Inc. common stock:		
Balance at December 31, 1986	410,265	$93,599,051
Purchases	-	-
Distributions to terminated and withdrawing participants	(15,888)	(3,624,747)
Balance at December 31, 1987	394,377	89,974,304
Purchases	36,424	12,068,551
Distributions to terminated and withdrawing participants	(11,796)	(2,731,133)
Balance at December 31, 1988	419,005	$99,311,722
Other equity securities:		
Balance at December 31, 1986	326,260	$10,076,769
Purchases	386,167	9,938,411
Sales	(258,647)	(7,472,676)
Balance at December 31, 1987	453,780	12,542,504
Purchases	338,595	9,761,142
Sales	(292,100)	(7,687,598)
Balance at December 31, 1988	500,275	$14,616,048

ABC SAVINGS & INVESTMENT PLAN

Notes to Combined Financial Statements

December 31, 1988, 1987 and 1986

(4) Administration of the Plan

Under the terms of a trust agreement between Bankers Trust Company (the Trustee) and the Plan, the Trustee manages the Plan assets on behalf of the Plan. As of December 31, 1988, 1987 and 1986, substantially all the Plan assets were held by the Trustee.

During the period 1986 through 1988, the cost of administering the Plan was paid directly by ABC; the Plan assets were not used to meet such obligations.

(5) Termination of the Plan

Although Capital Cities/ABC has not expressed any intent to terminate the Plan, it may be terminated at any time by action of its Board of Directors, 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

ABC has received a letter of determination from the IRS stating 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.

Participants are not subject to federal income tax on employer contributions made to their accounts under the Plan, or on the earnings in their accounts, until amounts in their accounts are withdrawn or distributed.

SUPPLEMENTAL SCHEDULES

Schedule 1

ABC SAVINGS & INVESTMENT PLAN

Investments

December 31, 1988

Identity and description of issue	Number of Shares	Cost	Market Value
Common Stock:			
Allied Signal Inc.	10,500	$ 442,124	$ 341,250
Amerada Hess Corp	12,000	334,840	378,000
American Electric Power	4,000	106,889	109,000
American President	7,000	173,518	238,000
American Telephone & Telegraph	9,000	227,601	258,750
Arvin Industries	4,000	86,280	77,500
Burlington Northern	5,000	329,532	395,000
Capital Cities/ABC, Inc.	419,005	99,311,722	151,784,561
CBI Industries	10,000	290,999	253,750
CBS Inc.	2,000	303,753	341,000
Cigna Corp.	5,000	246,465	235,625
Consolidated Freightways Inc.	7,000	221,645	231,000
Contel Corp.	7,000	196,147	282,625
CSX Corp.	13,000	389,946	412,750
Dana Corp.	4,000	154,656	155,500
Diamond Shamrock R&M Inc.	18,000	293,943	274,500
Digital Equipment Corp.	3,000	281,727	295,125
Dupont E I De Nemours & Co.	4,000	324,497	353,000
E Systems Inc.	10,000	285,890	292,500
Engelhard Corp.	13,500	216,113	232,875
General Motors Corp.	4,000	282,036	334,000
GTE Corp.	9,000	270,771	400,500
Henley Group	10,000	197,997	216,250
Hercules Inc.	7,000	332,363	311,500
Ingersoll Rand Co.	10,000	350,791	342,500
James Riv Corp.	10,000	328,231	286,250
Litton Industries	4,000	310,318	287,500
May Dept. Stores	8,000	283,400	290,000
Mobil Corp.	6,500	196,566	295,750
Motorola Inc.	4,000	154,096	168,000
Northrop Corp.	10,000	301,953	277,500
Occidental Pete Corp.	13,000	431,243	329,875
Petrie Stores	8,000	211,751	132,000
Pioneer Hi Bred Int'l.	9,100	308,640	307,125
Salomon Inc.	12,000	416,270	289,500
Santa Fe South Pacific Corp.	9,000	156,960	155,250
Sears Roebuck & Co.	10,000	363,300	408,750
SL Industries	13,100	107,735	109,713
Smithkline Beckman	8,000	367,325	385,000
Sonat Inc.	13,000	409,852	377,000
Square D Co.	5,000	242,295	240,000
Sundstrand Corp.	8,000	420,278	400,000
Tenneco Inc.	8,000	326,795	391,000

