The Washington Post

SUNDAY, JULY 4, 1976

America Celebrates Its 200th

Israelis Liberate Hostages

Commandos Fly 3 Planes Into Uganda

Upbeat Tone Marks Varied Tributes to Nation's Birthday

RICHARD COHEN

American Dream Lives

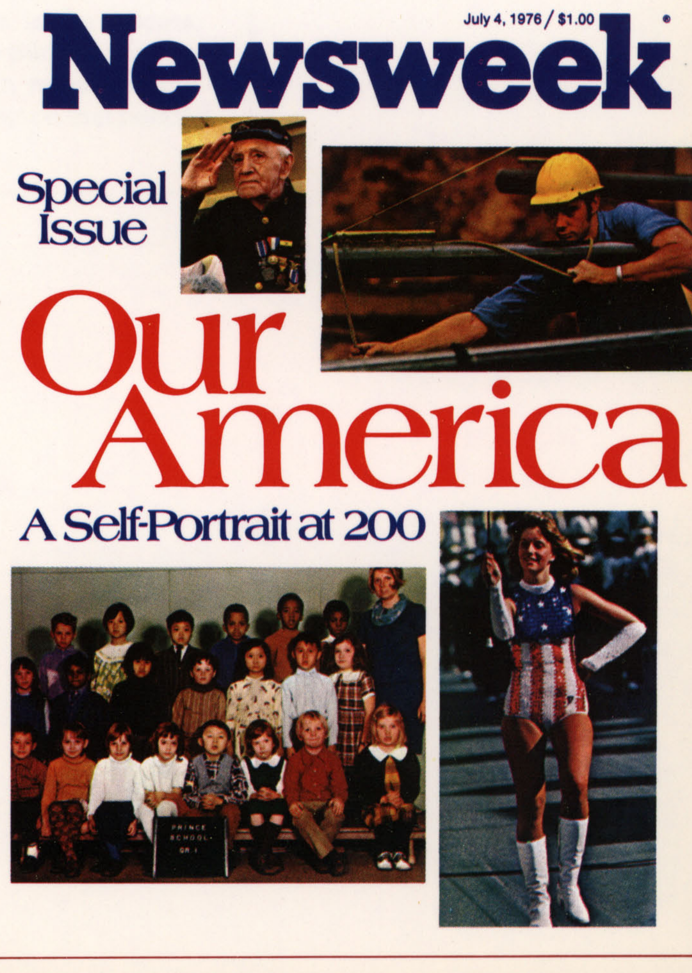
A Special Magazine Is Inside

JULY 4, 1976

500,000 Watch Big Parade

10,000 Marchers Join in Patriotic Spectacle

The Washington Post Company Annual Report 1976



1976. The nation celebrated its 200th year—and The Washington Post began its 100th year.

At the Post and at the Trenton Times, at Newsweek and at our television and radio stations, we documented this year of extraordinary events. In the process, we achieved our finest performance, in words and pictures, in revenues and earnings. This is a report on that performance.

Contents

Financial Highlights

	1976	1975
Revenues	*$375,729,000*	$309,335,000
Net Income	*$ 24,490,000*	$ 12,042,000
Earnings Per Share	*$2.72*	$1.27
Dividends Per Share	*$ .25*	$ .25
Shareholders' Equity	*$123,392,000*	$110,154,000

The Washington Post Company today...

Newspaper Division

The Washington Post,
Washington, D.C.

The Trenton Times and Sunday Times-Advertiser, Trenton, N.J.

Robinson Terminal Warehouse Corporation,
Alexandria, Va.
(85 percent ownership)
Newsprint warehousing

The Washington Post Writers Group,
Washington, D.C.
Newspaper feature syndication and
other publications

Magazine and Book Division

Newsweek

Newsweek, Atlantic and Pacific editions

Newsweek Books

Broadcasting Division

Television Stations

- WTOP-TV, Washington, D.C. (CBS affiliate)
- WJXT, Jacksonville, Fla. (CBS affiliate)
- WPLG, Miami, Fla. (ABC affiliate)
- WFSB-TV, Hartford, Conn. (CBS affiliate)

Radio Station

- WTOP (AM), Washington, D.C.

Affiliates

Bowater Mersey Paper Company
Limited, Liverpool, Nova Scotia
(49 percent of common stock)
Newsprint manufacturing

International Herald Tribune, S.A.,
Paris, France
(30 percent of common stock)
Newspaper publishing

Los Angeles Times—Washington Post
News Service
(50 percent interest in joint venture)

Report to Shareholders

It was an extraordinary news year. But then, it seems there is no longer an ordinary news year. Each year, news and information becomes of more urgent interest to growing millions of people. At The Washington Post Company we believe we are fully prepared to serve this expanding need with excellence and energy—in our newspapers, television and radio stations and magazines.

It was not only an extraordinary year for news, but also in terms of the Company's financial results. A year ago, our revenues and earnings were depressed by strikes at The Washington Post and the Bowater Mersey affiliate. But if you compare our 1976 operational performance with 1974, when our previous record earnings were established, you find a better reflection of the Company's impressive achievements. Thus 1976 revenues of $375.7 million were not only 21 percent higher than the $309.3 million reported in 1975 but were 31 percent higher than the $287.6 million reported in 1974. More significantly, consolidated net income for 1976—before including a nonrecurring gain of approximately $1.8 million or 20¢ per share on the sale of a radio station—was $22,690,000 or $2.52 per share, which was not only 88 percent higher than the depressed $12,042,000 or $1.27 per share earned in 1975 but was 57 percent greater than the record $14,441,000 or $1.52 per share earned in 1974.

The gains for the year 1976 were broadly based. The magazine and broadcasting divisions reported major increases in operating income which enabled each of them to exceed previous levels by significant amounts.

The newspaper division also showed improvements. The Washington Post made an excellent recovery from the strike, with average circulation in the fourth quarter reaching an all-time high of more than 560,000 copies daily and 765,000 Sunday. The Trenton Times had a small operating profit in 1976 after incurring a loss in 1975.

While the newspaper division's financial results are below the industry norms, considerable progress is being made. We are placing particular emphasis on improved productivity through the introduction of advanced technology.

We measure success at The Washington Post Company in the steady balance between our commitment to journalistic excellence and maintaining the profitability which supports that commitment. In 1976, profitability balanced well with achievement. Major awards came to all three divisions—for investigative reporting and for overall news effort; for criticism, photography and for broadcast programming; for service to our readers throughout the nation and around the world; for service to our local readers, viewers and listeners in Washington, Miami, Hartford, Jacksonville and Trenton.

Obviously, none of the success of 1976 would have been possible without an extremely high-level effort by our employees. The recovery from our difficult strike conditions and the achievement of new high levels of financial and journalistic performance reflect the widespread commitment at all levels.

A number of key personnel changes have occurred. Larry H. Israel, formerly president of the broadcasting division and president of the Company since May 1973, resigned, as did Osborn Elliott, the chairman and editor-in-chief of Newsweek. Both made important contributions and their efforts on behalf of the Company are appreciated.

At Newsweek, Robert D. Campbell was appointed chairman and Peter A. Derow succeeded him as president.

Mark J. Meagher was promoted to president of the newspaper division and of The Washington Post. He will have oversight of the operations of The Washington Post, the Trenton Times, Robinson Terminal and our interests in affiliated operations. Donald E. Graham succeeded Mark as executive vice president and general manager, responsible for day-to-day operations of The Washington Post.

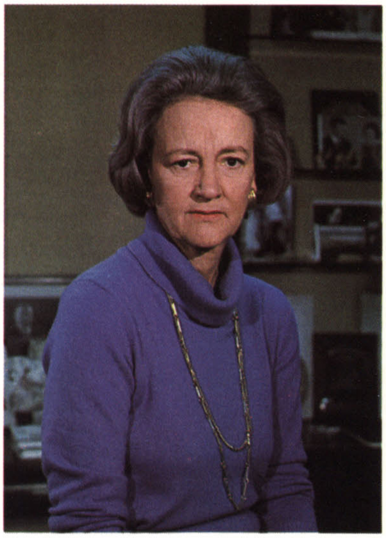
At the corporate level, our strong performance has led to a number of actions of special interest to stockholders. As of December 15, 1976, a two-for-one stock split was implemented. All references to shares and to per-share amounts throughout this report have been restated so as to reflect the split.

The Company continued its stock repurchase program, and as of the end of 1976 had acquired 1,021,500 shares at an average cost of $15.60 a share. Also, we accelerated our debt repayment. In addition to the scheduled payments, the Company prepaid an additional $6,534,000.

The Board of Directors authorized an increase in the dividend for 1977—up from 25 cents a share paid in 1976 to 36 cents a share.

As we have stated before, it is the intention of the Company to make further acquisitions in the communications industry as we find compatible properties in any one of the areas in which we operate. We are also committed to internal growth.

A look at the past year gives us good reason for pride in our present and great confidence in our future.

