The Washington Post Company 1972 Annual Report

Contents

Financial Highlights

Fiscal Year	1972 Amount	1972 %	1971 Amount	1971 %
Operating revenue				
Newspaper publishing	**$ 99,796,000**	**46**	$ 85,892,000	44
Magazine & book publishing	**93,790,000**	**43**	86,044,000	45
Broadcasting	**24,258,000**	**11**	20,813,000	11
	217,844,000	**100**	192,749,000	100
Income from operations				
Newspaper publishing	**10,222,000**	**47**	8,706,000	57
Magazine & book publishing	**5,660,000**	**26**	2,738,000	18
Broadcasting	**5,924,000**	**27**	3,750,000	25
	21,806,000	**100**	15,194,000	100
Income before extraordinary items (Note)	**10,015,000**		6,784,000	
Extraordinary items	**(283,000)**		387,000	
Net Income (Note)	**9,732,000**		7,171,000	
Per common and common equivalent share				
Income before extraordinary items (Note)	**$2.08**		$1.52	
Extraordinary items	**(.06)**		.09	
Net Income (Note)	**2.02**		1.61	
Cash dividends per share	**.20**		.20	

NOTE: 1971 is presented on a pro forma basis which assumes that changes in accounting methods adopted in 1971 had been applied to previous years. The aggregate adjustment for years prior to 1971 amounted to $4,586,000 ($1.04 per share) and was reflected in 1971 as a special credit.

Letter to Stockholders

In almost every way, 1972 was the best year The Washington Post Company has ever experienced. Revenues and income from operations reached new heights. Management was strengthened both at the corporate level and throughout the divisions. Most important, the company's traditional journalistic commitment to excellence and fairness in the presentation of news remained as strong as ever. Each division—newspaper publishing, broadcasting and magazine and book publishing—continued to deliver a product of high quality to its audience and an audience of high quality to its advertisers.

Revenue of The Washington Post Company rose from $192.7 million in 1971 to $217.8 million in 1972. Income before extraordinary items (and a special credit in 1971) rose from $6.8 million or $1.52 a share to $10 million or $2.08 a share in 1972. Particularly important, each of the company's divisions contributed to the significant increase in income from operations in 1972 over 1971: newspaper publishing up 17%, magazine and book publishing up 111%, and broadcasting up 56%. And both revenues and profits in each quarter of 1972 were greater than those in the comparable periods the year before.

In January 1973 the Board of Directors voted to increase the regular quarterly dividend on both Class A and Class B common stock from 5¢ to 10¢ per share.

These highly encouraging developments reflect, in part, the upturn in the national economy and the normal advertising increases such a recovery brings. But of equal importance, they reflect the fact that more readers, viewers and listeners are turning to the company's print and

...a quality product to our audience and a quality audience to our advertisers...

broadcasting properties for their news and entertainment. Since this letter will be followed by more detailed reports from the chief executives of our operating divisions, we only signal these highlights:

- The Washington Post's advertising and circulation—not to speak of its news coverage—scored notable gains in 1972, thus maintaining the paper's impressive dominance in the nation's fastest-growing, wealthiest, best-educated and most news-hungry major market.
- Newsweek again led the news-weekly field in advertising pages and increased its circulation base for both the domestic and international editions.
- Revenues from broadcasting were dramatically higher, increasing 17% over 1971.

For 1973, we expect that the overall profit of the company will continue to show a healthy growth. We do, however, foresee a rise in the operating costs of the Post that will make it difficult to match last year's increases in the paper's productivity and profitability. But John Prescott and his able management team are determined to cope with the escalating costs of material, services and labor.


Beebe

In early January we learned that several groups have challenged our license renewal applications for the Miami and Jacksonville television stations. We are confident that these challenges will fail. A fuller discussion of the situation is contained in subsequent pages of this report.

Larry H. Israel, who as chief executive officer of the Broadcasting Division has contributed so much to the success of that operation, has taken on added responsibilities in the parent company. In October, he was appointed executive vice president and chairman of the top level Corporate Development Committee, whose principal goal is to monitor divisional operations and formulate plans for long-term growth. The committee will help existing divisions improve their performance through goal setting and cost containment programs; encourage internal development by creating new profit centers (such as Newsweek Books); and look for acquisitions in the communications industry.

Another management change was the appointment of Martin Cohen, formerly the newspaper's controller, to corporate controller.

We are already seeing the results of the new development effort. In January, a preliminary agreement was reached with The Travelers Corporation to purchase WTIC-TV, Hartford, Connecticut, subject to approval by the directors of the companies involved and the Federal Communications Commission and to various other conditions.

As it looks to future acquisitions and to internal development, the company finds itself in a healthy cash position. Even after disbursing $7.6 million during 1972 in connection with the construction of The Washington Post's new combined newspaper plant and office building, at the end of the year the company had net quick assets of $29.4 million, $3.7 million more than one year earlier.

We have good reason, then, to be pleased with the company's financial fortunes—all the more so since they confirm the belief we stated in last year's letter to stockholders that "excellence is not merely compatible with profitability but indispensable to it." While the company's divisions are fiercely competitive in their pursuit of advertising revenue and optimum audiences, they are united in a profound commitment to vigorous reporting, unbiased inquiry, continual self-criticism and a balanced presentation and interpretation of the facts—in other words, to journalistic excellence.

It should be noted that this pursuit of excellence may not be entirely welcomed by government. Officials in all branches of government appear increasingly hostile to the press and suspicious of the role of media. Reporters are going to jail to protect their sources; television networks complain of subtle intimidation and harassment by Washington; local stations fear they may lose their licenses if they transmit an excess of "ideological plugola," to use the words of one Administration official.

There is nothing surprising in the adversary relationship between government and the press. It is as old as the Republic. Yet for those of us in the news business, the intense hostility evident during the recent past has been disquieting. Now that the passions of an election year have simmered down, we hope the government and the press can return to their more traditional state of mutual—but respectful—wariness.

Graham

To turn to other matters, we are happy to report that the year passed without major labor strife. Contract and wage reopener settlements were reached with ten unions at the Post and Newsweek and a 13-day strike was settled amicably at the Washington broadcasting operations. The stations' on-the-air operation was not affected during the strike.

Throughout 1972 all the company's price schedules and labor contracts were subject to Phase II of the government anti-inflation plan. It is too early to predict the effects of Phase III policies on advertising rates, wages and profits, but we anticipate no special difficulties.

We are keeping a close watch on the postal rate situation, which has been of particular concern to Newsweek for some years. There is an effort underway in Congress to stretch out the time period over which the future postal increases will take place. If successful, this could lessen the strain on Newsweek's short-term future.

On June 15, 1973, two years will have passed since The Washington Post Company shares were first offered to the public. The transition from private to public corporation has had its difficult moments, but on the whole the experience has been of great value. It has made us look more closely at the way we do things and it has made us plan more thoroughly for what we want to do. This new spirit helps us to maximize the two great advantages which the company has always enjoyed. Each of its properties serves a vigorous and growing market. Each fills a fundamental need in the community it serves. In our minds there is no doubt that those needs are filled with great distinction. And for this we thank the dedicated and talented men and women who are our colleagues in the company and who have helped to make the prospect before us such a pleasing one.

