THE WASHINGTON POST COMPANY

ANNUAL REPORT 1973

TEN-YEAR SUMMARY OF FINANCIAL HIGHLIGHTS

(Note)

THE WASHINGTON POST COMPANY

is a growing communications organization, primarily engaged in publishing a newspaper *(The Washington Post)*, a national magazine *(Newsweek)*, and in operating radio and television stations in Washington, D.C., Miami and Jacksonville, Fla., Cincinnati, Ohio and (commencing in March 1974) Hartford, Conn.

(Amounts in thousands except per share data)

Fiscal Year	1973	1972
Year-end Financial Condition		
Current assets	**$ 78,283**	$ 61,754
Working capital	**47,740**	36,125
Plant assets	**48,898**	46,171
Total assets	**184,704**	161,031
Long-term debt	**33,702**	35,436
Deferred subscription income	**26,097**	20,971
less related subscription procurement costs	**(13,082)**	(11,998)
Net	**13,015**	8,973
Shareholders' equity	**90,605**	79,031
Revenues and Income		
Revenues—		
Newspaper Division	**$111,997**	$ 99,796
Magazine Division	**107,617**	93,790
Broadcasting Division	**27,335**	24,258
Total	**246,949**	217,844
Income from operations—		
Newspaper Division	**10,535**	10,222
Magazine Division	**9,161**	5,660
Broadcasting Division	**5,996**	5,924
Total	**25,692**	21,806
Income before income taxes and extraordinary items	**26,553**	20,221
Income before extraordinary items	**13,334**	10,015
Extraordinary items	**—**	(283)
Net income	**13,334**	9,732
Amounts per share		
Earnings per common and common equivalent share		
Primary—		
Income before extraordinary items	**$2.80**	$2.08
Extraordinary items	**—**	(.06)
Net income	**2.80**	2.02
Fully diluted—		
Income before extraordinary items	**2.80**	2.07
Extraordinary items	**—**	(.06)
Net income	**2.80**	2.01
Cash dividends	**.40**	.20

Note: For comparative purposes, income and earnings per share are presented on a pro forma basis which assumes that changes in accounting methods adopted and reflected as a special credit in 1971 had been applied to previous years.

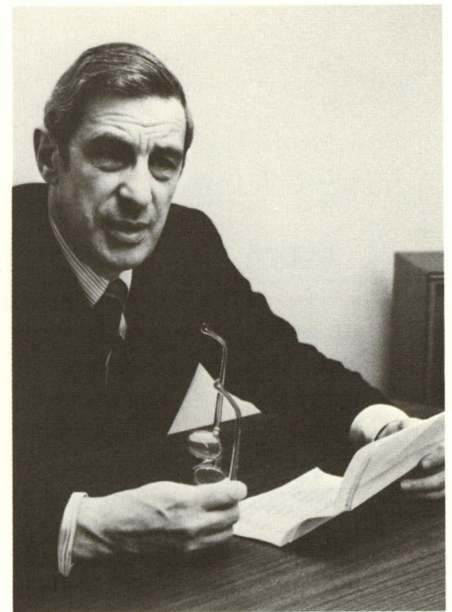
1971	1970	1969	1968	1967	1966	1965	1964
$ 52,137	$ 45,722	$ 39,498	$ 39,130	$ 32,066	$ 34,869	$ 29,882	$ 26,512
32,400	22,976	19,255	23,366	18,767	18,176	14,083	13,049
41,115	30,190	21,627	18,263	18,562	17,778	14,479	14,712
145,692	129,832	118,457	98,243	91,490	92,633	82,066	74,513
38,033	39,872	35,000	24,289	24,296	26,050	24,777	26,319
18,396	17,521	16,373	14,257	12,903	11,183	9,609	8,864
(10,496)	(9,368)	(8,999)	(7,925)	(7,277)	(6,504)	(5,048)	(4,420)
7,900	8,153	7,374	6,332	5,626	4,679	4,561	4,444
70,351	48,540	46,953	43,837	40,596	39,217	32,129	26,129
$ 85,892	$ 79,267	$ 75,859	$ 68,150	$ 63,404	$ 60,168	$ 54,011	$ 47,747
86,044	79,985	79,280	65,967	56,775	51,214	43,436	38,178
20,813	18,779	13,994	12,480	11,316	11,445	10,603	10,118
192,749	178,031	169,133	146,597	131,495	122,827	108,050	96,043
8,706	8,883	11,444	10,295	9,008	9,604	8,664	6,470
2,738	2,584	6,515	4,266	2,140	3,581	2,764	689
3,750	2,458	1,695	2,785	2,630	2,842	3,542	3,231
15,194	13,925	19,654	17,346	13,778	16,027	14,970	10,390
13,519	12,189	19,627	16,828	13,617	16,236	14,645	10,213
6,784	5,966	9,389	7,743	7,098	8,572	7,706	5,305
387	(853)	(919)	—	—	—	—	—
7,171	5,113	8,470	7,743	7,098	8,572	7,706	5,305
$1.52	$1.48	$2.37	$1.83	$1.58	$1.84	$1.66	$1.18
.09	(.21)	(.23)	—	—	—	—	—
1.61	1.27	2.14	1.83	1.58	1.84	1.66	1.18
1.52	1.42	2.17	1.69	1.46	1.71	1.54	1.04
.09	(.20)	(.21)	—	—	—	—	—
1.61	1.22	1.96	1.69	1.46	1.71	1.54	1.04
.20	.20	.20	.20	.20	.20	.20	.20