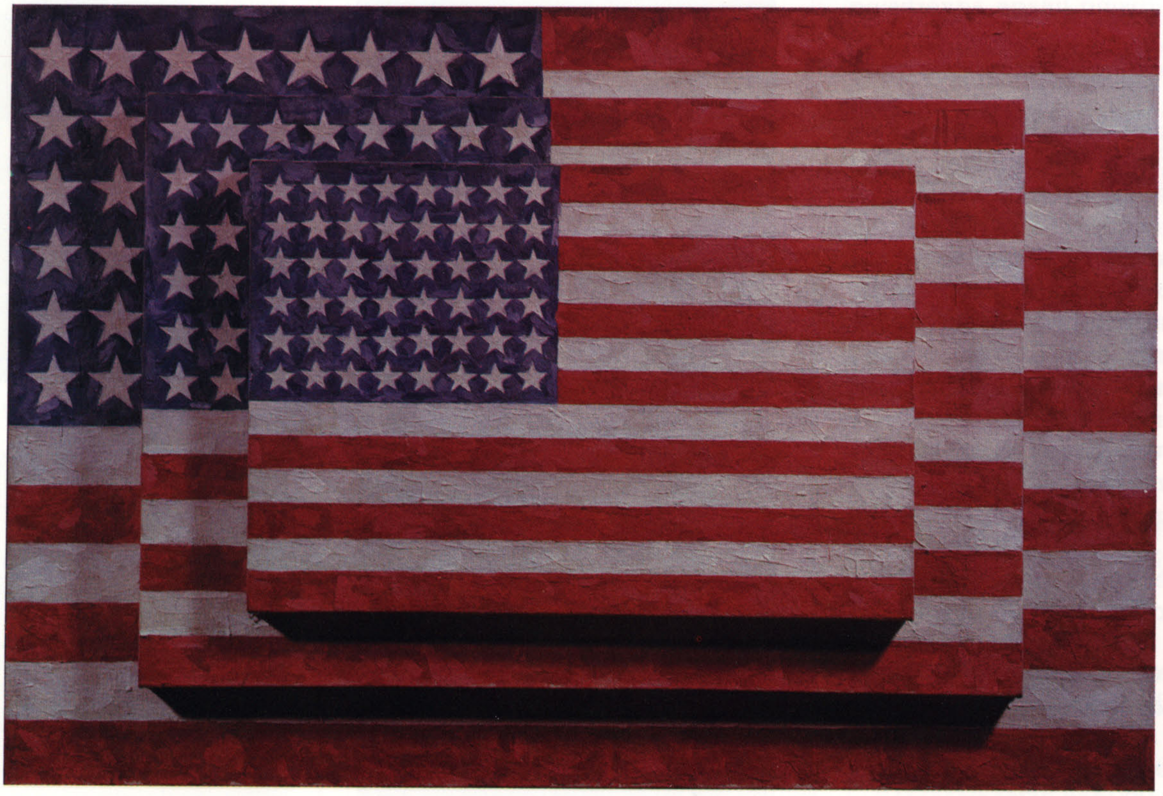


Katharine Graham

Katharine Graham
Chairman of the Board

February 7, 1977

JULY 4, 1976



The Washington Post

The Washington Post Bicentennial Magazine, published July 4, 1976.
"Three Flags" by Jasper Johns (1959), courtesy of Mr. and Mrs. Burton Tremaine, Meriden, Connecticut.

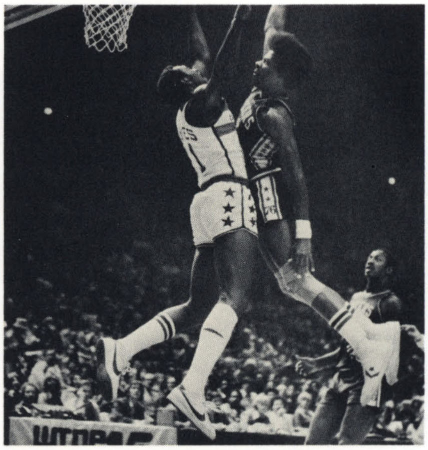
Newspaper Division

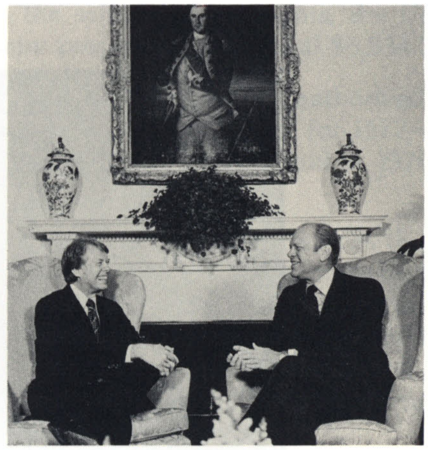
For The Washington Post, 1976 marked the beginning of the 100th year of publication. At the same time, the newspaper demonstrated its great inherent strength by recovering from the five-month strike at a rate of speed that exceeded every expectation. By the final quarter the Post had registered all-time highs in advertising linage, advertising revenue, daily and Sunday circulation, circulation revenue and operating profit.

It was a year of growth for the newspaper division, with improved profit performances at both newspapers. Total advertising revenue at The Washington Post increased almost 20 percent, about 30 percent of which represented the recovery of advertising revenues lost during the strike in 1975. The strike at the Post caused a reduction in revenue, mostly advertising, of an estimated \$8,000,000 in 1975 and \$2,000,000 in 1976; operating income was adversely affected by an estimated \$1,700,000 in 1975 and \$1,300,000 in 1976. At the Trenton Times, total advertising revenue increased by about 25 percent. In the division, advertising revenue totaled \$131,701,000, an increase of \$22,043,000, or 20 percent, over 1975.

Circulation revenue for the division totaled \$34,030,000 for 1976, an increase of \$8,731,000 over 1975. Most of this increase arises from the accounting for the change in the circulation price structure at the Post in 1975 from wholesale to retail (which also caused an increase in expenses by an identical amount).

The Washington Post's year was characterized by innovations designed to provide a better and a more efficient newspaper. In August, the Post changed from an eight-column page format to one with six columns of news and nine of advertising. A Harris 2520 computer composition system was installed, which now produces over 45 percent of the paper's news content. The year also saw creation of the Select Saturation Program for advertisers, which allows for advertising inserts to be delivered to every household in selected areas through a combination of





Financial Highlights

	1976	1975	Change
Revenues	$168.7 million	$137.9 million	+22%
Operating Income	$ 11.8 million	$ 6.6 million	+79%

newspaper home delivery and direct mail.

There was the Bicentennial, the Olympics and the presidential campaign; there was the civil war in Lebanon and war in Angola; and there was Governor Marvin Mandel's trial; and the Redskins made the NFL Playoffs. It was a year of great events and also a year in which the people of the Post had an extraordinary impact on local, national and international affairs.

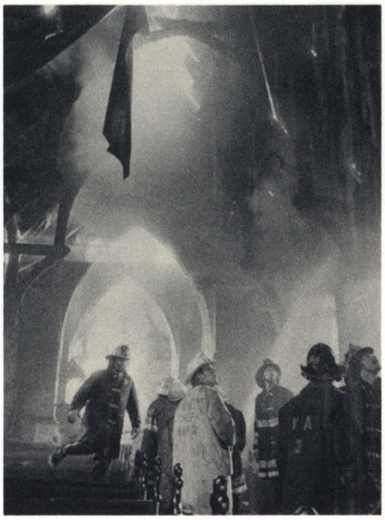
Thus, for example, reporters Marion Clark and Rudy Maxa disclosed the Wayne Hays-Elizabeth Ray relationship, which led to Hays' loss of position and power in Washington. That and subsequent stories earned The Washington Post the 1976 Public Service Award of the Associated Press Managing Editors' Association.

Then, Maxine Cheshire and Scott Armstrong revealed that South Korean agents had been dispensing millions of dollars in cash, campaign contributions and various kinds of gifts to members of Congress to influence attitudes and aid to South Korea.

Still another reporter, George Wilson, investigated the fatal beating of an unwanted, mentally handicapped marine during training. The resulting series of reports led to both Pentagon and Congressional inquiries, and the most sweeping reforms in military recruiting and training in two decades.

Also in 1976, Alan Kriegsman, the Post's dance critic, received the Pulitzer Prize for criticism.

(News photos taken by the Washington Post and Trenton Times staff photographers.)



The Trenton Times, in its second year as part of The Washington Post Company, had a revenue increase of 18 percent. The newspaper carried 66 percent of the advertising linage placed in Trenton papers.

Daily circulation at the Trenton Times, which decreased in the first part of the year, improved in the fourth quarter. The Saturday edition, started in September 1975, has become a major factor in the community. Its circulation currently exceeds 70,000 copies. The introduction in recent years of several competing Sunday papers reduced the Times' Sunday circulation by 6 percent during the year. However, the Times still leads with twice the Sunday circulation of the nearest competitor.

Since its purchase by The Washington Post Company in October 1974, the Trenton Times has made a number of major improvements in its plant including installation of a new offset press, a high-speed inserting machine and enhancement of the photocomposition system. As a result, the paper has had a marked improvement in productivity.

The Robinson Terminal Warehouse Corporation, despite a Canadian newsprint strike, had a successful year. A new warehouse, designed to conform to the architectural character of its location in Old Town Alexandria, Virginia, was completed, adding 20 percent to Robinson's owned newsprint storage capacity.

The Washington Post Writers Group, the syndication and book publishing subsidiary of the division, increased the total columns it placed in newspapers by 60 percent during the course of the year. It now offers for syndication eleven columnists and editorial cartoonists.

The International Herald Tribune also had a profitable year. Robert Eckert was named publisher following the resignation of Robert MacDonald, after 10 years of service.