Katharine Graham — Frederick S. Beebe

Katharine Graham
President

Frederick S. Beebe
Chairman of the Board

March 17, 1973

The Washington Post Report

by John S. Prescott

The Washington newspaper community changed dramatically in July of 1972 when the Washington Daily News ceased publication. The metropolitan area now has only two dailies, The Washington Post and The Washington Star-News, which purchased the name and certain assets of the defunct Scripps-Howard newspaper.

It is always sad to see a paper die, but there is no doubt that the passing of the News has strengthened the position of The Post. With one morning and one afternoon paper left to share the market, The Post ended 1972 by carrying nearly 63 per cent of all advertising linage placed in the metropolitan papers—up from less than 60 per cent in 1971. In absolute terms, this was the best year in our history—an increase of 6.5 million lines to a total of nearly 79 million. This places the newspaper fifth in advertising linage among all the country's newspapers.

The Post's circulation was equally vigorous. Continuing a trend that has seen daily circulation increase by one-third in the past fifteen years and Sunday circulation increase by nearly two-thirds, the paper posted new gains. Daily circulation in 1972 climbed 6,000 to 516,000, while Sunday circulation rose 15,000 to just over 686,000, more than double that of the Star-News.

In the nation's most affluent and best-educated major market, three out of every five adults read the daily Washington Post, according to readership studies by Brand Rating Index and W. R. Simmons & Associates Research, Inc. On Sundays, approximately two-thirds of the area's adults read The Post. Audit Bureau of Circulations reports clearly show that this readership penetration is higher than that of any other single metropolitan newspaper in a major U.S. market.

To produce such a large and complex product each day is a formidable and costly undertaking. The task has been made easier this year by the completion of our $30 million capital improvement program, the heart of which is the nine-story 258,000-square-foot addition to the newspaper's plant and office building. The plant includes two new high speed press lines, which have been added to the seven existing press lines, and a new computer typesetting system. All departments and operations have been modernized and we are already benefiting from the improved working conditions and efficiencies of the new facilities. A firm base has been provided for future growth.

During 1972 the environmental aspects of publishing a newspaper received special attention. The facilities of The Post were thoroughly surveyed by independent specialists to see that all engineering, fire safety and industrial hygiene standards were met. Particular emphasis was placed on elimination of noise and air pollution. We are making certain that all our operations conform to the regulations growing out of the Occupational Safety and Health Act. This will be an ongoing effort of high priority.

In the past year management and support functions

"We are uniquely positioned in a strong and growing market."

Prescott

assigned a task force of prize-winning reporters. And for each the approach was different: painstaking analysis for Vietnam, old-fashioned shoe-leather coverage for the election, fast-breaking spot reporting for the assassination attempt, and tough, investigative reporting for the Watergate bugging. In each case, the reporters involved—including Murray Marder, Haynes Johnson, David Broder, William Greider, Thomas O'Toole, Bob Woodward and Carl Bernstein—distinguished themselves, their profession and The Post.

Lengthy, in-depth series such as "the Energy Crisis," "the Hospital Crisis" and "Russia's Changing Empire" received high critical acclaim. Three of the series, "The Shame of the Prisons," "Army in Anguish" and "The Unions," were issued in paperback by Simon & Schuster.

The paper's commitment to quality is exemplified by a unique ombudsman position, filled by an associate editor who not only represents and reports to the reader, but also surveys the news columns each day and advises editors on any examples of faulty or unfair coverage.

underwent considerable reorganization and streamlining, particularly in the production, maintenance, advertising, circulation and administrative departments. At the same time, we put a new emphasis on the training and development of middle management personnel, placing 114 managers and supervisors in programs designed to sharpen their management skills.

All this was done with one goal in mind: to insure increased profitability and improved operations in the years to come. The slow, behind-the-scenes changes on the business side of the paper were a counterpoint to the drama and excitement on the editorial side. The pace of the news quickened. The top stories, as executive editor Benjamin Bradlee sees it, were the challenging search for peace in Vietnam, the presidential election, the tragic attempt on the life of Governor Wallace and the Watergate bugging scandal. For each The Post

Quite independent of the news columns of The Post are the editorial and "op-ed" pages which carry a wide diversity of opinion, commentary and criticism. Some of the most distinguished and influential writing in the paper appears here and the Post's editorials often produce an echo far beyond the nation's Capital.

If this report seems a bit self-congratulatory, there is good reason. We are uniquely positioned in a strong and growing market. Gains in advertising and circulation promise to continue. We have identified our problems and are moving to solve them. On all sides of the paper we have a splendid staff—professional, full of energy, dedicated. We look to the future with confidence.

Newsweek Report

by Osborn Elliott

In terms of revenue, 1972 was a record-breaking year for Newsweek; in operating income, it was second only to 1969, and in many other respects, it was the best year in Newsweek's history.

Circulation reached a new high. Management was strengthened. The breadth of editorial coverage was expanded. A major restructuring in the format of our international editions was announced.

Advertising revenue, as measured by Publishers Information Bureau, climbed to $72.5 million, highest in the magazine's history, an eight per cent growth over 1971. Advertising pages reached 3,022. Newsweek is fourth among all magazines in advertising revenue and second in advertising pages.

On January 1, 1973, the domestic edition's circulation rate base was raised to 2,725,000 weekly, up from 2,600,000, and the international edition's circulation base was increased to 375,000 from 360,000.

This past year saw a number of important management changes on both the editorial and business sides of Newsweek. I took over the editorship of the magazine again after three years away from the job, while retaining my role as chairman of the board. Gibson McCabe, who had been serving as vice-chairman, returned to day-to-day command of business operations in his old post as president of the company. In addition, Robert Campbell, who had been executive vice-president, moved into the publisher's slot. During the very successful sixties the three of us enjoyed the long, happy and prosperous experience of working together. If the buoyant results of the past few months are any sign, we will have the same satisfaction again.

Editorially, Newsweek continued to be a leader in its field. Diversity was encouraged with the introduction of a new column, "My Turn," which provides a weekly forum for outside contributors representing a broad spectrum of social and political opinion. In addition, two new columnists, Shana Alexander and "Cyclops," joined such distinguished Newsweek commentators as Stewart Alsop, Milton Friedman, Paul Samuelson, Henry Wallich and Clem Morgello.

