THE WASHINGTON POST COMPANY

1997 Annual Report

CONTENTS

1 Financial Highlights
3 To Our Shareholders
8 Newspaper Division
10 Broadcast Division
12 Cable Division
14 Magazine Division
16 Other Businesses
20 Report of Independent Accountants
21 Management's Discussion and Analysis of Results of Operations and Financial Condition
25 Consolidated Statements of Income
26 Consolidated Balance Sheets
28 Consolidated Statements of Cash Flows
29 Consolidated Statements of Changes in Common Shareholders' Equity
30 Notes to Consolidated Financial Statements
42 Ten-Year Summary of Selected Historical Financial Data
44 Corporate Directory
45 The Washington Post Company In Brief

ON THE COVER

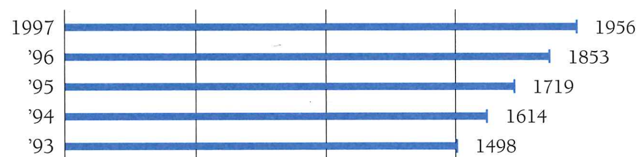
Carol Guzy's photograph of an Ethiopian woman praising God for her training as a midwife was taken for a Washington Post story about lower infant mortality in that African country. Guzy describes her work as a photojournalist in an essay on page 8.

The Washington Post Company is a diversified media organization whose principal operations include newspaper and magazine publishing, broadcasting, and cable television systems. The company also produces electronic information services, provides test preparation, job placement, and job skills training, and offers online information covering federal and state legislative and regulatory activity. A complete listing of the company's activities can be found inside the back cover of this report.

Financial Highlights

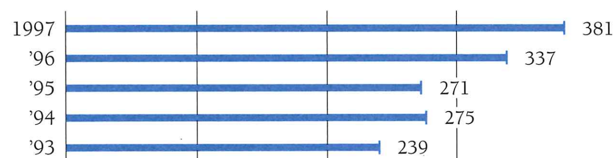
(in thousands, except per share amounts)	1997	1996	% Change
Operating revenues	$1,956,253	$1,853,445	+6%
Income from operations	$ 381,351	$ 337,169	+13%
Net income	$ 281,574	$ 220,817	+28%
Basic earnings per common share	$ 26.23	$ 20.08	+31%
Diluted earnings per common share	$ 26.15	$ 20.05	+30%
Dividends per common share	$ 4.80	$ 4.60	+4%
Common shareholders' equity per share	$ 117.36	$ 121.24	–3%
Basic average number of common shares outstanding	10,700	10,964	–2%
Diluted average number of common shares outstanding	10,733	10,980	–2%

OPERATING REVENUES
($ in millions)

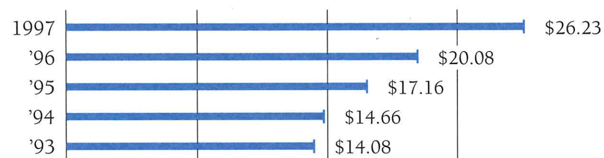


DILUTED EARNINGS PER COMMON SHARE

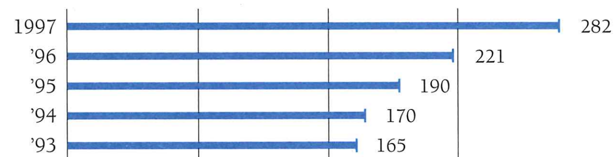
OPERATING INCOME
($ in millions)



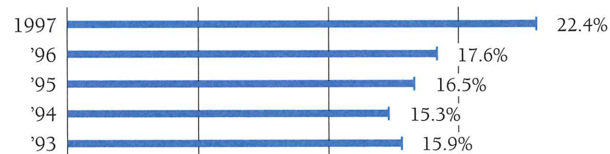
BASIC EARNINGS PER COMMON SHARE



NET INCOME
($ in millions)



RETURN ON AVERAGE
COMMON SHAREHOLDERS' EQUITY



To Our Shareholders

A BLAST OF PESSIMISM IN LAST year's letter to shareholders about the company's outlook for profit growth in 1997 proved to be unwarranted.

We pointed to hurdles we expected to arise from: the need to make up the revenue generated by Olympics and election-year advertising at Post-Newsweek Stations in 1996 (true); our decision to invest heavily in cable infrastructure and building new businesses at Kaplan (true); and our continuing investment in Internet-related businesses (even truer than we anticipated).