The Canadian newsprint strike had an effect on the operations of the Bowater Mersey Company, too. Its revenues for the year were $43,784,000 compared to $41,007,000 for 1975. Net income was $1,973,000 in 1976 and $3,841,000 for 1975. In 1976, 153,000 tons of newsprint were shipped, 11,000 tons more than in the prior year. The mill produced its six millionth ton of newsprint during the year.

The rebound of 1976 carried with it changes, innovations and accomplishments that promise well for the future.

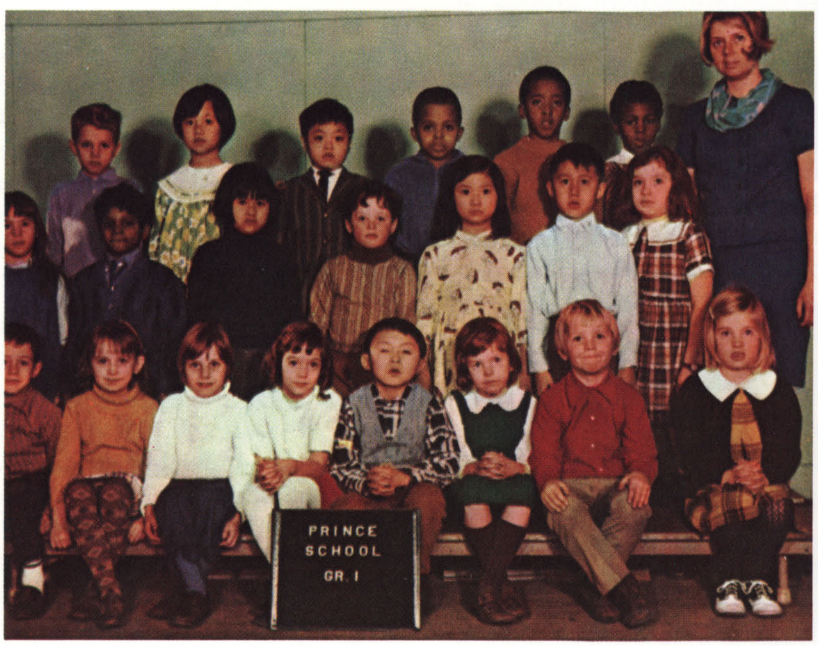
July 4, 1976 / $1.00

Newsweek

Special Issue

Our America

A Self-Portrait at 200



Financial Highlights

	1976	1975	Change
Revenues	$154.1 million	$128.6 million	+20%
Operating Income	$ 21.4 million	$ 11.9 million	+80%

Magazine and Book Division

For Newsweek, 1976 was a record year. Among the records established were total revenues, operating income, revenue from domestic and international advertising pages, revenue from subscriptions and newsstand sales. Also in 1976, Newsweek achieved a variety of journalistic firsts and won numerous editorial awards.

In 1976, the number of domestic advertising pages, excluding affiliated advertising, increased by 13 percent over 1975 to take by far the biggest share of the newsweekly market—up from 39 percent in 1975 to 41 percent. Newsweek's advertising page lead over its nearest competitor, *Time*, reached a new high of 494 pages. The contribution to revenue of Executive Newsweek, the demographic edition introduced in 1974, reached another new level, $9.4 million, a 43 percent increase over 1975.

Total advertising revenues for 1976 were $90,180,000, an increase of 23 percent over the prior year. Total circulation revenues were $57,850,000, also an increase of 23 percent over 1975.

In 1976 Newsweek competed more aggressively against television for advertising. Not satisfied with the traditional pool of advertising funds allocated to the newsweekly field, Newsweek embarked on an aggressive effort to expand the size of its market place. The magazine launched a new campaign that demonstrated the demographic superiority of Newsweek magazine over the most popular television programs. The initial results were gratifying and the potential for the future has been materially enhanced.

In the Fall of 1976, Osborn Elliott left Newsweek as editor-in-chief and board chairman to become deputy mayor of New York City for economic development. His leadership in the field of newsweekly journalism will long be remembered, just as his creative imprints on Newsweek will continue.

In the first full year under editor Edward Kosner, Newsweek's pursuit of editorial excellence was visibly sustained and, in the process, an expanding spirit of journalistic innovation emerged. The liveliness of the magazine has been intensified in both content and appearance. With the expanded color printing being introduced in 1977, the visual impact of Newsweek will be dramatically heightened.

In the April 5 issue, Newsweek featured the first of two 15,000-word excerpts from Bob Woodward's and Carl Bernstein's "The Final Days." The issue instantly became the fastest newsstand seller in Newsweek's history. In July, the magazine observed the nation's 200th birthday with a unique portrait of the United States. "Our America" was a group portrait of our people told in their own words. The September 13 issue was the first of two special in-depth reports on the Democratic and Republican candidates for President. In November, Newsweek published a comprehensive special election issue on Jimmy Carter's victory. Thanks to flawless coordination between Newsweek's manufacturing and editorial processes and Newsweek's sophisticated photocomposition system, the 124-page issue reached the newsstands one day after the final results were in.

The magazine's editorial energy was recognized by 29 journalism awards (another record). Additionally, special mention should be made of the Nobel Prize for Economics awarded to Newsweek columnist, Milton Friedman, who joins Paul Samuelson as the second Newsweek columnist to win this award.

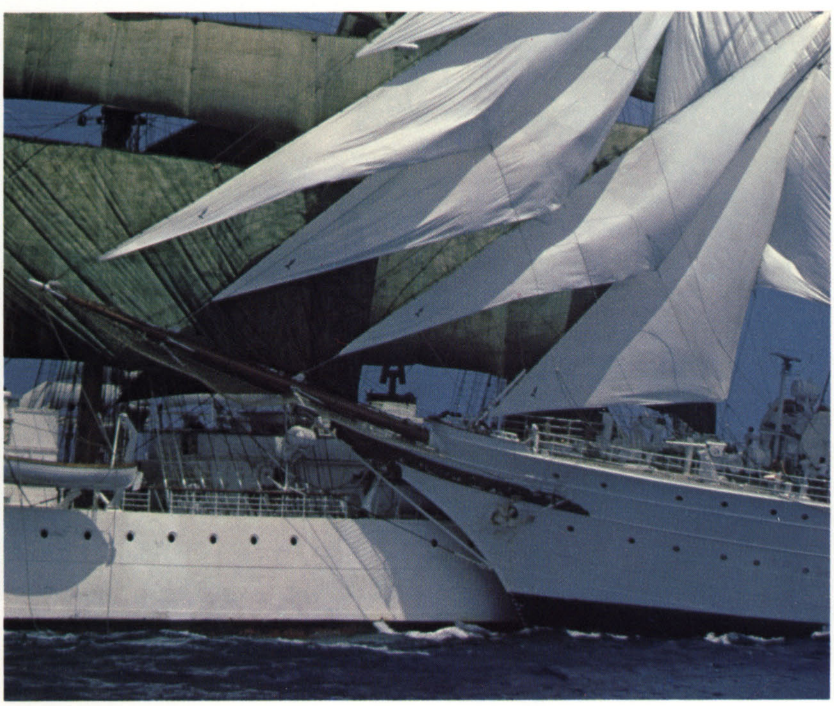
The Newsweek Broadcasting Service signed a new five-year contract for the continuation of the successful Newsweek Feature Television Service. This provides weekly news segments to more than 60 stations throughout the country. The Broadcasting Service also produces a television series entitled "Today's Woman" and, beginning in 1976, a radio service called "Update: Where Are They Now?"

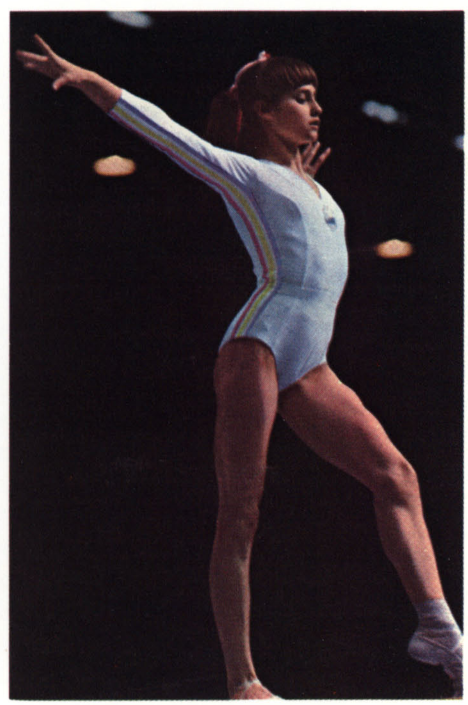
"New Products and Processes" is the name of a popular feature in the International edition of Newsweek. It is now also the title of a newsletter launched successfully by the recently established International Venture Development Department.

Newsweek Books, which had an operating loss for several years, continued to successfully consolidate operations, and reported a profit in 1976.

In each of the last six years, Newsweek's editorial and financial results have surpassed the previous year's performance. In the process the magazine division became the largest contributor to the Company's earnings.

Mao died and Jimmy Carter took born-again politics to the White House. The tall ships brought the eighteenth century alive in New York Harbor and a spindly-legged explorer named Viking sent 2001-style images back from Mars. There was the Patty Hearst trial, Nadia Comaneci was perfect, the Israelis dazzled the world with Entebbe, the Lockheed scandal rocked governments from Japan to the Netherlands.





Skateboards and CB radios, earthquakes and energy shortages, King Kong and Rocky, President Ford's defeat . . . they were all a part of the pleasures and pains of being alive in 1976, as recorded in words and pictures on the pages of Newsweek.