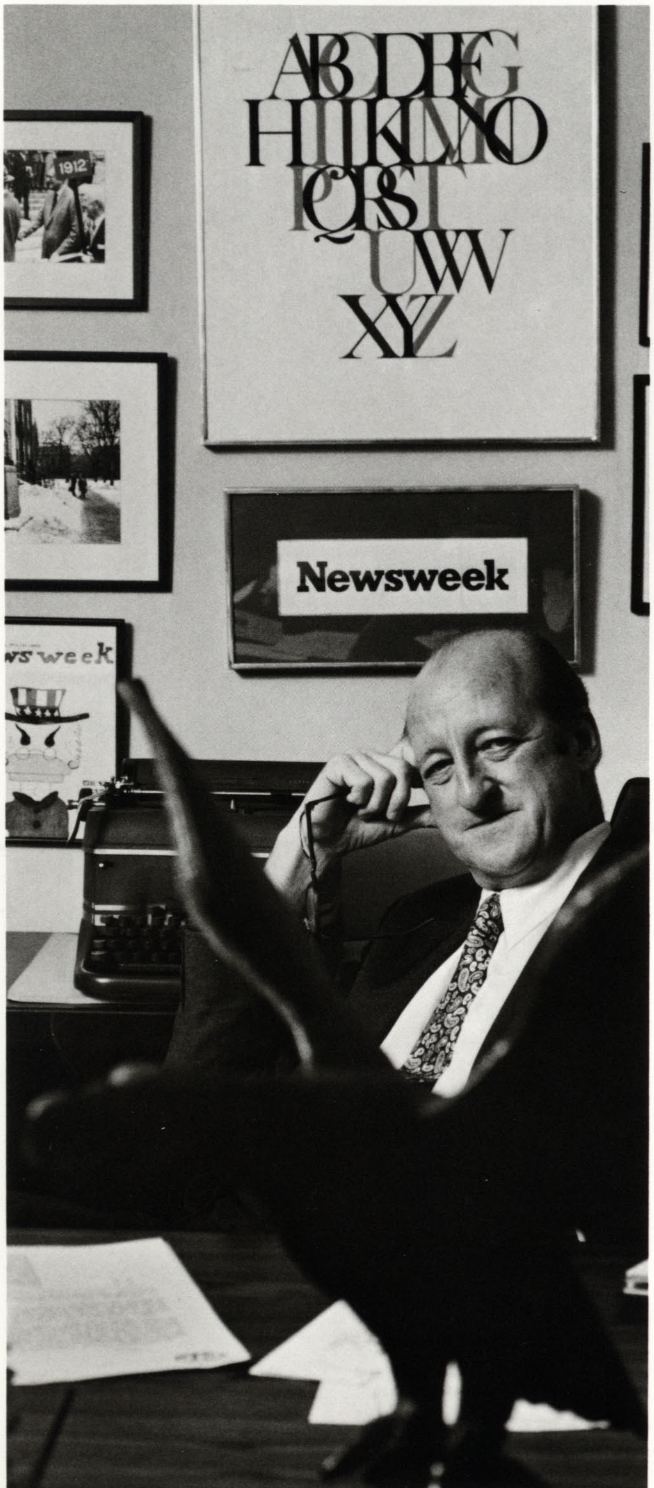
The wide range of Newsweek's coverage continued in 1972 with in-depth cover stories on a variety of events, issues and personalities. To mention a few, there was a series of covers on the Presidential election, Mr. Nixon's trips to China and the Soviet Union and, of course, the Vietnam war. There were covers on Bobby Fischer and black movies, on Author Joyce Carol Oates, heart disease, urban crime, pro football's running backs and acupuncture.

Exclusive news beats, long a hallmark, frequently appeared in the magazine's pages. Most noteworthy: Senior Foreign Correspondent Arnaud de Borchgrave's interview with North Vietnam's Premier Pham Van Dong; Stewart Alsop's interview with President Nixon; public opinion surveys on how Americans feel about amnesty, busing, the President; and Periscope revelations such as the one that the Soviet Union plans to scrap the triple-warhead system used by its giant missiles.

It's not surprising that the World's Most Quoted Newsweekly is also the world's most honored. During 1972, eleven major journalism awards—including The American Bar Association Gavel Award, the G. M. Leob Award, the Overseas Press Club and Penney-Missouri Awards—were presented to the magazine. And in a survey of leading journals conducted by Applied Management Sciences, Newsweek ranked first—ahead of its chief competitors—for frequency of readership, fairness and responsibility in reporting the news.

A major policy development was a move to transform Newsweek's overseas editions into the world's first truly international newsweekly by substantially changing the contents. The decision was based on a finding that the magazine's readership abroad, which is about 85 per cent non-American, wants a periodical that deals in equal depth with news from every part of

...prospects for imaginative and innovative magazines remain bright...



Elliott

the world, not one that is preponderantly U.S. oriented. A separate editorial staff, with resident editors in Europe and Asia, has been created under the direction of Robert Christopher, who previously had been executive editor of Newsweek. The overseas editions continue to be in English and speak with an essentially American voice, but they have new sections and often their own cover subjects.

Editorially there are two basic international editions, Atlantic and Pacific. Advertisers, however, have the option of purchasing space in the various regional editions, just as domestic advertisers can buy all of Newsweek's circulation or only a regional or demographic edition.

Newsweek International began in 1943 and now is circulated in 150 countries. Seventy per cent of its advertising revenues comes from companies headquartered outside the U.S., and advertising revenues have more than doubled in the last five years. Because of added circulation growth, the international edition plans to begin printing in a fifth overseas location, Switzerland, by mid-1973.

Another important change was the decision to strengthen, enlarge and diversify the operations of Newsweek Books, an enterprise that has grown into a sizeable and profitable business since it was founded five years ago under the leadership of S. Arthur Dembner. To this end, Dembner was appointed president of the division. At the same time, Kermit Lansner, who had been editor of the magazine, was named editor-in-chief of Newsweek Books. For the book program, the high point of the year was the publication of the first volume of Founding Fathers—a series of biographies based on the original papers of Franklin, Washington, Jefferson, Adams, Hamilton and Madison.

Among the company's other enterprises is Newsweek Broadcasting Services, which, using the talents of Newsweek editors and reporters provides 90-second color feature inserts to television stations in virtually all of the nation's 50 major markets.

We are pleased with the results Newsweek and its divisions achieved during 1972 and are equally heartened by the vitality shown by the magazine industry as a whole, which in terms of advertising revenue had its best year since 1967. Despite the demise of Life, we are convinced that prospects for magazines with imaginative and innovative management, both business and editorial, remain bright.

Post-Newsweek Stations Report

by Larry Israel

The Post-Newsweek Stations experienced an outstanding year in 1972. Revenues and earnings were significantly higher. Economic conditions in the broadcast industry continued to get better. An intensive effort at improving staff and programming paid off in greater audience acceptance. As a result, our three television and two radio stations achieved healthy competitive positions in their respective markets.

As the year ended, we were close to reaching agreement on a major acquisition. The purchase of WTIC-TV, Hartford, Connecticut, which was announced in January, 1973, will add a fourth television station to the group. The acquisition is subject to the approval of the Federal Communications Commission. As in the case of our other stations, WTIC-TV will be operated by local management, exercising independent news and editorial judgment. WTIC-TV, a CBS-TV affiliate, serves the Hartford-New Haven and Southern New England area—the nation's 14th largest TV market.

Early in January we also learned that competitive challenges to the license renewal applications of WJXT-TV in Jacksonville and WPLG-TV in Miami had just been filed with the Federal Communications Commission. These challenges have raised two questions among those who are concerned with the fortunes of The Washington Post Company:

Will the operations—and profitability—of the Post-Newsweek Stations be damaged by the challenges?

Will the challenges succeed?

To the first question, I would reply that the operations of WJXT-TV and WPLG-TV will go on as usual, and if early indications can be relied upon, the stations are in for a very successful and very profitable year. As a result of the challenges our legal expenses will certainly increase, but I am certain they will not have a significant effect on our financial results.