All the reasons we cited for doubt about our ability to increase profits were swept away in the rising tide of advertising revenues at The Post, falling paper prices at The Post and Newsweek, and unusually good decisions by those running our major divisions. Our fully diluted earnings per share, the number you should evaluate us on, were $22.00 in 1997, compared to $20.05 in 1996, after two large one-time events are excluded from the '97 results (the sales of PASS Sports and of our interest in the Bear Island Paper and Timberlands companies).

More importantly, we hope the significant sums we've invested in cable, Kaplan, and Digital Ink will improve prospects in our existing businesses and develop new ones that will be important to shareholders one day.

Already we can say that investments in cable and Kaplan look as though they will bring results. Some of our smaller investments also seem promising. We're far less certain about the Internet.

In 1985, Kay Graham bought 17 percent of the stock of Cowles Media Company; our holdings eventually increased to 28 percent. In 1997, Cowles's controlling shareholders put the company up for sale. We would very much like to have been the buyer, but were outbid by McClatchy. Upon final completion of the sale, we anticipate we will receive approximately $250 million in cash after payment of related taxes. (Messrs. Graham and Spoon would like to point out that this is yet another Kay Graham home run for Post Company shareholders. Our cost totaled $72 million.)

Mrs. Graham also initiated, in 1975, our stock repurchase program. In 1997 we repurchased 846,290 shares at an average cost of $435.51 per share. This added up to 7.7 percent of shares outstanding. The stock isn't the incredible bargain it was in 1975, but still seemed a wise investment. (As the financial tables reflect, we are approaching a landmark: 10 million shares outstanding, a number that will permit the notoriously non-mathematical CEO to do per-share arithmetic. But don't expect us to quit.)

Post-Newsweek Stations managed to increase profits despite comparisons with a banner year (because of Olympics-related and election advertising) in 1996.

The big news in our broadcast division was the trade of WFSB in Hartford and $60 million in cash for WCPX, now WKMG, in Orlando. If you think the new call letters connote a sense of long-term corporate attachment to the station, you're right. (KMG stands for Katharine Meyer Graham.)

We hated to part with our Hartford station, which has been the preeminent news leader in Connecticut. And we were all proud of its financial performance. But the chance to get into the larger, faster-growing Orlando market was too good to pass up. Shareholders should note, however, that we traded the money and the Hartford station for a station that's now making <u>less</u> money than WFSB.

Once again, as in Miami, Detroit, Houston, and San Antonio, the Post-Newsweek team under Bill Ryan is being asked to take over a station that has been historically a very weak third in news ratings and revenue share in a highly competitive market with excellent station owners. Somehow we believe Bill and Kathleen Keefe, the station's general manager, will find a way to drive it to leadership.

The three oldest Post-Newsweek stations, in Jacksonville, Miami, and Detroit, led their markets, sign-on to sign-off, and were number one in most of the major news programs (including all of the 6 p.m. and 11 p.m. newscasts). Year in and year out, the managers of these stations — Sherry Burns, John Garwood, and Alan Frank — turn in performances that rank at the top of the industry. San Antonio has made great progress under Jim Joslyn and is now number one, sign-on to sign-off. Houston, under Steve Wasserman's leadership, is now far more competitive than in 1994, when we acquired the station.

We hated selling PASS. From its acquisition in 1992, this cable sports network, under Alan Frank's management, had far outperformed our expectations. Everyone knows what has happened to bidding for sports rights. Rather than turn a profitable operation into a perpetually unprofitable one, we walked away and, glumly, recorded a gain.

The Post newspaper had a wonderful year on the journalism front. Tim Page's brilliant music criticism was rewarded with a Pulitzer Prize. And The Post continued to break important stories — from Bob Woodward's continuing campaign finance investigations to the reports by David Vise and others on the District's financial and governmental situation. Peter Baker and Sue Schmidt broke the first story of Kenneth Starr's investigation into the Monica Lewinsky/Linda Tripp imbroglio. Incredibly, in the National Press Photographers Association contest, in which 27,000 pictures were entered, Post photographers placed first, second, third, and fourth (Nancy Andrews, Carol Guzy, Michael Williamson, and Dudley M. Brooks).

Operating income at the paper rose dramatically, as help-wanted advertising set an all-time record and retail and national advertising both improved under Steve Hills's leadership.

While The Post's profit performance was gratifying, no one should forget that, as we proved in 1990 and 1991, newspapers are a cyclical business affected by national and local economic trends.