ABC SAVINGS & INVESTMENT PLAN

Investments

December 31, 1988

Identity and description of issue	Number of Shares	Cost	Market Value
Common Stock (continued):			
Texas Industries Inc.	11,273	284,175	377,645
Textron Inc.	12,000	347,465	285,000
United Technologies Corp.	10,000	414,082	411,250
Varity Corp.	47,000	148,410	135,125
W. R. Grace & Co.	14,000	348,341	364,000
Wang Labs Inc.	20,000	266,111	175,000
Westinghouse Electric	7,000	357,862	368,375
Weyerhaeuser Co.	15,000	369,222	376,875
Whirlpool Corp.	13,000	352,849	321,750
Total Common Stock		113,877,770	166,492,294
Preferred Stock:			
American President	1,000	50,000	59,000
Total Equity Securities		113,927,770	166,551,294
Other Investments:			
Bankers Trust Generalized Employee Benefit Trust Interim Investment Fund		2,132,519	2,132,519
Funds on Deposit with Insurance Company:			
Group Annuity Contracts with Aetna Life Insurance		46,877,947	46,877,947
Total Other Investments		49,010,466	49,010,466
Total Investments		$162,938,236	$215,561,760

ABC SAVINGS & INVESTMENT PLAN

Combining Statement of Financial Condition

December 31, 1988

Assets	Total Funds	Fund A - Capital Cities/ ABC, Inc. Common Stock Fund	Fund B - Diversified Equity Fund	Fund C Guaranteed Income Fund
Investments, at market				
Equity Securities:				
Capital Cities/ABC, Inc. common stock	$151,784,561	$151,784,561	$ -	$ -
Other	14,766,733	-	14,766,733	-
Total equity securities	166,551,294	151,784,561	14,766,733	-
Other investments:				
Bankers Trust Generalized Employee Benefit Trust Interim Investment Fund	2,132,519	1,041,222	1,091,297	-
Funds on deposit with insurance company	46,877,947	-	-	46,877,947
Total other investments	49,010,466	1,041,222	1,091,297	46,877,947
Total investments	215,561,760	152,825,783	15,858,030	46,877,947
Due from (to) participants	2,875,333	2,953,940	341,107	(419,714
Interest and dividends receivable	422,194	24,577	48,192	349,425
Due from Capital Cities/ ABC, Inc.	417,374	417,374	-	-
Receivables from sales of investments	120,187	-	120,187	-
Interfund transfer receivable (payable)	-	(986,218)	(139,297)	1,125,515
Total assets	$219,396,848	$155,235,456	$16,228,219	$ 47,933,173
Liabilities and Plan Equity				
Due to former participants	$ 2,720,083	$ 1,793,718	$ 303,521	$ 622,844
Payable for purchase of investments	1,296,263	794,486	501,777	-
Plan equity	215,380,502	152,647,252	15,422,921	47,310,329
Total liabilities and plan equity	$219,396,848	$155,235,456	$16,228,219	$47,933,173

ABC SAVINGS & INVESTMENT PLAN

Combining Statement of Financial Condition

December 31, 1987

Assets	Total Funds	Fund A – Capital Cities/ ABC, Inc. Common Stock Fund	Fund B – Diversified Equity Fund	Fund C – Guaranteed Income Fund
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	147,182,880	136,060,133	11,122,747	–
Other investments:				
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	42,663,773	4,429,559	782,981	37,451,233
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 from (to) 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	173,938	–	173,938	–
Total assets	$193,710,300	$143,891,741	$11,898,857	$37,919,702
Liabilities and Plan Equity				
Due to former participants	$ 3,977,236	$ 2,948,356	$ 230,573	$ 798,307
Payables for purchases of investments	306,491	–	306,491	–
Plan equity	189,426,573	140,943,385	11,361,793	37,121,395
Total liabilities and plan equity	$193,710,300	$143,891,741	$11,898,857	$37,919,702

ABC SAVINGS & INVESTMENT PLAN

Combining Statement of Income and Changes in Plan Equity

Year ended December 31, 1988

	Total Funds	Fund A - Capital Cities/ ABC, Inc. Common Stock Fund	Fund B - Diversified Equity Fund	Fund C - Guaranteed Income Fund
Investment income:				
Dividends	$ 587,779	$ 82,370	$ 505,409	$ -
Interest	3,886,479	76,716	62,560	3,747,203
Total investment income	4,474,258	159,086	567,969	3,747,203
Appreciation of Capital Cities/ABC, Inc. common stock distributed to terminated and withdrawing participants	1,296,099	1,296,099	-	-
Net gain on sale of other common stock	1,027,944	-	1,027,944	-
Net increase in unrealized appreciation of plan assets	7,957,446	6,387,067	1,570,379	-
	14,755,747	7,842,252	3,166,292	3,747,203
Contributions:				
Participants	20,674,930	6,610,991	1,487,553	12,576,386
Employer	7,186,990	7,186,990	-	-
Total contributions	27,861,920	13,797,981	1,487,553	12,576,386
Interest on participants' loans	106,786	106,786	-	-
Participants' transfers	-	518,889	741,464	(1,260,353)
Total	42,724,453	22,265,908	5,395,309	15,063,236
Distributions to terminated and withdrawing participants:				
Capital Cities/ABC, Inc. common stock, at market value	3,167,098	3,167,098	-	-
Cash	13,603,426	7,394,943	1,334,181	4,874,302
Total distributions	16,770,524	10,562,041	1,334,181	4,874,302
Change in plan equity	25,953,929	11,703,867	4,061,128	10,188,934
Plan equity:				
Beginning of year	189,426,573	140,943,385	11,361,793	37,121,395
End of year	$215,380,502	$152,647,252	$15,422,921	$47,310,329