Nor do I believe the challenges will succeed. The F.C.C. considers that past performance is the most critical factor in determining whether a television station license will be renewed. In an important decision, the U.S. Court of Appeals has suggested that good performance is to be considered a "plus of major significance" in evaluating renewal applications and competing applications. By all recognized standards, WJXT-TV and WPLG-TV, under the stewardship of Post-Newsweek Stations, have shown continuously superior performances—in relation both to competing stations in their markets and to other television stations in the U.S. It is reassuring to note that license challenges made under such circumstances have not been successful elsewhere in the United States.

The remainder of my report is addressed to the activities and accomplishments of the Post-Newsweek Stations during 1972. The superiority of our stations is evident in several areas, most conspicuously in the very high priority they all give to news and public affairs operations and in their profound sense of community involvement. Not only have the Post-Newsweek Stations strenghtened their affirmative action employment policies to increase the numbers and roles of minority and women employees, but they have continued to develop programs designed to meet the tastes and needs of a variety of specialized audiences.

During the 1972 political campaigns, for example, the Post-Newsweek Stations provided almost 70 hours of free program time and associated free production assistance to 87 candidates for federal elective office, including the Presidency, and scores of state and local candidates. Broadcast time at a 50 per cent price discount was available to all political candidates. Special pre-election programs at all Post-Newsweek Stations presented candidates in live, filmed and taped debates and gave their statements of position with special analysis and commentary.

Our concern with community involvement is dramatically evident at WJXT-TV, Jacksonville. For over twenty years under the leadership of local management, the station has been committed to providing investigative news reports and candid editorials in the best tradition of independent journalism. Last year, the station's "Dimension 4" series of prime-time documentaries examined local needs and interests with programs on desegregation in Duval county schools, a

"The license challenges should not affect operations or earnings."

new offshore nuclear plant, the Jacksonville Mayor's annual state of the city report, gun control, the Florida corporate income tax, the death penalty, transportation problems, the ecological conditions of Florida's beaches and race relations.

At WPLG-TV, Miami, a special investigative unit was formed in 1972 to probe local government and community activities. This unit produced several documentaries for use in regularly scheduled news programs. Subjects included the infiltration of racketeering into the air freight business, local election voting frauds, discrimination in local civil service practices and charity frauds.

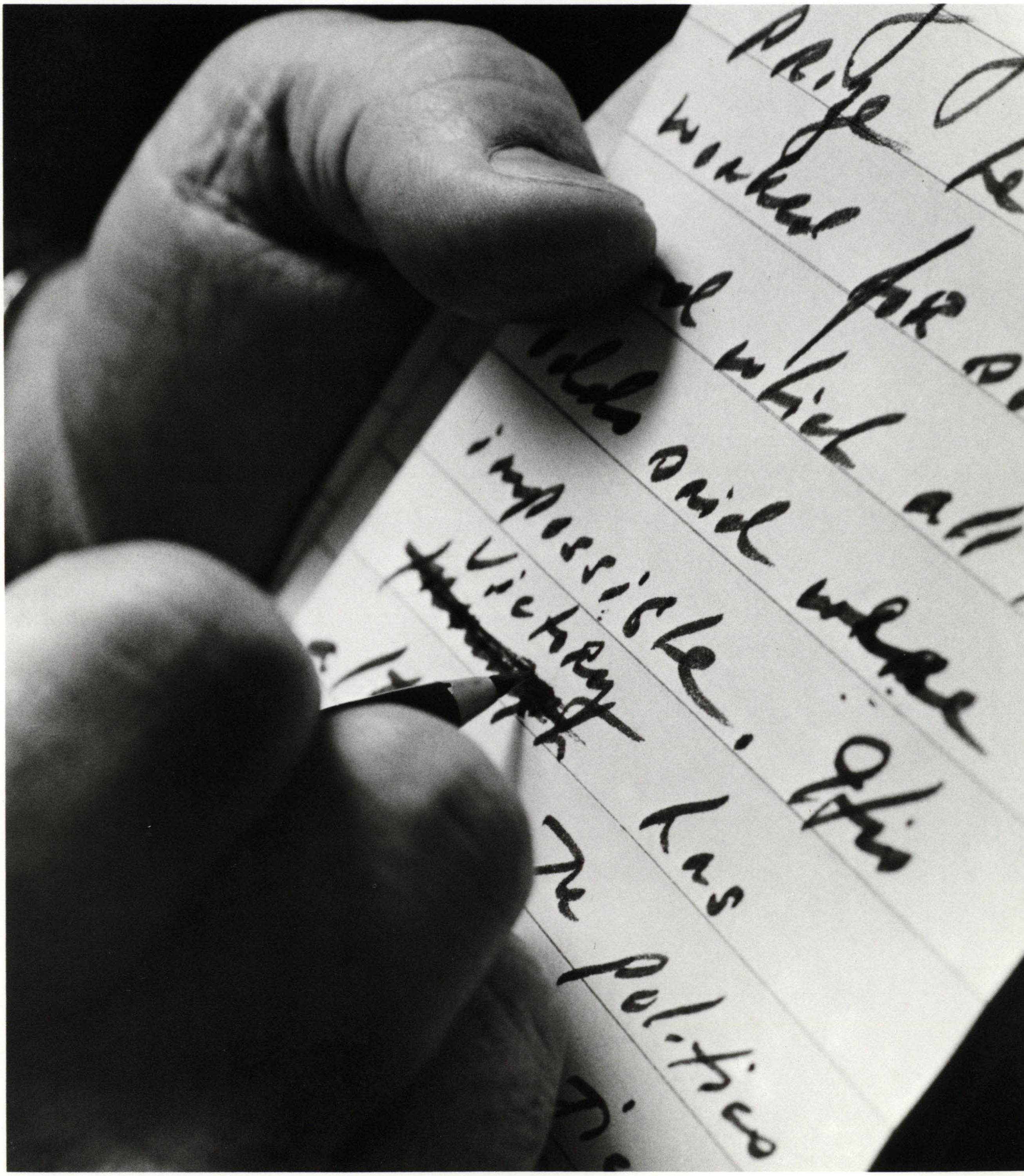
At WTOP-TV, Washington, where a new 1049-foot tower adds one million potential new viewers to the primary coverage area, our top-rated early evening daily news program was expanded in the fall of 1972 to a two-hour segment beginning at 5:30 p.m. A number of regular prime-time public affairs programs focused on Washington area concerns: "Everywoman" was produced by a female staff to examine the role of women in society; "Caution" presented information and advice for the consumer; "Agronsky and Company" presented a spectrum of viewpoints about major newsworthy events. Supplementing these regularly scheduled programs were prime-time public affairs, news specials and special investigative reports.

We have been particularly concerned about improving the quality of children's programs. WTOP-TV produced "Doing/Being" and WPLG-TV "Arthur & Co." These programs, as well as the ecology-oriented "Earth Lab" and the BBC's "Vision On" for deaf children, were broadcast by all Post-Newsweek Stations. Both our children's programs and our policy of grouping a reduced number of commercials at the beginning or end of these programs won national awards in 1972. The Post-Newsweek Stations were also honored to receive the University of Missouri School of Journalism Award for distinguished service in journalism and innovation in public affairs programming, as well as the San Francisco State College Broadcast Preceptor Award for "achieving the highest standards in broadcasting."