REPORT TO SHAREHOLDERS

Last year was both turbulent and exciting, and it was a year of unprecedented achievement for the Company.

The news — the Vietnam settlement, Watergate, the Agnew resignation, the energy crisis, the Mideast war — came in a dizzying succession, testing not only the media's powers of discovery, but also its capacity to understand and explain. *The Washington Post, Newsweek* and the Company's broadcasting stations each made significant and unique contributions to public awareness and comprehension.

Last year's financial results were the best in the Company's history. Revenues rose 13.4% to $246.9 million. Net income increased 37% to $13.3 million, or $2.80 per share—a significant advance even compared with the Company's success in 1972, when earnings were $2.02 per share after an extraordinary loss of 6¢ per share on the sale of Art News magazine. In January 1973 the annual dividend rate was doubled from 20¢ to 40¢ per share; on the basis of the achievements of 1973, the Board of Directors felt fully justified in again raising the annual dividend rate to 50¢ per share in January 1974.



Larry H. Israel
President

Washington and WPLG-TV in Miami. And despite the merger of the Washington *Evening Star* and *Daily News* in mid-1972, which made the surviving paper a more formidable competitor, the *Post's* daily share of total newspaper circulation in the Washington area has continued to climb.

These achievements, however gratifying they may be, do not bespeak a direct and immediate relationship between excellence and profitability. Devoting more resources to editorial content, in other words, does not quickly and automatically produce higher circulation, more advertising and greater profits. The equation is more complex. Since 1968 the *Post's* news staff has grown from 323 to 378. In August 1972 WTOP-TV introduced Washington's first, and still its only, two-hour evening news program. There is no simple process to translate these actions, or dozens like them, into higher profits. The commitment to excellence is long-term, and in an information-hungry world that commitment has been and remains ultimately the bedrock of the Company's success.

A strong financial foundation depends upon editorial excellence

Editorial Excellence

We have repeatedly, perhaps monotonously, emphasized that financial strength and editorial excellence can and do co-exist; indeed, they reinforce each other. And 1973 provides an interesting illustration of that relationship. It was no accident that *Newsweek* sold more copies on the newsstand each month than it had in any corresponding month in the magazine's 40-year history. Moreover, of *Newsweek's* 31 best selling issues, 24 appeared in 1973. The Broadcast Division's emphasis on improving program quality, with special attention to news and public affairs, substantially enlarged the audiences of both WTOP-TV in

Katharine Graham
Chairman of the Board

No one understood this better than Frederick S. ("Fritz") Beebe, who had served as Chairman of the Board since 1961 and who died last May. We miss Fritz deeply and always shall, but the force of his example will not be forgotten. A lawyer and businessman who genuinely loved the editorial side of the *Post, Newsweek* and our broadcasting stations, he knew that the Company's commitment to excellence could not survive, even with the best of intentions, on a weak financial foundation.

Management

Fritz Beebe's death inevitably required that changes be made in managerial responsibilities. Katharine Graham, previously President, took up the reins as Chairman of the Board and chief executive officer; Larry Israel, previously Executive Vice President as well as head of the Broadcasting Division, became President and chief operating officer; and Joel Chaseman, who had been a Vice President of Westinghouse Broadcasting Company, Inc. and President of its television station group joined us as President and chief executive officer of Post-Newsweek Stations. Corporate legal, financial and planning offices were consolidated in Washington under Mark Meagher, Vice President for Finance and Administration, and Alan Finberg, Vice President and General Counsel. More recently the Board has been greatly strengthened by the election of George J. Gillespie, III, and Richard M. Paget as directors. Both men have rendered long and valued service to the Company as independent professional counselors.

All of us involved in the Company's affairs recognize that preserving and strengthening the Company's financial base is not easy. In 1973 management devoted much of its time to the difficult job of containing costs to offset the impact of inflation. Only a highly profitable company can continue to attract the talented, highly motivated men and women essential to its vitality. And only a healthy company can resist the subtle, and sometimes not-so-subtle, outside pressures to compromise and to limit the independence of reporters and editors to go where their professional instincts and diligence lead them.