The Post has an enormous amount of work still to do: daily circulation fell 1.5 percent in 1997, and there is much progress to be made on the advertising and marketing fronts as well. Everyone feels The Post's purchase of eight new presses, and the building of a new plant and the complete renovation of another, will give us the capital equipment to do the job. But (a little pessimism for 1998 just <u>has</u> to be included) increased depreciation and transition staffing costs are expected to lower Post operating income by $11 million this year.

There are those who think that newspapers have a tough hand to play in the years ahead, with threats to their advertising revenue from the post office and the Internet. But whatever the threats, The Post, with its extraordinarily high penetration of a very large market, will deal with them from one of the strongest competitive positions of any metropolitan paper.

The sale of our interest in Bear Island ended a 20-year period of ownership. We had invested in the mill alongside Dow Jones and Brandt-Allen primarily to ensure a nearby domestic newsprint supplier in the aftermath of a nationwide strike in Canada. The outstanding quality of the mill and its workers made us proud to be associated with it. As an investment, it was no Cowles.

At the cable division, Tom Might and his top managers — Tom Basinger, Jerry McKenna, and Pete Newell — reworked the business from top to bottom. Changes included not only a new name (Cable One), but new technology and marketing strategies aimed at serving customers today and providing new technology-based services in the next few years. Capital spending increased significantly. We believe you'll see the benefits in 1998 and in future years.

Whatever other cable companies are focusing on, we're focusing on service to customers and are gratified that nationwide industry surveys show Cable One in first or second place for customer satisfaction. Even those results are not good enough for Tom and his associates, who are determined to improve them.

On industry issue after industry issue — from pay penetration levels to digital services — Tom and his team have carved out unique Cable One approaches that suit the particular communities and customers we serve. Shareholders can be proud of the kind of cable company we're operating and glad to see it expanding.

We're running out of superlatives to describe the journalistic and business performance at Newsweek. The year ended with the strongest financial results in the magazine's history and a circulation picture that's the envy of the weekly magazine field.

The writers and editors at Newsweek continue to turn out a magazine that sets itself apart with important stories and distinguished columns. Outstanding reporting efforts included a cover story on the Internal Revenue Service by Washington correspondent Michael Hirsh. Exceptional reporting led by investigative correspondent Michael Isikoff and Washington bureau chief Ann McDaniel, combined with the seasoned judgment of Newsweek's editors, made Newsweek's coverage of Starr's investigations of Clinton far better than the competitors' — in accuracy, depth, and breaking news.

Under Harold Shain, ad pages were the best in recent years. Peter Luffman at Newsweek International fought through the obvious challenge of financial turmoil in Asia. But the most gratifying news of the year was personal. The editor of a news magazine has a unique importance to readers. Maynard Parker became ill with leukemia in early November. At the end of the year, the doctors sent him home with this verdict: complete remission. The readers of Newsweek and shareholders of this company can be happy that Maynard will be doing his job for years to come.

Kaplan's revenue grew by 21 percent. Its core test preparation business boomed. Earnings were good. Kaplan's management — now as strong and deep as that of any division in the company — wanted to reinvest a sum greater than all the test-prep profits in the development of a new business: Score. We enthusiastically agreed.

Score improves the academic performance of students younger than the college- and graduate school-bound students who are Kaplan's traditional audience. Developed by a West Coast entrepreneur and sold to Kaplan in 1996,

Score offers students in grades K through 12 two critical things. The first is an innovative curriculum that builds math, reading, spelling, and science skills. The second is the support of energetic, intelligent coaches who help them learn and build self-confidence.

Score traditionally operates in free-standing centers outside the school setting. Parents pay a monthly fee and bring their kids to the center after school, on weekends, or during the summer. In 1997, Score management, under Rob Waldron, also began to form partnerships with schools.

We invested about $10 million in this business in 1997, and we'll invest slightly more again in 1998 to open new centers in markets where Score already operates and in new markets as well. But we won't expand the business any faster than we can hire the kind of coaches who make our Score centers successful today.

Jonathan Grayer, Andy Rosen, Robert Greenberg, and the rest of the Kaplan management team continued to make Kaplan an exciting place to be. In addition to progress in the core test-prep business and at Score, Kaplan expanded its career-fair business in 1997 with the acquisition of The Lendman Group, making Kaplan the largest provider of career fairs in North America. It's a natural step for Kaplan to move from preparing people for tests that are springboards to careers to connecting graduates with employers. We think this business has high potential for the future, although the newspaper business has taught us that any business connected to the job market will be a cyclical one.