So as we move through the first quarter of 1973 I am extremely optimistic. To be sure, we will have to devote time, energy and money to fend off the challenges to our Florida stations. But this is well within the company's capability and should have no significant effect on either operations or earnings. For the rest, we have reached a takeoff point which should result in new successes in both journalistic and programming output, as well as in our financial results.

Israel

"Excellence is essential to profitability."



Financial Review

OPERATING RESULTS

Revenues. Operating revenues were $217,844,000 for 1972, an increase of $25,095,000 from 1971 revenues of $192,749,000.

Net Income. Income for 1972 was $10,015,000 or $2.08 a share compared to $6,784,000 or $1.52 a share in 1971 before extraordinary items and before a special credit in 1971 of $4,586,000 after income tax reduction of $5,068,000. The special credit represented the cumulative effect on prior years of changes in accounting methods made in 1971.

RECENT DEVELOPMENTS

Television Acquisition. In January 1973 the Company agreed to purchase television station WTIC-TV, a CBS affiliate in Hartford, Connecticut, from The Travelers Corporation. The transaction is subject to the approval of the Federal Communications Commission. By the terms of the agreement the Company has assured Travelers that it will receive a total of $40 million from the sale of the television station to the Company and the sale of two radio stations to another purchaser who had not yet been selected as of February 8, 1973. The Company believes that under these arrangements the purchase price of the television station will approximate $34-$35 million.

T.V. License Challenges. On November 3, 1972, the Company's television stations broadcasting on Channel 4 in Jacksonville, Florida, and on Channel 10 in Miami, Florida, filed with the Federal Communications Commission timely applications for renewals of their broadcasting licenses for the statutory term of three years. Three competing applications have been filed for Channel 4 in Jacksonville and one competing application has been filed for Channel 10 in Miami. The FCC is required to hold a comparative hearing for each channel and the existing license of each station will be continued in effect while each proceeding is pending. Based on the policies and precedents of the FCC, the Company believes that the licenses of both of its Florida stations will be renewed.

SUMMARY OF ACCOUNTING POLICIES

Principles of Consolidation. The accompanying financial statements include the accounts of all subsidiaries; significant intercompany transactions have been eliminated. The Company reports on a 52-53 week fiscal year ending on the Sunday nearest December 31. The subsidiaries, however, report on the calendar year.

Investments in Affiliates. In 1971 the Company adopted the equity method of accounting for its 49 per cent investment in Bowaters Mersey Paper Company Limited. Other investments in affiliates are also accounted for by the equity method.

Plant Assets and Depreciation. Plant assets are depreciated at annual rates based upon the estimated service lives of assets, using both accelerated and straight-line methods for calculating depreciation for assets acquired prior to 1971. For all plant assets acquired in 1971 and subsequent years the Company has adopted the straight-line method of calculating depreciation for financial reporting purposes. Useful lives of 3 to 11 years are used for machinery and equipment, 20 to 50 years for buildings and 5 to 20 years for land improvements. Leasehold improvements are amortized over the remaining lives of the leases. Accelerated methods of calculating depreciation have been and will continue to be used for income tax purposes.

Expenditures for maintenance, repairs and renewals are charged against income. Betterments are capitalized. The cost of assets retired or otherwise disposed of and the related accumulated depreciation are removed from the accounts in the year of disposal, and any losses or gains that result are reflected in the income statement.

Deferred Film Costs. The broadcasting subsidiaries are parties to agreements which entitle them to show motion pictures and syndicated programs on television. Except as noted below, the costs of these rights and the liabilities for future payments under these agreements are not reflected in the consolidated balance sheets. Instead, the costs of these rights are charged to expense as films are shown, using accelerated amortization rates for motion pictures and straight-line amortization rates for syndicated programs. Payments for film rights in excess of accrued amortization are included in "Deferred charges and other assets" in the consolidated balance sheets.

Deferred Income and Magazine Subscription Procurement and Book Promotion Costs. Amounts received from subscribers in advance of deliveries are deferred and recorded as income when deliveries are made.

In 1970 and prior years all costs in connection with the procurement of magazine subscriptions and book promotion costs were charged to expense as incurred. In 1971 the Company changed its accounting method to defer magazine subscription procurement and book promotion costs and amortize magazine subscription procurement costs over the lives of the related magazine subscriptions and book promotion costs over the 12-month period following the dates when the costs are incurred.

Goodwill and Other Intangibles represent the excess of acquiring subsidiary companies over the related fair values of tangible assets at the dates of acquisition. The Company considers the "Goodwill and other Intangibles" to be assets of indefinite life and does not intend to amortize them. In connection with the sale of Art News magazine in 1972, the Company charged $650,000 of Goodwill to expense.

Foreign Operations. For balance sheet purposes foreign currency assets and liabilities have been translated into U.S. Dollars at current market rates of exchange, while for income statement purposes transactions in foreign currencies have been reported on the basis of average annual rates of exchange.

Retirement Plans. The Company and its subsidiaries contribute to various pension, incentive savings and profit sharing plans which cover full-time employees who have prescribed periods of service. In general the accrued costs and liabilities of these plans are currently provided for and fully funded. Newspaper dealers who have prescribed periods of service participate in an unfunded Circulation Dealers Profit Incentive Plan, the accrued costs of which are charged to current expense; liability under such plan, amounting to $3,306,000 at December 31, 1972 and $2,991,000 at January 2, 1972, is included in "Other liabilities" in the consolidated balance sheets.

In addition, the Company guarantees minimum retirement income benefits that require supplemental payments to certain participants in the Company's profit sharing and newspaper dealer profit incentive plans. These supplemental payments, which are not material in amount, are charged to expense as paid.

Total expense under the plans described above was $3,564,000 for 1972 and $2,653,000 for 1971.

INVENTORIES

The inventories used in determining operating costs and expenses for the periods presented were as follows:

	December 31, 1972	January 2, 1972	January 3, 1971
Newsprint	$ 349,000	$1,200,000	$ 557,000
Magazine paper	1,792,000	2,037,000	2,342,000
Books	910,000	906,000	366,000
Other materials	750,000	498,000	454,000
	$3,801,000	$4,641,000	$3,719,000

INVESTMENTS IN AFFILIATES

Bowaters Mersey Paper Company Limited. The investment in Bowaters Mersey Paper Company Limited consists of 49 per cent of the common shares. Condensed statements of financial position and income of that company for 1972 and 1971, stated in Canadian dollars, are set forth below:

Condensed Statements of Financial Position

	December 31 1972	December 31 1971
Current assets	$12,051,000	$13,680,000
Less current liabilities	(5,011,000)	(7,136,000)
Working capital	7,040,000	6,544,000
Fixed assets, Net	25,070,000	27,162,000
Other assets	425,000	495,000
Long-term debt	(3,881,000)	(5,208,000)
Other liabilities	(4,736,000)	(5,108,000)
Shareholders' equity including $4,301,000 and $4,408,000 applicable to preferred shares	$23,918,000	$23,885,000