Watergate

Watergate tested the Company's determination to resist those pressures as never before. Virtually alone in 1972, *The Washington Post* followed up the slim leads provided by the burglary. After the decisive Presidential election the pressures to abandon the story intensified and the *Post's* coverage was castigated and characterized as a vendetta—an attempt to "get" the White House. It was not. Only those who saw it as such could seriously suggest that the election results were a legitimate reason to ignore the findings of the paper's reporters. From the beginning, the simple purpose of investigating the Watergate break-in was to get at the truth, wherever it might lie.

A free press is not free unless it exercises its freedom. That is what the *Post* did. But the press undermines its own freedom if it acts irresponsibly, and that is what the *Post* did not do. Necessarily, many of the Watergate-related stories stemmed from anonymous sources, people whose careers and well-being could have been jeopardized by the disclosure of their identity. To guard against the danger of self-serving or

inaccurate leaks from confidential sources, the *Post's* editors insisted that no story be run without corroboration by two independent sources. As a result many stories later verified by events actually went unprinted, but the newspaper's strict standards thoroughly safeguarded its reliability.

The satisfying thing about the quality of the *Post's* investigative coverage of Watergate is that it was matched by the overall news coverage of the *Post* and *Newsweek* as well as the broadcasting stations. A list of the outstanding and original work produced at the Company's three divisions would run on for pages. Here are just a few examples: "Sahel: Border of Hell", a one-hour television documentary on the devastating effects of the West African famine, shown on all the Company's television stations and syndicated to 9 other stations; "Arthur & Company", a one-hour morning program for preschoolers produced by WPLG-TV in Miami; *Newsweek's* prophetic cover story in January 1973 on the "energy crisis", and its year-end special report on "The Arts in America"—a distinguished, 50-page examination of this nation's artistic spirit and energy; and at the *Post,* a six-part investigative series on local hospitals and an eight-part series entitled "The Passion for Equality" examining the unwinding of the "Great Society" social programs of the mid-sixties.

Financial Results

No less gratifying than these editorial achievements were the financial results for the year, in which the Company registered substantial gains in operating income:

- Revenues of the newspaper division, consisting principally of the *Post* but also including Robinson Terminal Warehouse Corporation, rose to $112 million, up 12.2% from 1972. Approximately half the increase resulted from higher circulation (up 2.1% from 1972) and greater advertising linage (up 7.6% from 1972), the other half being accounted for by higher advertising rates which were increased by approximately 6.2% early in the year. Operating income increased 3.1% to $10.5 million despite the fact that expenses jumped by 13.3% over 1972.

- *Newsweek* had its best year in history. Operating profits rose 61.9% to $9.2 million. This major improvement resulted both from higher revenues and significant cost savings. Total revenues increased by 14.7% over 1972 to $107.6 million, reflecting more advertising and higher readership. Gross advertising pages, for instance, climbed by 180 pages over 1972 to 3,159 (exclusive of advertising for affiliated operations) making *Newsweek,* for the sixth consecutive year, the advertising-page leader among the nation's newsmagazines. And the continuing rise in circulation enabled us to raise the rate base to 2,725,000 in 1973 and to 2,825,000 for 1974. On the cost side, economies first introduced in 1972 have been continued and improved upon; early this year, for example, *Newsweek* revised its printing schedule to substantially reduce overtime costs. Similarly, printing of the magazine will be shifted to a photo-composition system which will result in significantly lower manufacturing costs in 1975 and subsequent years.

- The Broadcasting Division's revenues increased 12.7% to $27.3 million in 1973 while operating income was $6 million compared with $5.9 million in 1972 despite substantially increased expenses. These increased costs included a non-recurring write-off of $550,000 on two program series. They also included unusually heavy promotion, programming and legal expenses incurred to win audience increases, to defend against the challenges to the licenses of the Company's Florida television stations, and to maintain quality public service programming. (Carrying the Ervin Committee hearings, for example, reduced the advertising revenues normally received from those time periods.)

The Outlook

Turning to 1974, the first quarter began well but the outlook for the full year is uncertain. More than 75% of the Company's revenues

come from advertising, which is historically sensitive to fluctuations in the economy although the importance of the Federal Government establishment makes the metropolitan Washington area an unusually stable market. Most professional economists have predicted a weakening of the economy this year. While revenues may grow, depending on the severity of the downturn, costs continue to escalate in disproportion to revenues. *The Washington Post*, for example, has reached a number of new labor agreements which provide for wage increases related to the rising cost of living. The price of newsprint, which accounts for about 25% of the total cost of producing the *Post*, jumped from $168 per ton in February 1973 to $200 on January 1, 1974, and further increases appear probable, although the Company recovers a portion of these higher prices through its 49% ownership of Bowaters Mersey Paper Company Limited which supplies about two-thirds of the *Post's* newsprint requirements. At *Newsweek*, too, the costs of salaries and wages as well as postage and paper continue to escalate. As these cost increases accumulate, the Company — within the constraints of Federal Economic Regulations—will do all it can to offset them through internal efficiencies and price increases.