ABC SPORTS

Financial Highlights

	1976	1975	Change
Revenues	$53.3 million	$43.0 million	+24%
Operating Income	$15.8 million	$ 8.3 million	+90%

Broadcasting Division

It was the Big Broadcast of 1976. For the industry and for the Post-Newsweek Stations. In every category of public service, programming, news and profitability, the broadcasting division had a year of record achievement.

These achievements are primarily attributable to individual station efforts as well as to Top Market Television, the company-owned sales representation firm. Our unique growth results from a continuing commitment in each market to superior audience and community service that transcends any immediate ups and downs in network competition.

Nineteen seventy-six saw the Post-Newsweek Stations continue their progress in Electronic News Gathering (ENG) technology. All four television stations added new "mini-cameras" and advanced videotape editing which make it possible to maintain leadership in news through electronic coverage of local events. WJXT was one of the first stations in the nation to go "all ENG." The remaining PNS stations will complete the process in 1977.

WTOP-TV in Washington had its finest year, winning the George Foster Peabody Award for conspicuous service to the community. The station's leadership was recognized in a variety of ways: by the audience, in news ratings; by its television peers, with the Washington Emmy for news (third year in four), and six local Emmys, including those for the special productions of "Grass Facts: A Primer on Marijuana" and "Everywoman: Rape in the Courtroom"; by its peers in journalism with the Chesapeake AP Broadcasters Award (third year in a row). WTOP-TV's reporters and anchorpeople traveled all over the United States as well as to Chile, Jamaica, Puerto Rico, Cuba, Egypt, Panama and Tanzania to cover stories and trends of special interest to our audience.

WFSB-TV in Hartford continued to reach out into its large Southern New England coverage area, "The Land of the 3," offering the most popular news and entertainment programming in the Hartford-New Haven-Springfield area. The station also devoted special attention and prime air time to the September hurricane; local delegations at state and national political conventions; and a number of diverse programs focusing on local activihies of special interest to minorities and women. In 1976, WFSB-TV also began a regular prime-time program, "Getting Down to Business," designed to create better general understanding of business and business people.

WPLG in Miami now provides more news programming to South Florida than any other television station. Its early evening news service was expanded by a half-hour daily in 1976. The station's two-year probe into evidence of corruption on the Miami waterfront has now led to a full-scale FBI investigation.

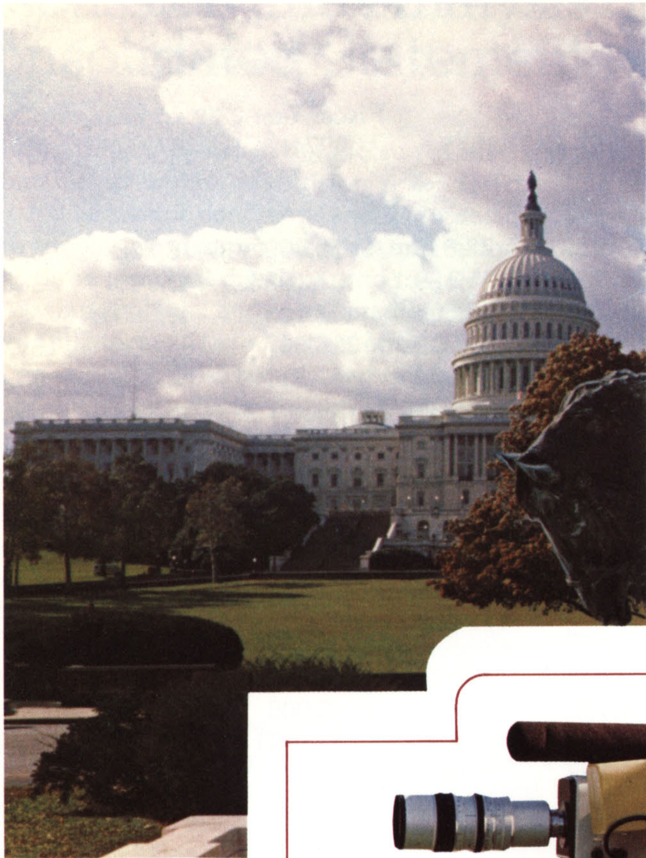
The entire station participated in a major exploration of the teaching and learning process—"Why Johnny Don't Know"—which led to new state legislation making basic skills in reading, writing and math a prerequisite for graduation from Florida schools. WPLG's effort received both the Best Public Affairs Award from the National Association of Television Program Executives and the local Emmy.

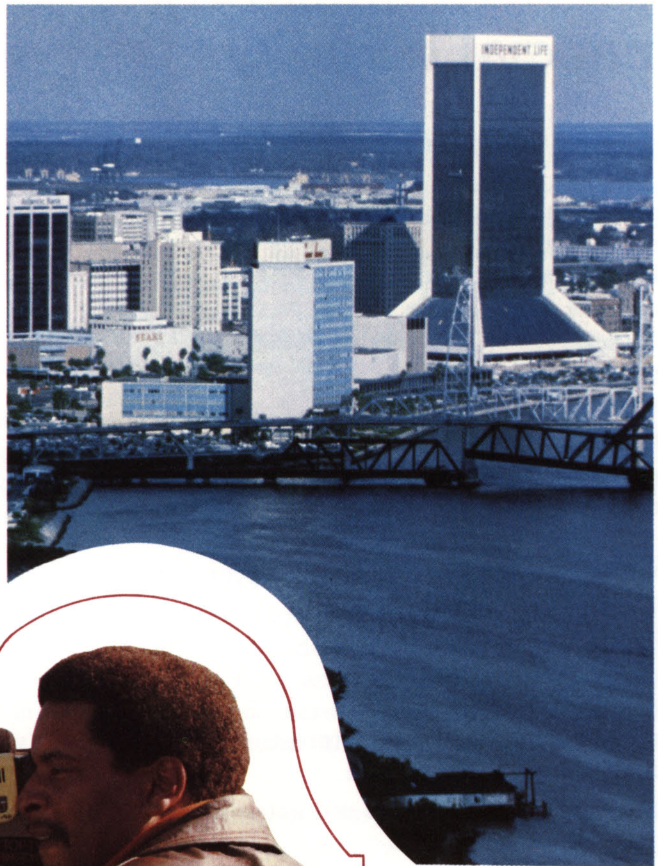
In 1976, WJXT Jacksonville continued to be the primary television service and news medium for its region. The station's vigorous investigative reporting team focused attention on use and acquisition of public land and neglect of the aged. Prime-time programs dealt with drug abuse, police-community relations, welfare fraud, prisoners' rights, the quality of local education, Jacksonville's black leadership, the history of school busing for racial balance and its effects on students, solar energy, and health care in rural areas.

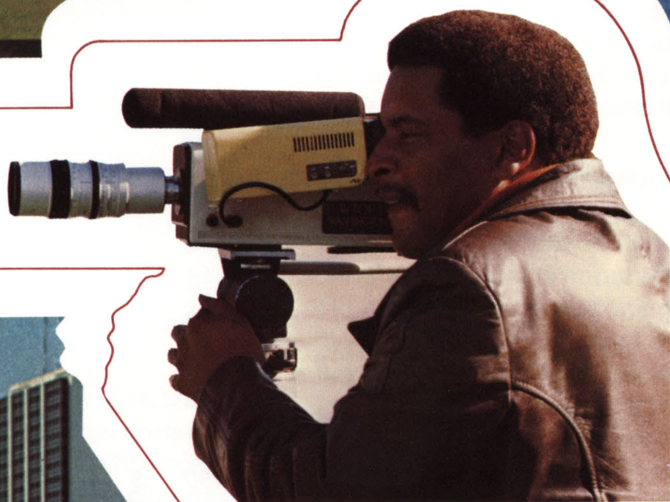
During this election year, WTOP Newsradio supplemented its CBS network reports with a special daily "Campaign Digest" and exclusive staff coverage of crucial primaries and both conventions. In addition to its continuous coverage of news, sports, weather and business, the station introduced a "Call for Action" ombudsman service for citizens of the Washington, D.C. region.

PNS in 1976 continued as the only group broadcaster with a significant roster of independent commentators. Such distinguished individuals as James J. Kilpatrick, Hugh Sidey, Elizabeth Drew, Carl Rowan and George Will contribute additional dimension to our news with their pointed and wide-ranging views on currently controversial matters. They also appear with Martin Agronsky on PNS' distinguished "Agronsky & Company," seen on PNS stations and a limited number of PBS outlets. Ratings for the weekly half-hour program reached new highs, especially in Washington and Hartford.

Broadcasting is enjoying one of its most vigorous periods. PNS has capitalized on an opportunity to provide a solid balance of improved service and increased profits.