Condensed Statements of Income

	1972	1971
Sales and other Income	$30,305,000	$28,193,000
Costs and expenses	28,562,000	26,129,000
Income before income taxes	1,743,000	2,064,000
Income taxes	890,000	1,051,000
Net income	853,000	1,013,000
Preferred dividend requirements	241,000	245,000
Net income applicable to common shares	$ 612,000	$ 768,000

The investment is reflected in the consolidated balance sheets as follows:

	December 31, 1972	January 2, 1972
Cost of investment	$8,354,000	$8,354,000
Less amount included in consolidated Goodwill	912,000	912,000
Equity in net assets at date of acquisition	7,442,000	7,442,000
Increase in equity since date of acquisition	1,207,000	1,392,000
	$8,649,000	$8,834,000

Dividends received from Bowaters Mersey Paper Company Limited are subject to both Canadian nonresident withholding tax and United States income tax, but the Company has received substantially full tax credit against its United States tax liability for the Canadian income taxes withheld and deemed to have been paid.

Other Investments. The Company has a 30 per cent interest in a French corporation which publishes the International Herald Tribune in Paris and a 50 per cent interest in a joint venture which operates the Los Angeles Times-Washington Post News Service.

INCOME TAXES AND TAX TIMING DIFFERENCES

The Company adopted the deferral method of accounting for investment credits in 1971. Under this method, investment credits are applied as a reduction of income tax expense over the depreciable lives of the related assets. Investment credits of $813,000 were earned in 1972, of this amount $753,000 was deferred to future years. These credits were insignificant in amount in 1971.

Income tax timing differences arise when income or expense is reported for financial purposes in a different period than for income tax purposes. These differences are reported either as "prepaid income taxes" (when the cumulative net effect is a greater amount of income for tax purposes than for financial reporting purposes) or as "deferred income taxes" (when the cumulative net effect is an excess of book income over taxable income).

A summary of income tax expense for fiscal 1971 and 1972 follows:

	1972	1971
Currently payable		
Federal	$ 6,598,000	$5,550,000
State and local	887,000	148,000
	7,485,000	5,698,000
Deferred		
Federal	2,576,000	916,000
State and local	145,000	121,000
	2,721,000	1,037,000
	$10,206,000	$6,735,000

LONG-TERM DEBT AND RESTRICTIONS ON DIVIDENDS

Long-term debt consists principally of unsecured promissory notes, many of which require payments each year to maturity. The amounts due within one year, $1,734,000 at December 31,1972 and $797,000 at January 2, 1972, are included in current liabilities. The composition of long-term debt is:

Interest Rates	Year of Final Maturity	December 31, 1972	January 2, 1972
6.95%	1987	$33,000,000	$33,000,000
4.00%	1977	2,670,000	3,205,000
5-5.75%	1981	1,500,000	2,625,000
		$37,170,000	$38,830,000

The agreement relating to the 6.95% promissory notes contains restrictive provisions which relate principally to the payment of dividends and the redemption or purchase of the Company's capital stock. At the end of 1972 and 1971, retained earnings unrestricted by these provisions were $30,917,000 and $25,361,000. Principal repayments on the 6.95% promissory notes are due as follows: $1,000,000 in each of the years 1973 and 1974; $2,250,000 in each of the years 1975 to 1986; and $4,000,000 in 1987.

The 4% serial promissory notes are payable in Canadian currency in annual installments of $536,000 to April 1, 1977. As security the Company has pledged its common shares of Bowaters Mersey Paper Company Limited.

At December 31, 1972, maturities of long-term debt scheduled during each of the succeeding five years were as follows: 1973 and 1974, $1,734,000; 1975, 1976 and 1977, $2,984,000.

CAPITAL STOCK AND STOCK OPTIONS

There are authorized one class of preferred stock and two classes of common stock, Class A and Class B. The Class B common stock has limited voting rights, including the right to elect 30 per cent of the Board of Directors. The Class A common stock has full voting rights and is entitled to elect the balance of the Board of Directors.

In June and July 1971 the Company sold 621,375 shares of its Class B common stock to the public and to employees for net proceeds of $15,025,000. Of such amount, $9,658,000 was used to prepay indebtedness.

Prior to 1964 the Company granted to certain officers and key employees restricted stock options to purchase shares of Class B common stock at not less than 95% of the fair value of the shares at the dates of grant, such values having been calculated in each case according to a formula designed to yield the fair value of the shares. All of these options were exercised prior to the public sale referred to above.

In 1971 the Company adopted a Stock Option Plan and reserved 350,000 shares of Class B common stock for options to be granted under the Plan. The purchase price of the shares covered by an option must be equal to their fair market value on the granting date. Options may be granted for a term of up to ten years.

At December 31, 1972, 343,825 shares were reserved for issuance under the Stock Option plan. Of this number, 279,650 shares were subject to options outstanding and 64,175 shares were available for future grants. Changes in the options outstanding for the two years ended December 31, 1972 and January 2, 1972 are as follows:

	1972		1971	
	Number of Shares	Average Option Price	Number of Shares	Average Option Price
Beginning of year	287,575	$25.96	185,880	$ 5.00
Add (deduct) options				
Granted	17,000	32.31	291,700	25.96
Exercised	(6,175)	26.00	(185,880)	5.00
Cancelled	(18,750)	26.00	(4,125)	26.00
End of Year	279,650	$26.34	287,575	$25.96

During 1972 options became exercisable on 75,175 shares having an average option price of $25.86 per share. Of the options outstanding at the end of 1972, 65,625 were then exercisable, 71,300 will become exercisable in 1973, 69,800 in 1974, 69,050 in 1975, and 3,875 in 1976.

Per share data is based upon the weighted average number of shares of common stock and common stock equivalents outstanding during the periods, 4,806,802 in 1972 and 4,429,090 in 1971. Shares issuable under stock options are considered common stock equivalents if the fair value of the shares was more than the option price during the period. The number of such equivalents is then reduced by the number of shares which could have been purchased with the proceeds from the sale of the optioned shares had the options been exercised.

COMMITMENTS AND CONTINGENCIES

The Company leases certain properties under agreements which extend for periods of more than three years and provide for aggregate annual rental payments approximating $1.3 million. Certain leases obligate the Company to pay taxes, insurance and maintenance, and most have renewal options.

The Company is also contingently liable for payments under employment contracts and for claims and lawsuits arising in the ordinary course of business. The Company is a party to various civil lawsuits arising in the ordinary course of business including libel actions. In the opinion of management the Company carries adequate insurance against liability in such libel actions and is not a party to any other material litigation.

To complete the newspaper plant expansion program, the Company had commitments of $1,800,000 at December 31, 1972.

Under the agreements for the right to use motion pictures and syndicated programs, the Company was committed to future payments for such rights of $3,785,000 at December 31, 1972 and $2,738,000 at December 31, 1971, with $1,905,000 and $1,348,000 being payable within one year of the respective dates.

See also "Recent developments"—on page 13.