ABC SAVINGS & INVESTMENT PLAN

Combining Statement of Income and Changes in Plan Equity

Year ended December 31, 1987

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

ABC SAVINGS & INVESTMENT PLAN

Combining Statement of Income and Changes in Plan Equity

Year ended December 31, 1986

	Total Funds	Fund A - Capital Cities/ ABC, Inc. Common Stock Fund	Fund B - Diversified Equity Fund	Fund C - Guaranteed Income Fund
Investment income:				
Dividends	$ 432,733	$ 77,045	$ 355,688	$ -
Interest	5,172,428	1,896,881	28,227	3,247,320
Total investment income	5,605,161	1,973,926	383,915	3,247,320
Appreciation of Capital Cities/ABC, Inc. common stock distributed to terminated and withdrawing participants	498,230	498,230	-	-
Net tender on sale of American Broadcasting Companies, Inc. common stock (net of unrealized gains at the beginning of the year of $78,649,963)	886,103	886,103	-	-
Net gain on sales of other common stock	1,609,427	-	1,609,427	-
Net increase (decrease) in unrealized appreciation of plan assets	16,166,936	16,403,289	(236,353)	-
	24,765,857	19,761,548	1,756,989	3,247,320
Contributions:				
Participants	13,670,223	6,172,383	2,246,652	5,251,188
Employer	5,741,290	5,741,290	-	-
Total contributions	19,411,513	11,913,673	2,246,652	5,251,188
Interest on participants' loans	59,331	59,331	-	-
Participants' transfers	-	(12,051,599)	(1,946,524)	13,998,123
Total	44,236,701	19,682,953	2,057,117	22,496,631

ABC SAVINGS & INVESTMENT PLAN

Combining Statement of Income and Changes in Plan Equity

Year ended December 31, 1986

	Total Funds	Fund A - Capital Cities/ ABC, Inc. Common Stock Fund	Fund B - Diversified Equity Fund	Fund C - Guaranteed Income Fund
Distributions to terminated and withdrawing participants:				
Capital Cities/ABC, Inc. common stock, at market value	6,817,473	6,817,473	-	-
Cash	36,416,106	23,545,257	2,568,586	10,302,263
Total distributions	43,233,579	30,362,730	2,568,586	10,302,263
Change in plan equity	1,003,122	(10,679,777)	(511,469)	12,194,368
Plan equity:				
Beginning of year	149,617,181	118,081,459	10,819,503	20,716,219
End of year	$150,620,303	$107,401,682	$10,308,034	$32,910,587

INDEPENDENT PUBLIC ACCOUNTANTS' CONSENT

We consent to incorporation by reference in Registration Statement No 33-2196 on Form S-8 of Capital Cities/ABC, Inc. of our report dated March 24, 1989, relating to the combined statements of financial condition of the ABC Savings & Investment Plan (the Plan) as of December 31, 1988 and 1987, the related combined statements of income and changes in plan equity for the years ended December 31, 1988, 1987 and 1986 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 24, 1989

Exhibit (28)(b)

To Be Incorporated By Reference Into Form S-8 Registration Statment No. 2-58945

UNDERTAKINGS

The undersigned registrant hereby undertakes to deliver or cause to be delivered with the prospectus to each employee to whom the prospectus is sent or given a copy of the registrant's annual report to stockholders for its last fiscal year, unless such employee otherwise has received a copy of such report, in which case the registrant shall state in the prospectus that it will promptly furnish, without charge, a copy of such report on written request of the employee. If the last fiscal year of the registrant has ended within 120 days prior to the use of the prospectus, the annual report of the registrant for the preceding fiscal year may be so delivered, but within such 120 day period the annual report for the last fiscal year will be furnished to each such employee.

The undersigned registrant hereby undertakes to transmit or cause to be transmitted to all employees participating in the plan who do not otherwise receive such material as stockholders of the registrant, at the time and in the manner such material is sent to its stockholders, copies of all reports, proxy statements and other communications distributed to its stockholders generally.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

END