INDEPENDENT LIFE
SEARS

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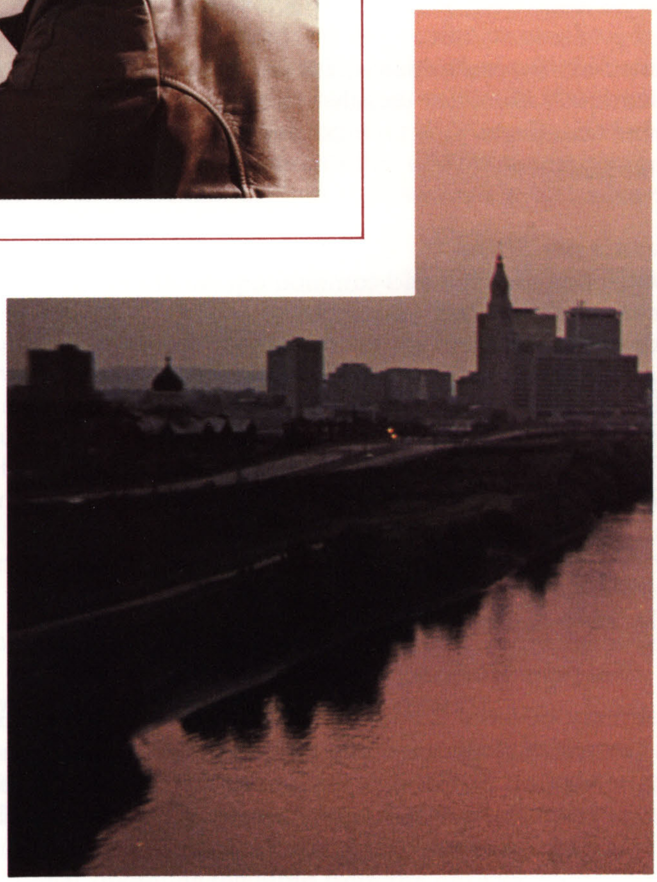

Five-Year Summary of Financial Highlights

(Amounts in thousands except per share data)	*1976*	1975	Fiscal Year 1974	1973	1972
Year-end Financial Condition					
Current assets	***$100,919***	$ 72,819	$ 70,009	$ 78,283	$ 61,754
Working capital	***44,828***	35,129	31,108	47,740	36,125
Plant assets	***58,753***	58,594	57,125	48,898	46,171
Total assets	***259,000***	230,599	226,397	184,704	161,031
Long-term debt	***29,550***	39,934	47,318	33,702	35,436
Deferred subscription income	***45,021***	36,999	29,797	26,097	20,971
less related subscription procurement costs	***(22,971)***	(18,694)	(12,119)	(13,082)	(11,998)
Net deferred subscription income	***22,050***	18,305	17,678	13,015	8,973
Shareholders' equity	***123,392***	110,154	102,745	90,605	79,031
Revenues and Income					
Operating revenues	***375,729***	309,335	287,579	246,949	217,844
Costs and expenses	***326,684***	282,511	259,439	221,257	196,038
Income from operations	***49,045***	26,824	28,140	25,692	21,806
Other income	***4,592***	1,010	2,005	2,661	1,143
Other deductions, primarily interest	***(3,644)***	(4,126)	(3,942)	(2,822)	(3,240)
Equity in earnings of affiliates	***1,393***	1,884	2,571	1,022	512
Income before income taxes and extraordinary item	***51,386***	25,592	28,774	26,553	20,221
Provision for income taxes					
Current	***24,732***	9,189	13,664	10,562	7,485
Deferred	***2,164***	4,361	669	2,657	2,721
	26,896	13,550	14,333	13,219	10,206
Income before extraordinary item	***24,490***	12,042	14,441	13,334	10,015
Extraordinary item, loss on sale of a magazine, net of tax effects	—	—	—	—	(283)
Net income	***$ 24,490***	$ 12,042	$ 14,441	$ 13,334	$ 9,732
Amounts per Share					
Earnings per common and common equivalent share					
Income before extraordinary item	***$2.72***	$1.27	$1.52	$1.40	$1.04
Extraordinary item	—	—	—	—	(.03)
Net income	***$2.72***	$1.27	$1.52	$1.40	$1.01
Cash dividends	***$ .25***	$ .25	$ .25	$ .20	$ .10
Average number of shares of common stock and common stock equivalents outstanding (in thousands)	***9,019***	9,450	9,501	9,509	9,614

Amounts per share and share data have been adjusted to give effect to a two-for-one stock split made on December 15, 1976.

In February 1976 the Company realized a nonrecurring gain from the sale of a radio station. This increased "other income" by approximately $2,900,000, the "provision for income taxes" by approximately $1,100,000, "net income" by approximately $1,800,000 and "earnings per share" by $.20.

The Company uses the equity method of accounting for its 49 percent investment in Bowater Mersey Paper Company Limited. Dividends received from Bowater Mersey for the five years ending January 2, 1977, were $880,000 in 1976; $874,000 in 1975; $521,000 in 1974; $293,000 in 1973; and $441,000 in 1972.

Per share amounts are based upon the weighted average number of shares of common stock and common stock equivalents outstanding during the periods.

Discussion and Analysis of Consolidated Statements of Income*

1976 Compared to 1975

The substantial increase in net income in 1976 was primarily attributable to higher advertising revenues resulting from improved economic conditions and increased circulation revenues coupled with improved operating margins at the Company's three principal divisions, and to the fact that strikes at The Washington Post and at a Canadian newsprint manufacturing affiliate had less effect on operations in 1976 than in 1975. In addition, 1976 net income reflected a nonrecurring gain on the sale of a radio station.

Advertising revenues increased by $49,132,000, or 21.8%, over 1975, reflecting increased newspaper advertising linage and magazine advertising pages, higher rates charged for newspaper and magazine advertising and increased sales of television advertising. The strike at The Washington Post which began on October 1, 1975, and ended in mid-February 1976, reduced newspaper advertising revenues by an estimated $2,000,000 in 1976.

Circulation revenues increased by $16,715,000, or 21.3%, over 1975. Magazine circulation revenues increased by $10,894,000, or 23.2%, principally due to higher subscription and newsstand rates, which more than offset a $2,910,000 decline in revenues from sales of Newsweek Books. Newspaper division circulation revenue increased by $8,731,000, primarily as the result of a change made in the latter part of 1975 from a wholesale to a retail pricing structure for a substantial part of the circulation at The Washington Post.

Costs and expenses in 1976 increased by $44,173,000, or 15.6%, due to increased sales volume, to higher costs of wages, materials and services (including additional service costs equal to the additional revenues resulting from the change in circulation pricing at The Washington Post noted in the preceding paragraph) and to an increased level of magazine subscription promotion. Increased depreciation and amortization of facilities reflected additions to plant.

Operating income in 1976 rose by $22,221,000, an increase of 82.8% over 1975, due principally to much-improved profit margins in the magazine and broadcasting divisions and moderate improvement in the newspaper division. The strike at The Washington Post reduced operating income by an estimated $1,300,000 in 1976.

Other income increased over 1975 by $3,582,000, of which approximately $2,900,000 consisted of the nonrecurring pretax gain on the sale of a radio station in the first quarter of 1976 and the balance reflected increased interest income earned on larger amounts of cash available for temporary investment. Other deductions were $482,000 lower than in 1975 as interest payments were reduced upon the repayment of indebtedness.

Equity in earnings of affiliates decreased by $491,000 in 1976. Such reduction was due to a decline in earnings at Bowater Mersey, the Company's Canadian newsprint manufacturing affiliate, resulting from a strike (which halted production from October 31, 1975 to February 10, 1976) and higher manufacturing costs, and to currency exchange rates that were less favorable in 1976 than in 1975.

Income taxes as a percentage of pre-tax income did not change significantly from 1975.

The average number of common shares and common share equivalents decreased in 1976 by 4.6% (431,000 shares), reflecting the Company's repurchase of 834,200 shares of Class B Common Stock in 1976.

1975 Compared to 1974

Despite improved earnings at the magazine and broadcasting divisions, net income decreased in 1975 due to strikes at The Washington Post and Bowater Mersey, reduced advertising linage and increased expenses in the Company's newspaper division and reduced interest income.

Advertising revenues increased by $9,499,000, or 4.4%, over 1974. The increase was principally due to the acquisition in 1974 of station WFSB-TV (in March) and the Trenton Times (in October) and also to improvements in sales at the Company's other broadcasting stations, which more than offset an estimated $8 million loss in advertising revenues resulting from the pressroom damage and strike at The Washington Post that began on October 1 and continued into 1976. Advertising rate increases at Newsweek together with increased sales of higher-rate pages in a demographic edition almost compensated for a substantial decline in Newsweek's total advertising pages.

Circulation revenues in 1975 were $11,020,000, or 16.3%, more than in 1974. The acquisition of the Trenton Times accounted for almost one-quarter of the change, and higher Newsweek revenues from single-copy and subscription price increases accounted for about two-thirds. Decreased sales volume of Newsweek Books reduced revenue by approximately $2.5 million, but revenues increased by about the same amount as the result of a change made in the latter part of 1975 from a wholesale to a retail pricing structure for a substantial part of the circulation at The Washington Post.

Other revenues increased by $1,237,000, primarily reflecting increased sales of television programs produced by Newsweek and the broadcasting division.

Costs and expenses in 1975 increased by $23,072,000, or 8.9%. The principal elements contributing to the rise in 1975 costs were increases in the cost of wages, materials and services (including additional service costs equal to the additional revenues resulting from the change in circulation

*Consolidated Statements of Income appear on page 18.

pricing at The Washington Post noted in a preceding paragraph), an increased level of magazine subscription promotion and the acquisitions in 1974 of station WFSB-TV and the Trenton Times. These elements substantially outweighed nonrecurring cost reductions associated with the strike at the Post (after giving effect to amounts recoverable from insurance), reduced costs attributable to a lower volume of activity at Newsweek Books, and the absence in 1975 of Executive Newsweek start-up costs incurred in 1974.

Increased depreciation and amortization of facilities reflected additions to plant, while the increase in amortization of goodwill reflected the first full year's ownership of station WFSB-TV and the Trenton Times.