EXTRAORDINARY ITEMS

In 1972 the Company sold Art News magazine at a loss of $283,000, including income taxes of $124,000 on a gain realized for tax purposes but not for book purposes. In 1971 the Company received a $387,000 tax benefit from the charitable donation of FM broadcast facilities.

Consolidated Statements of Income

The Washington Post Company 1972

Fiscal Year	1972	1971
Operating Revenues		
Advertising	$166,100,000	$147,633,000
Circulation	47,421,000	42,397,000
Other	4,323,000	2,719,000
	217,844,000	192,749,000
Costs and Expenses		
Operating	146,644,000	133,869,000
Selling, general and administrative	46,254,000	41,250,000
Depreciation and amortization	3,140,000	2,436,000
	196,038,000	177,555,000
Income from operations	21,806,000	15,194,000
Other income (deductions)		
Other income (including interest of $804,000 and $845,000)	1,143,000	1,091,000
Other deductions (including interest of $2,484,000 and $2,774,000)	(3,240,000)	(3,275,000)
Equity in earnings of affiliates	512,000	509,000
Income before income taxes, extraordinary items and special credit	20,221,000	13,519,000
Income taxes		
Currently payable	7,485,000	5,698,000
Deferred	2,721,000	1,037,000
	10,206,000	6,735,000
Income before extraordinary items and special credit	10,015,000	6,784,000
Extraordinary items	(283,000)	387,000
Special credit—cumulative effect on years prior to 1971 of changes in accounting methods for magazine subscription procurement and book promotion costs	—	4,586,000
Net Income	$ 9,732,000	$ 11,757,000
Earnings per common and common equivalent share		
Income before extraordinary items and special credit	$2.08	$1.52
Extraordinary items	(.06)	.09
Special credit	—	1.04
Net income	$2.02	$2.65

Consolidated Balance Sheets

The Washington Post Company 1972

ASSETS	December 31, 1972	January 2, 1972
Current assets		
Cash and time deposits	$ 10,215,000	$ 10,268,000
Commercial promissory notes at cost which approximates market value	19,635,000	15,224,000
Accounts receivable, less estimated returns, doubtful accounts and allowances of $2,663,000 and $2,342,000	25,195,000	19,992,000
Inventories at lower of average cost or market	3,801,000	4,641,000
Prepaid expenses and other	2,908,000	2,012,000
	61,754,000	52,137,000
Investments in affiliates		
Bowaters Mersey Paper Company Limited	8,649,000	8,834,000
Other	2,679,000	1,736,000
	11,328,000	10,570,000
Plant assets, at cost		
Buildings	30,185,000	16,258,000
Machinery, equipment and fixtures	34,412,000	25,549,000
Leasehold improvements	2,473,000	2,378,000
	67,070,000	44,185,000
Less accumulated depreciation and amortization	(27,625,000)	(25,796,000)
	39,445,000	18,389,000
Land	6,403,000	6,403,000
Construction in progress	323,000	16,323,000
	46,171,000	41,115,000
Goodwill and other intangibles	36,860,000	37,517,000
Deferred charges and other assets	4,918,000	4,353,000
	$161,031,000	$145,692,000

LIABILITIES AND SHAREHOLDERS' EQUITY	December 31, 1972	January 2, 1972
Current liabilities		
Accounts payable and accrued expenses	$ 19,437,000	$ 17,368,000
Federal and state income taxes	3,142,000	735,000
Contributions due to employee benefit trust funds	1,316,000	837,000
Current portion of long-term debt	1,734,000	797,000
	25,629,000	19,737,000
Other liabilities	5,529,000	5,467,000
Long-term debt	35,436,000	38,033,000
Deferred subscription income less related magazine subscription procurement costs of $11,998,000 and $10,496,000	8,973,000	7,900,000
Deferred income taxes	6,077,000	3,891,000
Minority interest in subsidiary company	356,000	313,000
Shareholders' equity		
Preferred stock, $1 par value, authorized 1,000,000 shares		
Common stock:		
Class A common stock, $1 par value, authorized 1,000,000 shares; 763,440 shares issued and outstanding	763,000	763,000
Class B common stock, $1 par value, authorized 10,000,000 shares; 4,304,040 shares issued; 3,982,888 and 3,993,257 shares outstanding	4,304,000	4,304,000
Capital in excess of par value	10,149,000	10,079,000
Retained earnings	68,835,000	60,052,000
Less: Cost of 321,152 and 310,783 shares of Class B common stock held in Treasury	(5,020,000)	(4,847,000)
Total shareholders' equity	79,031,000	70,351,000
	$161,031,000	$145,692,000

Consolidated
Statements of Changes in Financial Position

The Washington Post Company 1972

Fiscal Year	1972	1971
Financial Resources were provided by		
Operations		
Net income	$ 9,732,000	$11,757,000
less: portion of 1971 special credit not affecting working capital	—	(4,300,000)
	9,732,000	7,457,000
Depreciation and amortization of plant assets	3,140,000	2,436,000
Amortization of deferred film costs	1,661,000	1,306,000
Income tax timing differences	2,186,000	808,000
Sale of Art News goodwill	650,000	—
Other	386,000	296,000
	17,755,000	12,303,000
Increase in long-term debt	—	8,222,000
Increase in deferred subscription income	2,575,000	875,000
Proceeds from issuance of Class B common stock		
Stock options	161,000	929,000
Public offering and sales to employees	—	15,025,000
Newsweek Employees Saving Plan Trust	—	58,000
Other	375,000	118,000
	20,866,000	37,530,000
Financial Resources were used for		
Purchases of		
Plant assets	8,820,000	13,748,000
Television film rights	2,232,000	1,449,000
Treasury stock	307,000	530,000
Reduction of long-term debt	2,597,000	10,061,000
Increase in deferred magazine subscription procurement costs	1,502,000	1,128,000
Dividends on common stock	949,000	871,000
Increase in other investments	700,000	—
Other	34,000	319,000
	17,141,000	28,106,000
Net Increase in Working Capital	$ 3,725,000	$ 9,424,000
Changes in Composition of Working Capital		
Increase (decrease) in current assets		
Cash and time deposits	$ (53,000)	$ 1,231,000
Commercial promissory notes	4,411,000	3,815,000
Accounts receivable	5,203,000	99,000
Inventories	(840,000)	922,000
Prepaid expenses and other	896,000	348,000
	9,617,000	6,415,000
(Increase) decrease in current liabilities		
Accounts payable and accrued expenses	(2,069,000)	(1,980,000)
Dividends payable	—	200,000
Federal and state income taxes	(2,407,000)	1,116,000
Contributions due to employee benefit trust funds	(479,000)	1,157,000
Current portion of long-term debt	(937,000)	2,516,000
	(5,892,000)	3,009,000
Net increase in working capital	$ 3,725,000	$ 9,424,000

Consolidated Statements of Changes in Capital in Excess of Par Value, Treasury Stock and Retained Earnings