Beyond these immediate concerns, the Company faces two longer term problems—first, modernizing production methods at the *Post*, and second, dealing with continuing uncertainty in the regulatory aspects of broadcasting.

Financial results for 1973 were the best in the company's history

Changing Technology

The *Post* is now in midpassage between one technology and another, reflecting fundamental changes in the techniques and economics of newspaper production. While the newspaper's earnings have grown in terms of inflated dollars, profit margins have fallen sharply and the *Post*, even after a highly successful year, is earning less profit on every dollar of revenue. In 1973, for example, the newspaper's operating profit margin was 9.4% against 15.1% in 1968. Constructive steps are being taken to improve the margin despite increases in the costs of labor and newsprint, so that adverse turns in the economy and unanticipated expenses that are inevitable in the newsgathering business will not ultimately erode the paper's financial foundation or its editorial excellence.

By the late seventies the *Post* plans to have installed a computerized composition system that will be both faster and significantly less costly than present methods. The prospect of this technological change is essential to an understanding of the *Post*'s most difficult labor problem, which involves fundamental issues of automation and a practice known as "reproduce" or "bogus". The "reproduce" clauses, embedded in typographical union contracts for decades, provide for setting advertisements that don't need to be set; thus when an advertisement is received in the form of a mat ready to be made into a printing plate, the advertisement goes into the "reproduce" backlog which might stretch back for many years. As long as this practice exists the newspaper must hire any available union members to set type for advertisements that may have appeared years before.

The contract with the newspaper's typographers expired last September, and in early November a two-day wildcat strike erupted after a union employee was dismissed for participating in a deliberate slowdown. The cost of this action to the Company was approximately $700,000. Another cost, hardly measurable in dollars alone, is the impact on the newspaper's readers, reporters, circulation dealers and advertisers who are all short-changed as

a result of missed deliveries, missed news stories and missed advertisements which have been either printed incorrectly or not printed at all. Much more than the issues of "reproduce" and automation is involved here. There are also the issues of mutual confidence and mutual respect between management and the printers. Printing is one of the most skilled of crafts. The pride in, and quality of, the printers' work have been essential elements in the *Post*'s success. The transition from one technology to another involves tremendous physical and psychological adjustment, and management's most urgent task is to communicate to the printers our recognition that the ease of that transition depends not upon their sacrifice but upon their contribution and cooperation.

License Considerations

The second major uncertainty in the Company's future development involves its broadcasting operations.

We still face challenges to the renewal of the licenses of both our Florida television stations. Although the Federal Communication Commission has yet to set hearing dates for these proceedings, the Company is preparing comprehensive and vigorous defenses of its records in Miami, Jacksonville and remains confident that, in view of the truly outstanding performance of both stations, the pending challenges will fail.

More imponderable is Federal policy toward common ownership of newspapers and broadcasting stations in the same city. For years the Federal Communication Commission has had under consideration a rule that would prohibit such "cross ownership", and the Department of Justice has recently asked the Federal Communication Commission not to renew the licenses of certain television stations in St. Louis, Milwaukee and Des Moines because they are owned by local newspapers. A rule or policy prohibiting cross ownership would obviously bar the Company's continued operation of WTOP-TV in Washington.

We have long believed, and expressed our belief, that the preoccupation with cross ownership is misguided. Stations should be judged on their own performance; licenses should not be renewed if program quality is poor, for that is what matters to the public served by the broadcast media. Further, to the extent that a ban on cross ownership might be justified in situations involving undue concentrations of editorial or advertising power, Washington presents no such concentration. Its four major commercial VHF television stations are highly competitive, with no single station dominant, and there also are a commercial UHF television station and 37 metropolitan area radio stations (not including WTOP-AM). In addition, many Washington viewers receive Baltimore stations. With added competition offered by the *Star-News,* a vigorous and distinguished newspaper, Washington is a city characterized by media diversity. In that context, the application of a cross ownership ban would be a triumph of formalism over substance. Nevertheless, the Company is closely monitoring developments in this regulatory area and will be prepared for whatever may happen.

Company buys WTIC-TV of Hartford for $33.9 million

Other Highlights

Looking back on 1973 there were a number of other noteworthy developments:

- The Company contracted to purchase from The Travelers Corporation its Hartford television station WTIC-TV, to be renamed WFSB-TV in honor of Fritz Beebe. The Federal Communication Commission approved the transaction on January 30, 1974, and as of this writing the transfer is expected to take place in March. The purchase price of $33.9 million is being financed with $24 million of internal funds and $10 mil-

lion to be borrowed from a group of banks. Although the station already has the largest viewing audience in Southern New England (Springfield, Hartford, Waterbury and New Haven), significant additions to the programming schedule are planned; e.g., local evening news will be doubled from a half hour to an hour and a new morning public affairs program, "New England Journal", will be produced.