Operating income in 1975 was $1,316,000, or 4.7%, lower than in 1974. The pressroom damage and strike at The Washington Post caused an estimated reduction in operating income of $1,700,000. Even without this reduction, newspaper operating income would have been lower than in 1974 due to a drop in advertising linage at both The Washington Post and the Trenton Times.

Interest income decreased $1,020,000 as temporary investments of cash held in early 1974 were reduced to purchase station WFSB-TV and the Trenton Times during that year, and interest rates declined in 1975.

Equity in earnings of affiliates decreased in 1975 because of a strike at Bowater Mersey which halted production from October 31, 1975 to February 10, 1976.

Income taxes as a percentage of pre-tax income rose from 49.8% in 1974 to 52.9% in 1975 because state and local taxes increased, because of an increase in amortization of goodwill which is not tax-deductible, and because a smaller proportion of pre-tax income was represented by equity in earnings of affiliates. The ratio of income taxes to pre-tax income rises with a decrease in the portion of pre-tax income represented by equity in earnings of affiliates; that is because the equity in earnings of affiliates, although included in pre-tax income, already reflects foreign income taxes accrued by the affiliates and is not subject to further income tax (until actually paid out as dividends).

The weighted average number of common and common equivalent shares decreased because of the repurchase of 187,300 shares of Class B Common Stock in 1975.

Lines of Business

The Washington Post Company and its subsidiaries are principally engaged in publishing newspapers (The Washington Post; the Trenton Times and Sunday Times-Advertiser) and magazines and books (Newsweek magazine and Newsweek Books) and operation of television and radio broadcasting stations.

Operating revenues and operating profit of each of the three divisions of the Company are shown below.

		1976	1975	1974	1973	1972
				(in thousands)		
Revenues	Newspaper publishing	$168,739	$137,886	$125,849	$112,210	$ 99,978
	Magazines and books	154,052	128,594	123,122	107,617	93,790
	Broadcasting	53,286	43,005	38,776	27,347	24,308
	Intercompany sales	(348)	(150)	(168)	(225)	(232)
	Total	$375,729	$309,335	$287,579	$246,949	$217,844
Income from Operations	Newspaper publishing	$ 11,836	$ 6,596	$ 10,746	$ 10,535	$ 10,222
	Magazines and books	21,444	11,946	10,202	9,161	5,660
	Broadcasting	15,765	8,282	7,192	5,996	5,924
	Total	$ 49,045	$ 26,824	$ 28,140	$ 25,692	$ 21,806

Common Stock Prices and Dividends

The Class A Common Stock of the Company is not publicly traded. The Class B Common Stock is listed on the American Stock Exchange, where the high and low sales prices during the last two years were as follows (all information in the table and the succeeding paragraphs has been adjusted to reflect the two-for-one stock split on December 15, 1976):

	1976		1975	
Quarter	High	Low	High	Low
January-March	$16¼	$10⅞	$12⅝	$ 8⁷⁄₁₆
April-June	17¾	15	15	10⅞
July-September	20¾	16⅜	14⅝	11⅜
October-December	25¼	19	11½	10⅛

During 1975 and 1976 the Company repurchased 1,021,500 outstanding shares of Class B Common Stock in unsolicited transactions at prices no higher than the last sale price on the American Stock Exchange. 187,300 shares were repurchased in 1975, of which 175,400 shares were included in trading volume reported on the American Stock Exchange in that year and accounted for 23 percent of such volume; 834,200 shares were repurchased in 1976, of which 395,200 shares were included in trading volume reported on the American Stock Exchange in that year and accounted for 33 percent of such volume.

Both classes of common stock participate equally as to dividends. Quarterly dividends were paid at the rate of 6.25 cents per share in 1976 and 1975.

At the end of 1976 there were approximately 1,900 shareholders of record.

Consolidated Statements of Income

	Fiscal Year Ended January 2, 1977	Fiscal Year Ended December 28, 1975
Operating Revenues		
Advertising	*$274,632,000*	$225,500,000
Circulation	*95,281,000*	78,566,000
Other	*5,816,000*	5,269,000
	375,729,000	309,335,000
Costs and Expenses		
Operating	*242,411,000*	209,340,000
Selling, general and administrative	*77,926,000*	67,281,000
Depreciation and amortization of plant facilities	*5,394,000*	4,937,000
Amortization of goodwill and other intangibles	*953,000*	953,000
	326,684,000	282,511,000
Income from Operations	*49,045,000*	26,824,000
Other Income (Deductions)		
Other income (including interest of $1,566,000 and $774,000)	*4,592,000*	1,010,000
Other deductions (including interest of $3,066,000 and $3,744,000)	*(3,644,000)*	(4,126,000)
Equity in earnings of affiliates	*1,393,000*	1,884,000
Income Before Income Taxes	*51,386,000*	25,592,000
Income Taxes		
Current	*24,732,000*	9,189,000
Deferred	*2,164,000*	4,361,000
	26,896,000	13,550,000
Net Income	*$ 24,490,000*	$ 12,042,000
Earnings per Common and Common Equivalent Share	*$2.72*	$1.27

The information on pages 23 through 27 is an integral part of the financial statements.

Consolidated Statements of Changes in Financial Position

	Fiscal Year Ended	
	January 2, 1977	December 28, 1975
Sources of Working Capital		
Net income	*$24,490,000*	$12,042,000
Add charges to income not requiring working capital		
Depreciation and amortization of plant facilities	*5,394,000*	4,937,000
Amortization of television film costs	*2,898,000*	3,096,000
Amortization of goodwill and other intangibles	*953,000*	953,000
Income tax timing differences	*2,379,000*	5,392,000
Undistributed earnings of affiliates	*(513,000)*	(1,009,000)
Other	*1,884,000*	1,119,000
Total provided by operations	*37,485,000*	26,530,000
Increase in deferred subscription income	*8,022,000*	7,202,000
Proceeds from exercise of Class B common stock options	*3,870,000*	186,000
Increase (decrease) in liabilities for cost of contracted television film rights	*426,000*	(1,232,000)
Other	*2,268,000*	561,000
Total provided	*52,071,000*	33,247,000
Uses of Working Capital		
Purchases of plant assets	*6,366,000*	6,718,000
Purchases of television film rights	*2,410,000*	1,519,000
Reduction of long-term debt	*10,384,000*	7,384,000
Increase in deferred magazine subscription procurement costs	*4,277,000*	6,575,000
Dividends on common stock	*2,222,000*	2,362,000
Acquisition of non-operating real estate	*979,000*	1,237,000
Increase in note receivable	*1,400,000*	—
Repurchase of Class B common stock	*13,426,000*	2,511,000
Other	*908,000*	920,000
Total used	*42,372,000*	29,226,000
Net increase in working capital	*$ 9,699,000*	$ 4,021,000
Changes in Composition of Working Capital		
Cash and time deposits	*$14,411,000*	$ (5,995,000)
Commercial promissory notes and other marketable securities	*11,370,000*	11,405,000
Accounts receivable	*2,389,000*	1,024,000
Inventories	*(27,000)*	(1,272,000)
Prepaid expenses and other	*(43,000)*	(2,352,000)
Increase in current assets	*28,100,000*	2,810,000
Accounts payable and accrued expenses	*(4,961,000)*	(894,000)
Federal and state income taxes	*(12,831,000)*	1,521,000
Contributions due to employee benefit trust funds	*(3,143,000)*	584,000
Current portion of long-term debt	*2,534,000*	—
(Increase) decrease in current liabilities	*(18,401,000)*	1,211,000
Net increase in working capital	*$ 9,699,000*	$ 4,021,000

Consolidated Balance Sheets

Assets	*January 2, 1977*	December 28, 1975
Current Assets		
Cash and time deposits	*$ 16,488,000*	$ 2,077,000
Commercial promissory notes and other marketable securities at cost which approximates market value	*29,956,000*	18,586,000
Accounts receivable, less estimated returns, doubtful accounts and allowances of $5,176,000 and $4,137,000	*42,885,000*	40,496,000
Inventories at lower of cost or market	*7,200,000*	7,227,000
Prepaid expenses and other	*4,390,000*	4,433,000
	100,919,000	72,819,000
Investments in Affiliates		
Bowater Mersey Paper Company Limited	*12,605,000*	12,431,000
Other	*1,726,000*	1,351,000
	14,331,000	13,782,000
Plant Assets, at Cost		
Buildings	*39,244,000*	38,436,000
Machinery, equipment and fixtures	*50,801,000*	49,802,000
Leasehold improvements	*2,964,000*	2,955,000
	93,009,000	91,193,000
Less accumulated depreciation and amortization	*(43,457,000)*	(40,645,000)
	49,552,000	50,548,000
Land	*7,303,000*	7,181,000
Construction in progress	*1,898,000*	865,000
	58,753,000	58,594,000
Goodwill and Other Intangibles less accumulated amortization	*74,077,000*	75,252,000
Deferred Charges and Other Assets	*10,920,000*	10,152,000
	$259,000,000	$230,599,000

The information on pages 23 through 27 is an integral part of the financial statements.