The Washington Post Company 1972

Fiscal Year	1972	1971
Capital in Excess of Par Value		
Balance, beginning of period	$10,079,000	$ 5,160,000
Issuance of shares of Class B common stock to holders of stock options	52,000	744,000
Sale to public and employees	—	3,738,000
Conversion of preferred stock	—	400,000
Other	18,000	37,000
Balance, end of period	$10,149,000	$10,079,000
Treasury Stock		
Balance, beginning of period	$ 4,847,000	$15,653,000
Purchases	307,000	530,000
Cost of shares sold	(134,000)	(11,336,000)
Balance, end of period	$ 5,020,000	$ 4,847,000
Retained Earnings		
Balance, beginning of period	$60,052,000	$49,166,000
Net income	9,732,000	11,757,000
Cash dividends:		
Common stock $.20 per share	(949,000)	(871,000)
Balance, end of period	$68,835,000	$60,052,000

Report of Independent Accountants

To the Board of Directors and Shareholders
of The Washington Post Company

We have examined the Consolidated Balance Sheets of The Washington Post Company and its subsidiaries as of December 31, 1972 and January 2, 1972, and the related Consolidated Statements of Income, Changes in Capital in Excess of Par Value, Treasury Stock and Retained Earnings and of Changes in Financial Position for the years then ended, including the Financial Review on pages 13 through 16. Our examinations were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As described in the Financial Review, in 1971 the Company retroactively adopted the equity method of accounting for its investments in Bowaters Mersey Paper Company Limited, began deferring both magazine subscription procurement costs and book promotion costs and, for all plant assets put into service in 1971 and thereafter, adopted the straight-line method of calculating depreciation and the deferral method of accounting for investment credits.

In our opinion, the consolidated financial statements examined by us present fairly the financial position of The Washington Post Company and its subsidiaries at December 31, 1972 and January 2, 1972, the results of their operations and the changes in financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied during the period subsequent to the changes, with which we concur, made as of January 4, 1971, referred to in the preceding paragraph.

February 8, 1973
Washington, D.C.

Price Waterhouse & Co.

Ten-Year Summary

The Washington Post Company 1972

Fiscal Year	1972	1971	1970
Revenues and Income			
Revenues	$217,844,000	$192,749,000	$178,031,000
Income from operations	21,806,000	15,194,000	13,925,000
Income before income taxes and extraordinary items (Note)	20,221,000	13,519,000	12,189,000
Income before extraordinary items (Note)	10,015,000	6,784,000	5,966,000
Extraordinary items	(283,000)	387,000	(853,000)
Net income (Note)	9,732,000	7,171,000	5,113,000
Year-end Financial Condition			
Current assets	$ 61,754,000	$ 52,137,000	$ 45,722,000
Working capital	36,125,000	32,400,000	22,976,000
Plant assets	46,171,000	41,115,000	30,190,000
Total assets	161,031,000	145,692,000	129,832,000
Long-term debt	35,436,000	38,033,000	39,872,000
Deferred subscription income	20,971,000	18,396,000	17,521,000
less related subscription procurement costs	(11,998,000)	(10,496,000)	(9,368,000)
Net	8,973,000	7,900,000	8,153,000
Shareholders equity (Note)	79,031,000	70,351,000	48,540,000
Amount Per Share			
Earnings per common and common equivalent share			
Primary			
Income before extraordinary items (Note)	$2.08	$1.52	$1.48
Extraordinary items	(.06)	.09	(.21)
Net income (Note)	2.02	1.61	1.27
Fully diluted			
Income before extraordinary items (Note)	$2.07	$1.52	1.42
Extraordinary items	(.06)	.09	(.20)
Net income (Note)	2.01	1.61	1.22
Cash dividends per share	.20	.20	.20

NOTE: Presented on a pro forma basis which assumes that changes in accounting methods adopted in 1971 had been applied to previous years. The aggregate adjustment for years prior to 1971 amounted to $4,586,000 ($1.04 per share) and was reflected in 1971 as a special credit.

1969	1968	1967	1966	1965	1964	1963
$169,133,000	$146,597,000	$131,495,000	$122,827,000	$108,050,000	$ 96,043,000	$ 85,514,000
19,654,000	17,346,000	13,778,000	16,027,000	14,970,000	10,390,000	9,397,000
19,627,000	16,828,000	13,617,000	16,236,000	14,645,000	10,213,000	8,480,000
9,389,000	7,743,000	7,098,000	8,572,000	7,706,000	5,305,000	4,311,000
(919,000)	—	—	—	—	—	597,000
8,470,000	7,743,000	7,098,000	8,572,000	7,706,000	5,305,000	4,908,000
$ 39,498,000	$ 39,130,000	$ 32,066,000	$ 34,869,000	$ 29,882,000	$ 26,512,000	$ 21,346,000
19,255,000	23,366,000	18,767,000	18,176,000	14,083,000	13,049,000	10,802,000
21,627,000	18,263,000	18,562,000	17,778,000	14,479,000	14,712,000	15,441,000
118,457,000	98,243,000	91,490,000	92,633,000	82,066,000	74,513,000	67,526,000
35,000,000	24,289,000	24,296,000	26,050,000	24,777,000	26,319,000	27,752,000
16,373,000	14,257,000	12,903,000	11,183,000	9,609,000	8,864,000	7,882,000
(8,999,000)	(7,925,000)	(7,277,000)	(6,504,000)	(5,048,000)	(4,420,000)	(4,671,000)
7,374,000	6,332,000	5,626,000	4,679,000	4,561,000	4,444,000	3,211,000
46,953,000	43,837,000	40,596,000	39,217,000	32,129,000	26,129,000	21,746,000
$2.37	$1.83	$1.58	$1.84	$1.66	$1.18	$1.30
(.23)	—	—	—	—	—	.19
2.14	1.83	1.58	1.84	1.66	1.18	1.49
2.17	1.69	1.46	1.71	1.54	1.04	.84
(.21)	—	—	—	—	—	.12
1.96	1.69	1.46	1.71	1.54	1.04	.96
.20	.20	.20	.20	.20	.20	.02

Corporate Directory

Board of Directors and Officers

Katharine Graham
Director and President
Publisher of The Washington Post

Frederick S. Beebe
Director and Chairman of the Board

Osborn Elliott
Director and Vice President
Chairman of Newsweek, Inc.

Larry H. Israel
Director and Executive Vice President
Chairman of Post-Newsweek Stations, Inc.

Nicholas deB. Katzenbach
Director

Mark J. Meagher
Director and Vice President—Finance

Dr. Eugene Meyer III
Director

Arjay Miller
Director

John S. Prescott, Jr.
Director and Vice President
President of The Washington Post

John W. Sweeterman
Director

Alan R. Finberg
Vice President, General Counsel and Secretary

Martin Cohen
Controller

Robert P. Thome
Treasurer

Transfer Agents and Registrars

Morgan Guaranty Trust Company of New York
New York, New York

American Security and Trust Company
Washington, D.C.

Corporate Offices

1150 15th Street, N.W.
Washington, D.C. 20005

444 Madison Avenue
New York, New York 10022

Annual Meeting

The Annual Meeting of Stockholders will be held at 10:00 a.m. on Wednesday, May 9, 1973 at The Washington Post Company, 1150 15th Street, N.W. Washington, D.C. 20005

The Washington Post Company

1150 15th STREET, N.W.
WASHINGTON, D.C. 20005