- In September the *Post* launched its Writers Group. Headed by William Dickinson, Jr., formerly editor and vice president of Congressional Quarterly, Inc., the new venture has already syndicated the columns of the *Post*'s David Broder to 103 papers and George F. Will to 25 papers. The Writers Group has also published its first book, "Year of Scandal: How The Washington Post Covered Watergate and the Agnew Crisis", and has scheduled another, "The Press Covers the Press", a compilation of articles by *Post* reporters and editors discussing the news business.

- *Newsweek International,* which announced a major expansion program in late 1972, enjoyed its first full year as "the world's first truly international newsmagazine". With the formation of its own editorial and commercial staffs, the edition reached its goal to be fully responsive to the needs of overseas readers. During the year, for example, *Newsweek International* ran hundreds of exclusive stories and featured 22 covers that differed from the domestic edition. The result of this editorial effort was reflected in important advertising and circulation gains, although not yet in sufficient degree to overcome the additional editorial expenses involved.

- A number of important appointments were made at operating levels. Leonard T. Giarraputo, former vice president for sales of Post-Newsweek Stations, became executive vice president for station operations. At *Newsweek,* Peter Derow, former managing director of the international editions, became senior vice president with substantially broader responsibilities, Edward Kosner advanced from assistant managing editor to managing editor of *Newsweek,* former senior editor Kenneth Auchincloss became executive editor.

Finally, no record of 1973 would be complete without mention of the long list of prizes won by *The Washington Post, Newsweek* and Post-Newsweek Stations. There were more than 50 major journalism awards, including the *Post's* two Pulitzer Prizes—one for Public Service (for the Watergate coverage) and another to David Broder for political commentary—the National Headliners Club Award to *Newsweek* Columnist Stewart Alsop, four local Emmy awards to WTOP-TV's "Eyewitness News", and several film festival awards for Post-Newsweek Stations Productions.

We are proud of all the awards, records and successes of 1973 and most grateful to the thousands of dedicated men and women throughout the Company whose hard work made them possible and who provide us with a great confidence in the Company's future.

Katharine Graham

Katharine Graham
Chairman of the Board

Larry H. Israel

Larry H. Israel
President

February 11, 1974

CONSOLIDATED BALANCE SHEETS

ASSETS	December 30, 1973	December 31, 1972
CURRENT ASSETS		
Cash and time deposits	$ 32,759,000	$ 10,215,000
Commercial promissory notes at cost which approximates market value	6,918,000	19,635,000
Accounts receivable, less estimated returns, doubtful accounts and allowances of $3,088,000 and $2,663,000	29,431,000	25,195,000
Inventories at lower of average cost or market	3,465,000	3,801,000
Prepaid expenses and other	5,710,000	2,908,000
	78,283,000	61,754,000
INVESTMENTS IN AFFILIATES		
Bowaters Mersey Paper Company Limited	9,554,000	8,649,000
Other	1,043,000	2,679,000
	10,597,000	11,328,000
PLANT ASSETS, AT COST		
Buildings	32,984,000	30,185,000
Machinery, equipment and fixtures	36,332,000	34,412,000
Leasehold improvements	2,562,000	2,473,000
	71,878,000	67,070,000
Less accumulated depreciation and amortization	(29,424,000)	(27,625,000)
	42,454,000	39,445,000
Land	6,232,000	6,403,000
Construction in progress	212,000	323,000
	48,898,000	46,171,000
GOODWILL AND OTHER INTANGIBLES	38,314,000	36,860,000
DEFERRED CHARGES AND OTHER ASSETS	8,612,000	4,918,000
	$184,704,000	$161,031,000

The information on pages 13 through 16 is an integral part of the financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY

	December 30, 1973	December 31, 1972
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 23,284,000	$ 19,437,000
Federal and state income taxes	4,425,000	3,142,000
Contributions due to employee benefit trust funds	1,100,000	1,316,000
Current portion of long-term debt	1,734,000	1,734,000
	30,543,000	25,629,000
OTHER LIABILITIES	7,620,000	5,529,000
LONG-TERM DEBT	33,702,000	35,436,000
Deferred subscription income less related magazine subscription procurement costs of $13,082,000 and $11,998,000	13,015,000	8,973,000
DEFERRED INCOME TAXES	8,816,000	6,077,000
MINORITY INTEREST IN SUBSIDIARY COMPANY	403,000	356,000
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; 3,986,368 and 3,982,888 shares outstanding	4,304,000	4,304,000
Capital in excess of par value	10,227,000	10,149,000
Retained earnings	80,270,000	68,835,000
Less cost of 317,672 and 321,152 shares of Class B common stock held in Treasury	(4,959,000)	(5,020,000)
Total shareholders' equity	90,605,000	79,031,000
	$184,704,000	$161,031,000

The information on pages 13 through 16 is an integral part of the financial statements.