Liabilities and Shareholders' Equity

	January 2, 1977	December 28, 1975
Current Liabilities		
Accounts payable and accrued expenses	*$ 31,308,000*	$ 26,347,000
Federal and state income taxes	*15,687,000*	2,856,000
Contributions due to employee benefit trust funds	*4,246,000*	1,103,000
Current portion of long-term debt	*4,850,000*	7,384,000
	56,091,000	37,690,000
Other Liabilities	*10,858,000*	9,889,000
Long-Term Debt	*29,550,000*	39,934,000
Deferred Subscription Income less related magazine subscription procurement costs of $22,971,000 and $18,694,000	*22,050,000*	18,305,000
Deferred Income Taxes	*16,513,000*	14,134,000
Minority Interest in Subsidiary Company	*546,000*	493,000
Shareholders' Equity		
Preferred stock, $1 par value, authorized 1,000,000 shares	—	—
Common stock		
Class A common stock, $1 par value, authorized 2,000,000 shares; 1,526,880 shares issued and outstanding	*1,527,000*	763,000
Class B common stock, $1 par value, authorized 10,000,000 shares; 8,473,120 and 8,608,080 shares issued; 7,266,936 and 7,799,936 shares outstanding	*8,473,000*	4,304,000
Capital in excess of par value	*5,351,000*	10,423,000
Retained earnings	*121,843,000*	102,015,000
Less cost of 1,206,184 and 808,144 shares of Class B common stock held in Treasury	*(13,802,000)*	(7,351,000)
Total shareholders' equity	*123,392,000*	110,154,000
	$259,000,000	$230,599,000

Consolidated Statements of Changes in Shareholders' Equity

	Class A Common Stock	Class B Common Stock	Capital in Excess of Par Value	Retained Earnings	Treasury Stock
Balance December 29, 1974	$ 763,000	$4,304,000	$10,302,000	$ 92,335,000	$ (4,959,000)
Net income for the year				12,042,000	
Dividends—$.25 per share				(2,362,000)	
Issuance of 14,500 shares of Class B common stock upon exercise of options			67,000		119,000
Repurchase of 187,300 shares of Class B common stock					(2,511,000)
Other			54,000		
Balance December 28, 1975	$ 763,000	$4,304,000	$10,423,000	$102,015,000	$ (7,351,000)
Net income for the year				24,490,000	
Dividends—$.25 per share				(2,222,000)	
Issuance of 301,200 shares of Class B common stock upon exercise of options			(530,000)		4,400,000
Repurchase of 834,200 shares of Class B common stock					(13,426,000)
Accounting for two-for-one stock split, including retirement of 134,960 shares of Treasury stock	764,000	4,169,000	(5,068,000)	(2,440,000)	2,575,000
Other			526,000		
Balance January 2, 1977	$1,527,000	$8,473,000	$ 5,351,000	$121,843,000	$(13,802,000)

The information on pages 23 through 27 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, based upon our examinations and the reports mentioned below of other independent accountants, the financial statements appearing on pages 18 through 22 present fairly the financial position of The Washington Post Company and its subsidiaries at January 2, 1977 and December 28, 1975, and the results of their operations and the changes in their financial position for the fiscal 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. We did not examine the financial statements of Bowater Mersey Paper Company Limited, a 49% owned affiliate which represents 5% of consolidated assets for 1976 and 1975 and 4% and 12% of consolidated net income for 1976 and 1975, respectively. These statements were examined by other independent accountants whose reports thereon have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for Bowater Mersey Paper Company Limited, is based solely upon the reports of the other independent accountants.

Price Waterhouse & Co.

Price Waterhouse & Co.

February 7, 1977
Washington, D.C.

Notes to Consolidated Financial Statements

A. Summary of Significant 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. All except one of 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 sheets and are charged to expense using accelerated amortization rates for motion pictures and straight-line and accelerated amortization rates for syndicated programs.

Inventories. Inventories are valued at the lower of cost or market. Cost of magazine paper is determined by the average cost method and cost of newsprint by the first-in, first-out method.

Deferred Income and Magazine Subscription Procurement 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 subscriptions.

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. Goodwill and other intangibles acquired prior to October 31, 1970, the effective date of Opinion 17 of the Accounting Principles Board of the American Institute of Certified Public Accountants, are not being amortized because in the opinion of the Company there has been no diminution in the value of such assets. Goodwill and other intangibles acquired subsequently are being amortized by use of the straight-line method over 40 years in accordance with the aforementioned Opinion 17 although in the opinion of the Company there has been no diminution in the value of such assets.

Translation of Foreign Currencies. 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 which are translated at exchange rates in effect at dates acquired. 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 employees who have prescribed periods of service. Newspaper agents and 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 $5,067,000 at January 2, 1977, and $4,556,000 at December 28, 1975, is included in "Other Liabilities" in the consolidated balance sheets.

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 Circulation Dealers Profit Incentive Plans.

Total expense under the plans described above was $6,751,000 for 1976 and $5,382,000 for 1975 which includes, as to certain of the plans, amortization of prior service costs generally over periods not exceeding 20 years.

B. Sale of Radio Station

Effective February 8, 1976, the Company sold a radio station for $3,500,000, of which $2,100,000 was received at the time of the sale and the remaining $1,400,000 is receivable, with interest, over a six-year period from the date of sale. The gain on sale, approximately $2,900,000, before giving effect to taxes on income of approximately $1,100,000, is included in "Other Income."

C. Inventories

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

	January 2, 1977	December 28, 1975	December 29, 1974
Newsprint	$1,771,000	$1,239,000	$1,914,000
Magazine paper	4,089,000	3,623,000	3,043,000
Books	470,000	1,389,000	2,664,000
Other materials	870,000	976,000	878,000
	$7,200,000	$7,227,000	$8,499,000

Operating costs and expenses include $22,829,000 in 1976 and $20,297,000 in 1975 of cost of newsprint supplied by Bowater Mersey Paper Company Limited.

D. Investments in Affiliates

Bowater Mersey Paper Company Limited. The investment in Bowater Mersey Paper Company Limited consists of 49% of the common shares. Dividends received from Bowater Mersey were $880,000 in 1976 and $874,000 in 1975. Condensed statements of financial position and income of that company for 1976 and 1975, stated in Canadian dollars, are set forth below:

Condensed Statements of Financial Position

	December 31	
	1976	1975
Current assets	$19,850,000	$16,333,000
Less current liabilities	(13,238,000)	(10,191,000)
Working capital	6,612,000	6,142,000
Fixed assets, net	29,137,000	28,151,000
Other assets	132,000	244,000
Other liabilities	(6,715,000)	(5,891,000)
Shareholders' equity		
Preferred	2,417,000	2,755,000
Common	26,749,000	25,891,000
Total	$29,166,000	$28,646,000

Condensed Statements of Income

	1976	1975
Sales	$43,784,000	$41,007,000
Costs and expenses	40,222,000	34,333,000
Income before income taxes	3,562,000	6,674,000
Income taxes	1,589,000	2,833,000
Net income	1,973,000	3,841,000
Preferred dividend requirements	141,000	162,000
Net income applicable to common shares	$ 1,832,000	$ 3,679,000

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

	January 2, 1977	December 28, 1975
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	5,163,000	4,989,000
	$12,605,000	$12,431,000

Other Investments. The Company has a 30% interest in a French corporation which publishes the International Herald Tribune in Paris and a 50% 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 consisted of the following components:

1976	Current	Deferred
U.S. Federal	$19,971,000	$ 1,685,000
Foreign	136,000	35,000
State and Local	4,625,000	444,000
	$24,732,000	$ 2,164,000
1975		
U.S. Federal	$ 6,953,000	$ 3,465,000
Foreign	131,000	134,000
State and Local	2,105,000	762,000
	$ 9,189,000	$ 4,361,000

"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:

	1976	1975
Excess of tax over financial depreciation	$ 690,000	$ 891,000
Magazine subscription procurement and book promotion costs deducted when incurred for tax reporting and deferred and amortized for financial reporting	2,097,000	2,797,000
Investment tax credit, net	110,000	430,000
Other	(733,000)	243,000
	$ 2,164,000	$ 4,361,000

Total income tax expense exceeded 48% of income before taxes by $2,231,000 in 1976 and $1,265,000 in 1975. The reasons for the differences were as follows:

	1976	1975
State and local taxes on income, net of federal income tax benefit	$ 2,636,000	$ 1,491,000
Amortization of goodwill, expensed for financial reporting and not deductible for tax reporting	456,000	456,000
Canadian income tax netted in equity in earnings of affiliates	(331,000)	(575,000)
Other	(530,000)	(107,000)
	$ 2,231,000	$ 1,265,000

F. Long-Term Debt and Restrictions on Dividends

Long-term debt consists of unsecured promissory notes which require payments each year to maturity.

The composition of long-term debt, including the amounts due within one year, $4,850,000 at January 2, 1977, and $7,384,000 at December 28, 1975, is:

		Outstanding at	
Interest Rate	Final Maturity	January 2, 1977	December 28, 1975
6.95%	1987	$26,500,000	$28,750,000
Prime	1979	—	7,000,000
8.50%	1979	7,200,000	9,600,000
4.00%	1977	—	1,068,000
5.00%	1980	700,000	900,000
		$34,400,000	$47,318,000

The agreement relating to the 6.95% promissory notes contains restrictive provisions which pertain principally to the payment of dividends and the redemption or purchase of the Company's capital stock. At the end of 1976 and 1975 retained earnings unrestricted by these provisions were $49,546,000 and $45,613,000. Principal repayments on the 6.95% promissory notes are due as follows: $2,250,000 in each of the years 1977 to 1986, and $4,000,000 in 1987.