CONSOLIDATED STATEMENTS OF INCOME

	Fiscal Year Ended	
	December 30, 1973	December 31, 1972
OPERATING REVENUES		
Advertising	**$188,472,000**	$166,100,000
Circulation	**54,612,000**	47,421,000
Other	**3,865,000**	4,323,000
	246,949,000	217,844,000
COSTS AND EXPENSES		
Operating	**164,688,000**	146,644,000
Selling, general and administrative	**52,952,000**	46,254,000
Depreciation and amortization	**3,617,000**	3,140,000
	221,257,000	196,038,000
INCOME FROM OPERATIONS	**25,692,000**	21,806,000
OTHER INCOME (DEDUCTIONS)		
Other income (including interest of $2,481,000 and $804,000)	**2,661,000**	1,143,000
Other deductions (including interest of $2,411,000 and $2,484,000)	**(2,822,000)**	(3,240,000)
Equity in earnings of affiliates	**1,022,000**	512,000
INCOME BEFORE INCOME TAXES AND EXTRAORDINARY ITEM	**26,553,000**	20,221,000
INCOME TAXES		
Current	**10,562,000**	7,485,000
Deferred	**2,657,000**	2,721,000
	13,219,000	10,206,000
INCOME BEFORE EXTRAORDINARY ITEM	**13,334,000**	10,015,000
EXTRAORDINARY ITEM—SALE OF ART NEWS MAGAZINE		(283,000)
NET INCOME	**$13,334,000**	$ 9,732,000
EARNINGS PER COMMON AND COMMON EQUIVALENT SHARE		
Income before extraordinary item	**$2.80**	$2.08
Extraordinary item		(.06)
Net income	**$2.80**	$2.02

The information on pages 13 through 16 is an integral part of the financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

	Fiscal Year Ended	
	December 30, 1973	December 31, 1972
SOURCES OF WORKING CAPITAL		
Net income	**$13,334,000**	$ 9,732,000
Add charges to income not requiring working capital		
Depreciation and amortization of plant assets	**3,617,000**	3,140,000
Amortization of television film costs	**2,483,000**	1,661,000
Income tax timing differences	**2,739,000**	2,186,000
Sale of Art News goodwill		650,000
Other	**429,000**	386,000
Total provided by operations	**22,602,000**	17,755,000
Increase in deferred subscription income	**5,126,000**	2,575,000
Proceeds from issuance of Class B common stock options	**58,000**	161,000
Increase in liabilities for cost of contracted television film rights	**1,620,000**	
Other	**293,000**	375,000
Total provided	**29,699,000**	20,866,000
USES OF WORKING CAPITAL		
Purchases of plant assets	**6,619,000**	8,820,000
Purchases of television film rights	**4,616,000**	2,232,000
Purchase of television station—deposits and other costs	**903,000**	
Purchases of treasury stock		307,000
Reduction of long-term debt	**1,734,000**	2,597,000
Increase in deferred magazine subscription procurement costs	**1,084,000**	1,502,000
Increase in other investments	**730,000**	700,000
Dividends on common stock	**1,899,000**	949,000
Other	**499,000**	34,000
Total used	**18,084,000**	17,141,000
NET INCREASE IN WORKING CAPITAL	**$11,615,000**	$ 3,725,000
CHANGES IN COMPOSITION OF WORKING CAPITAL		
Cash and time deposits	**$22,544,000**	$ (53,000)
Commercial promissory notes	**(12,717,000)**	4,411,000
Accounts receivable	**4,236,000**	5,203,000
Inventories	**(336,000)**	(840,000)
Prepaid expenses and other	**2,802,000**	896,000
Increase (decrease) in current assets	**16,529,000**	9,617,000
Accounts payable and accrued expenses	**(3,847,000)**	(2,069,000)
Federal and state income taxes	**(1,283,000)**	(2,407,000)
Contributions due to employee benefit trust funds	**216,000**	(479,000)
Current portion of long-term debt		(937,000)
(Increase) decrease in current liabilities	**(4,914,000)**	(5,892,000)
Net increase in working capital	**$11,615,000**	$ 3,725,000

The information on pages 13 through 16 is an integral part of the financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Capital in Excess of Par Value	Retained Earnings	Treasury Stock
Balance January 3, 1972	$10,079,000	$60,052,000	$4,847,000
Net income for the year		9,732,000	
Dividends—$0.20 per share		(949,000)	
Purchase of treasury shares			307,000
Stock options exercised	52,000		(109,000)
Other	18,000		(25,000)
Balance December 31, 1972	10,149,000	68,835,000	5,020,000
Net income for the year		13,334,000	
Dividends—$0.40 per share		(1,899,000)	
Stock options exercised	19,000		(39,000)
Other	59,000		(22,000)
Balance December 30, 1973	$10,227,000	$80,270,000	$4,959,000

The information on pages 13 through 16 is an integral part of the financial statements.

REPORT OF INDEPENDENT ACCOUNTANTS

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

In our opinion, the financial statements appearing on pages 8 through 12 present fairly the financial position of The Washington Post Company and its subsidiaries at December 30, 1973 and December 31, 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. Our examinations of these statements 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.

Price Waterhouse & Co.

February 11, 1974
Washington, D.C.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A. 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. The Company uses the equity method of accounting for its investments in, and the earnings of, affiliates.

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.

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. The costs of these rights and the liabilities for future payments under these agreements are reflected in the consolidated balance sheet for 1973 (for prior years, costs and liabilities were recorded when paid or incurred). As films are shown, the costs of these rights are charged to expense using accelerated amortization rates for motion pictures and straight-line amortization rates for syndicated programs.

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. The Company amortizes 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 unamortized excess of the cost of acquiring subsidiary and affiliated companies over the fair values of such companies' tangible assets at the dates of acquisition. The Company considers goodwill to be an asset of indefinite life and has not heretofore amortized the goodwill arising out of its acquisitions, all of which were made prior to November 1, 1970. In accordance with present accounting rules the Company will amortize over a period of 40 years an estimated $25 million of goodwill expected to result from the acquisition of a Hartford, Connecticut television station in 1974 (see Note I). 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 market rates of exchange in effect at year-end, except for plant assets and foreign indebtedness which are translated at exchange rates in effect at date of acquisition. Income statement amounts, other than depreciation, are translated at annual average market rates of exchange. Gains and losses from currency adjustments which are not material in amount are included in costs and expenses on a current basis.

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 $3,721,000 at December 30, 1973 and $3,306,000 at December 31, 1972, is included in "Other liabilities" in the consolidated balance sheet.

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

Total expense under the plans described above was $4,432,000 for 1973 and $3,564,000 for 1972.

B. TELEVISION 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.

C. INVENTORIES

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

	December 30, 1973	December 31, 1972	January 2, 1972
Newsprint	$ 420,000	$ 349,000	$1,200,000
Magazine paper	1,449,000	1,792,000	2,037,000
Books	900,000	910,000	906,000
Other materials	696,000	750,000	498,000
	$3,465,000	$3,801,000	$4,641,000

D. 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 1973 and 1972, stated in Canadian dollars, are set forth below:

Condensed Statements of Financial Position

	December 31	
	1973	1972
Current assets	$14,638,000	$12,051,000
Less current liabilities	(6,284,000)	(5,011,000)
Working capital	8,354,000	7,040,000
Fixed assets, Net	22,726,000	25,070,000
Other assets	370,000	425,000
Long-term debt	(2,588,000)	(3,881,000)
Other liabilities	(4,437,000)	(4,736,000)
Shareholders' equity:		
Preferred	3,904,000	4,301,000
Common	20,521,000	19,617,000
Total	$24,425,000	$23,918,000

Condensed Statements of Income

	1973	1972
Sales and other income	$32,507,000	$30,305,000
Costs and expenses	28,975,000	28,562,000
Income before income taxes	3,532,000	1,743,000
Income taxes	1,448,000	890,000
Net income	2,084,000	853,000
Preferred dividend requirements	229,000	241,000
Net income applicable to common shares	$ 1,855,000	$ 612,000

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

	December 30, 1973	December 31, 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	2,112,000	1,207,000
	$9,554,000	$8,649,000

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.

E. INCOME TAXES AND TAX TIMING DIFFERENCES

Income tax expense consists of the following components:

1973	Current	Deferred
U.S. Federal	$ 8,836,000	$2,284,000
Foreign	241,000	29,000
State & Local	1,485,000	344,000
	$10,562,000	$2,657,000
1972		
U.S. Federal	$ 6,494,000	$2,576,000
Foreign	104,000	
State & Local	887,000	145,000
	$ 7,485,000	$2,721,000

"Deferred" or "prepaid" tax expense results from timing differences (1) in the recognition of revenue and expense for tax and financial reporting purposes, (2) in the recognition of income tax to be withheld at source on distribution of earnings of foreign affiliates and (3) on the recognition of investment tax credits which for financial reporting purposes are applied as a reduction of income tax expense over the depreciable lives of the related assets. The sources and effect of these differences were as follows:

	1973	1972
Excess of tax over book depreciation	$ 900,000	$ 628,000
Magazine subscription procurement and book promotion costs deducted when incurred for tax reporting and deferred and amortized for financial reporting	1,205,000	1,012,000
Investment tax credit recognized currently for tax reporting and deferred and amortized for financial reporting	229,000	748,000
Other	323,000	333,000
	$2,657,000	$2,721,000

Total income tax expense exceeded 48% of income before taxes and extraordinary items by $473,000 in 1973 and $500,000 in 1972. The reasons for the differences are as follows:

	1973	1972
State and local taxes on income, net of federal income tax benefit	$951,000	$537,000
Other	(478,000)	(37,000)
	$473,000	$500,000

F. LONG-TERM DEBT AND RESTRICTIONS ON DIVIDENDS

Long-term debt consists principally of unsecured promissory notes which require payments each year to maturity. The amounts due within one year, $1,734,000, are included in current liabilities.