In July 1976 the Company prepaid the balance of a $10,000,000 borrowing incurred in 1974 and maturing in 1979. The weighted average interest rates paid on such borrowing were 7.1% in 1976 and 7.8% in 1975.

The note bearing interest at 8.5% is payable in quarterly installments of $600,000.

At January 2, 1977, maturities of long-term debt scheduled during each of the succeeding five years were as follows: 1977, 1978 and 1979, $4,850,000; 1980, $2,350,000; and 1981, $2,250,000.

The Company has lines of credit totaling $12,000,000. As of January 2, 1977, no borrowing had been made under lines of credit.

G. Capital Stock, Stock Split and Stock Options

Each share of Class A common stock and Class B common stock participates equally in dividends. The Class B stock has limited voting rights and as a class has the right to elect 30% of the Board of Directors; the Class A stock has unlimited voting rights, including the right to elect a majority of the Board of Directors.

On December 15, 1976, the Company amended its Certificate of Incorporation to increase the authorized Class A common stock from 1,000,000 shares to 2,000,000 shares and to effect a two-for-one stock split by reclassifying each share of Class A and Class B common stock outstanding or held in Treasury into two such shares. To account for these changes, the Class A common stock account was increased by $764,000 and the Class B common stock account was increased by $4,304,000 and capital in excess of par value was reduced by $5,068,000. In connection with the stock split, 134,960 shares of Class B common stock held in Treasury were retired. To account for the retirement, the Class B common stock account was reduced by $135,000, retained earnings were reduced by $2,440,000 and the cost of Treasury stock was reduced by $2,575,000.

The increase in authorized capital and the two-for-one stock split have been given retroactive effect in the per-share data included in the Consolidated Statements of Income, in the number of shares of common stock authorized, issued and outstanding, and held in Treasury appearing under the caption "Shareholders' Equity" in the Consolidated Balance Sheets, in the number of shares issued and repurchased appearing in the Consolidated Statements of Changes in Shareholders' Equity, and in the data set forth below in this Note G with respect to stock options and the basis for calculating per share data.

In 1971 the Company adopted a Stock Option Plan and reserved 700,000 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 January 2, 1977, 367,450 shares were reserved for issuance under the Stock Option Plan. Of this number, 310,100 shares were subject to options outstanding and 57,350 shares were available for future grants. Changes in the options outstanding for the two years ended January 2, 1977 and December 28, 1975 were as follows:

	1976		1975	
	Number of Shares	Average Option Price	Number of Shares	Average Option Price
Beginning of year	591,600	$12.88	592,800	$12.82
Options				
Granted	31,000	20.44	27,000	14.25
Exercised	(301,200)	12.85	(14,500)	12.83
Cancelled	(11,300)	14.10	(13,700)	12.78
End of year	310,100	$13.62	591,600	$12.88

During 1976 options became exercisable on 36,000 shares having an average option price of $12.47 per share. Of the shares covered by options outstanding at the end of 1976, 228,850 were then exercisable; 37,000 will become exercisable in 1977; 22,000 in 1978; 14,500 in 1979; and 7,750 in 1980.

Per share data are based upon the weighted average number of shares of common stock and common stock equivalents outstanding during the periods, 9,019,000 in 1976 and 9,450,000 in 1975. 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.

The Company is a defendant in a civil antitrust action brought by fourteen distributors of The Washington Post newspaper. In addition, in an action brought by the Company against the International Printing and Graphic Communications Workers and others, the Company is a defendant in a crossclaim by that union and its affiliated local union. In the opinion of management none of such litigation will result in any material liability to the Company, and the Company is not a party to any other material litigation.

The Company has commitments to purchase plant equipment in the ordinary course of business.

Leases. Total rental expense included in operations was $3,883,000 for fiscal year 1976 and $3,748,000 for fiscal year 1975. As at January 2, 1977, minimum annual rental commitments under non-cancelable leases were: $2,185,000 for 1977; a lesser amount in each succeeding year to a total of $374,000 for 1981; $1,358,000 for the five-year period 1982 - 1986; and less than $65,000 in each of the succeeding five-year periods thereafter, excluding a lease for approximately $935,000 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 or arbitrated. All of these commitments were for real estate except for $409,000 in 1977 and $400,000 in 1978 which relate to equipment.

I. Effect of Newspaper Strike

On October 1, 1975, the pressmen's union struck The Washington Post. Immediately prior to the start of the strike, there was considerable damage to the newspaper's presses. Two other unions subsequently struck the newspaper. The Company carries insurance against property damage and certain other losses incurred as a result of the press damage or the strike. Amounts estimated to be recoverable from insurance were included in the accounts for 1975.

J. Summary of Quarterly Financial Results (Unaudited)

Quarterly operating results, which are unaudited, for the fiscal year ended January 2, 1977, were:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Operating revenues	$79,960,000	$99,048,000	$85,840,000	$110,881,000
Income from operations	$ 5,567,000	$16,911,000	$ 6,751,000	$ 19,816,000
Net income	$ 3,812,000	$ 7,716,000	$ 3,524,000	$ 9,438,000
Earnings per share	$ .42	$ .86	$ .39	$1.05
Average number of shares of common stock and common stock equivalents	9,092,000	9,005,000	9,006,000	8,972,000

First quarter results include a nonrecurring gain from the sale of a radio station (see Note B).

K. Replacement Cost Information (Unaudited)

In compliance with the rules of the Securities and Exchange Commission, the Company has estimated certain replacement cost information. The data in this note should not be interpreted to indicate that the Company has present plans to replace inventories or plant assets or that future replacement would take place in the form and manner assumed in developing these calculations. The replacement cost data presented are not necessarily the current market values of existing plant assets and inventories; rather, they are the Company's estimate of the cost of replacement that would be incurred if such assets were replaced at the end of 1976. The difference between historical and replacement cost does not represent additional book value of the Company's common stock. Furthermore, it must be recognized that, by their nature, the replacement cost data are not precise but are broad estimates predicated upon hypotheses and subjective judgments.

Estimates of the replacement cost of inventories and the plant assets of the Company as of January 2, 1977, together with estimates of the effect on "operating costs" and "depreciation and amortization of plant facilities" for the year then ended, are summarized below:

Inventories

	Amounts per Consolidated Balance Sheet	Estimated Replacement Cost
Newsprint, magazine paper, books and other materials	$7,000,000	$7,300,000
Items which would not be replaced	200,000	
	$7,200,000	

Plant Assets

Buildings	$ 39,244,000	$ 56,000,000
Machinery, equipment and fixtures	50,801,000	105,000,000
Leasehold improvements	2,964,000	5,000,000
	93,009,000	166,000,000
Less accumulated depreciation and amortization	(43,457,000)	(80,000,000)
	49,552,000	$ 86,000,000
Amounts for which replacement cost data are not required:		
Land	7,303,000	
Construction in progress	1,898,000	
	$ 58,753,000	

"Operating costs and expenses" for the fiscal year 1976, if calculated on the basis of estimated inventory replacement costs, would have increased by approximately $400,000 over the $242,411,000 calculated on an historical cost basis.

"Depreciation and amortization of plant facilities" for the fiscal year 1976, if based on estimated average replacement cost, would have been approximately $9,000,000. Depreciation and amortization calculated on an historical cost basis was $5,394,000.

Replacement cost data for inventories were calculated by reference to supplier prices at the end of the fiscal year and at periodic times during the year.

Replacement cost data for plant assets were calculated using a combination of techniques: price level indices were applied to the historical cost of the assets, or current suppliers' prices and costs of construction were utilized. These techniques were applied to the assets in use or were applied to assets which the Company believes have a present likelihood of being substituted for items currently used.

Accumulated depreciation at the end of the year and the provision for depreciation for the year related to the replacement cost of plant assets were calculated using straight-line depreciation rates based on the service lives used for financial accounting purposes.

In compiling replacement cost data no assessments were made of any related effects on labor costs, repairs and maintenance, energy costs and other indirect costs as a result of the assumed replacement of plant assets, the relationship of cost changes and changes in selling prices or the difficulty and related costs (such as those relating to regulatory requirements) which might be experienced in replacing plant assets.

Corporate Directory

Board of Directors and Executive Officers

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

Warren E. Buffett, Director
Chairman, Berkshire Hathaway, Inc.
(textiles, insurance, banking)

Robert D. Campbell, Director and Vice President
Chairman of Newsweek, Inc.

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

Peter A. Derow, Director
President of Newsweek, Inc.

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

Donald E. Graham, Director
Executive Vice President and General Manager
The Washington Post

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

Gibson McCabe, Director
Retired; former President of Newsweek, Inc.

Mark J. Meagher, Director and Vice President
President of the Newspaper Division and of
The Washington Post

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

Arjay Miller, Director
Dean, Stanford University Graduate School of Business

Richard M. Paget, Director
President of Cresap, McCormick and Paget, Inc.
(management consultants)

John W. Sweeterman, Director
Retired; former Vice Chairman of the Board and
Publisher of The Washington Post

Martin Cohen, Vice President-Finance and Treasurer

Alan R. Finberg, Vice President, General Counsel and Secretary

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. 20071

Annual Meeting

The Annual Meeting of Stockholders will be held at 10:00 a.m. on Wednesday, May 11, 1977, at The Washington Post Company,
1150 15th Street, N.W.,
Washington, D.C. 20071

The Washington Post Company · 1976

1150 15th St., N.W., Washington, D.C. 20071