The composition of long-term debt is:

Interest Rates	Year of Final Maturity	December 30, 1973	December 31, 1972
6.95%	1987	$32,000,000	$33,000,000
4.00%	1977	2,136,000	2,670,000
5.00%	1981	1,300,000	1,500,000
		$35,436,000	$37,170,000

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 1973 and 1972, retained earnings unrestricted by these provisions were $38,601,000 and $30,917,000. Principal repayments on the 6.95% promissory notes are due as follows: $1,000,000 in 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 30, 1973, maturities of long-term debt scheduled during each of the succeeding five years were as follows: 1974, $1,734,000; 1975, 1976 and 1977, $2,984,000: 1978, $2,450,000.

The Company has made arrangements for lines of credit totaling $13,000,000. As of December 30, 1973, no borrowing had been made under lines of credit.

G. CAPITAL STOCK AND STOCK OPTIONS

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 30, 1973, 341,575 shares were reserved for issuance under the Stock Option Plan. Of this number, 292,650 shares were subject to op-

tions outstanding and 48,925 shares were available for future grants. Changes in the options outstanding for the two years ended December 30, 1973 and December 31, 1972 are as follows:

	1973		1972	
	Number of Shares	Average Option Price	Number of Shares	Average Option Price
Beginning of year	279,650	$26.34	287,575	$25.96
Options				
Granted	37,500	23.35	17,000	32.31
Exercised	(2,250)	26.00	(6,175)	26.00
Cancelled	(22,250)	26.00	(18,750)	26.00
End of year	292,650	$25.99	279,650	$26.34

During 1973 options became exercisable on 66,-175 shares having an average option price of $26.40 per share. Of the shares covered by options outstanding at the end of 1973, 124,925 were then exercisable, 72,925 will become exercisable in 1974, 72,175 in 1975, 13,250 in 1976 and 9,375 in 1977.

Per share data is based upon the weighted average number of shares of common stock and common stock equivalents outstanding during the periods, 4,755,000 in 1973 and 4,807,000 in 1972. 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.

H. COMMITMENTS AND CONTINGENCIES

The Company is 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.

Leases. Total rental expense included in operations was $3,214,000 for fiscal year 1973 and $2,887,-000 for fiscal year 1972. As at December 30, 1973 minimum annual rental commitments under noncancelable leases were: $1,733,000 for 1974; a lesser amount in each succeeding year to a total of $1,101,-000 for 1978; $1,126,000 for the five-year period 1979-1983; and less than $400,000 in each of the succeeding five-year periods thereafter, excluding a lease for approximately $800,000 per year which expires in 1979 but which may be renewed for two successive 15-year periods at the option of the Company at amounts to be negotiated. All of these commitments were for real estate except for $171,000 for 1974, $82,000 for 1975 and $29,000 for 1976 which relate to equipment.

I. TELEVISION STATION ACQUISITION

On June 5, 1973, the Company signed an agreement with The Travelers Corporation for the purchase of television station WTIC-TV, Hartford, Connecticut, for a purchase price of $33,900,000, subject to adjustment by the amount by which the net assets of the station at the closing date are greater or less than $6,783,600. On June 15, 1973, Travelers agreed to sell its two radio stations in Hartford, Connecticut, to another purchaser for $6 million, an amount which the Company has guaranteed Travelers it will receive from the sale of such radio stations. On January 30, 1974, the Federal Communications Commission granted its consent to both transactions, and the acquisition of the television station was scheduled to take place early in March 1974.

CORPORATE DIRECTORY

Board of Directors and Officers

Katharine Graham
Director and Chairman of the Board
Publisher of The Washington Post

Larry H. Israel
Director and President

Joel Chaseman
Director and Vice President
President of Post-Newsweek Stations, Inc.

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

George J. Gillespie III
Director
Attorney; Member of Cravath, Swaine & Moore

Nicholas deB. Katzenbach
Director
Vice President, International Business Machines Corporation

Gibson McCabe
Director
President of Newsweek, Inc.

Mark J. Meagher
Director and Vice President–Finance and Administration

Dr. Eugene Meyer III
Director
Physician; Professor, Johns Hopkins School of Medicine

Arjay Miller
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Dean, Stanford University Graduate School of Business

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President of The Washington Post

John W. Sweeterman
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Publisher of The Washington Post

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

Annual Meeting

The Annual Meeting of Stockholders
will be held at 10:00 a.m.
on Wednesday, May 8, 1974 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