One of the tests for Kaplan, as Jonathan tells us regularly, will be its ability to push all these ideas forward while continuing to offer the highest possible services to customers in both its new and traditional businesses. We're determined to do both.

The company added a new and significant business at the end of the year with the acquisition of Government Computer News and several other publications, plus the FOSE trade show and a smaller trade show, from Reed Elsevier.

With this acquisition we know we're entering a challenging industry. Trade publications don't have the inherent franchise value of newspapers or television stations. Many of these publications start up, are successful for a while, and wither. Competition is fierce. But this means we have chances of growing if we can meet the competitive pressures. And we have some advantages. The new properties, together with our existing trade publications, including Washington Technology, TechCapital, and others, make us the leading publisher in government computing, as well as one of the major publishers in the so-called "channels" sector of the information technology field.

All of these operations have been brought into a new division called Post-Newsweek Business Information. Andrew Jacobson, a veteran business publishing executive who joined the company in 1996, will oversee the day-to-day affairs of the division as president. Beverly Keil, who has been a most important part of the company's corporate management team as vice president-human resources and as the executive responsible for Gazette Newspapers (she also was responsible for Kaplan for a while), will be spending more of her time on line operations as chief executive officer of the division, while remaining a corporate vice president. Shareholders already owe Bev a great deal for wise management of our benefits programs. She's ready for the new challenge.

Digital Ink reached a sort of maturity in 1997. No longer a completely new operation, it continued the development of a widely visited Web site, washingtonpost.com, and at year end sprouted Style Live, a new part of the site aimed at telling Washingtonians and visitors about entertainment

and other activities around the capital. Style Live increased the already-large audience for washingtonpost.com and added important new advertising opportunities. In January of this year, washingtonpost.com launched a major Politics site, further strengthening its position as the premier Internet site for political and government news. Digital Ink set its first serious advertising revenue targets in the 1998 budget. Accomplishing these will be critical to our future. We believe Marc Teren and his team are up to the task.

We're no more certain than ever about how people will get information decades from now, but we continue to feel The Washington Post Company has no choice but to invest to try to bring both news and advertising to people using the Internet. Our aim is to try to see how we can be as important to readers on line as The Post is in print. But we know the two media aren't analogous and never will be. We are keenly aware we're using shareholders' money for these new experimental businesses. We'd like to think that in our place, you'd do the same thing. In any event, our aim is to further the business standing and, in the long run, the business results of the company. We'll be reporting to you from time to time on how we're doing.

Marty Cohen retired from full-time service after more than 30 years with the company, mostly as our chief financial officer. Marty is a legend for his wise counsel, high ethical standards, and absolute frankness to everyone, high and low. Marty also was responsible for our newsprint operations, to which he brought his usual astute business judgment. Shareholders are fortunate that Marty remains a director and continues to serve in a number of advisory roles.

A diversified, decentralized company like this one can only be successful if it has an unusually large number of unusually talented managers running the major businesses. In Bill Ryan, Bo Jones, Tom Might, Rick Smith, Jonathan Grayer, and Bev Keil — and the many managers working for them — The Washington Post Company is blessed. This never has been and never will be a traditional pyramidal company. Almost all of the famous people who work here — and many of the most important — don't appear at the top of the organization chart.

One of the things we can't tell you in the tables of numbers in the back of this report — but that you should care greatly about — is whether the people writing, making, and selling our newspapers, magazines, television programs, educational and other services are equal to the quality the company is famous for. We think in 1997 the answer was yes.

But we'd like to do more than ask you to take our word for it. To help give you a better, more direct understanding of these people — the values, energy, and sense of purpose they bring to their jobs — we've asked individuals from several of our businesses to tell you about what they do. You'll find their essays in the pages that follow.

Sincerely,

Donald E. Graham
Chairman and Chief Executive Officer

Alan G. Spoon
President and Chief Operating Officer

Katharine Graham
Chairman of the Executive Committee

March 6, 1998

A Personal Philosophy

By Carol Guzy
Staff Photographer, The Washington Post

Carol Guzy, who won the 1995 Pulitzer Prize for spot news photography, joined The Washington Post in 1988.

PHOTOGRAPHERS AND REPORTERS ARE NOT very different. We are all communicators. Photojournalists simply "write" with light.

At times I reflect on just why we do this. There's certainly an emotional toll from witnessing man's inhumanity, especially covering stories in places like Haiti and Rwanda. There, I've seen wretched poverty, men beaten to death by mobs. Refugee children watching their parents die on the side of a road, their raspy moans giving way to an eternal silence. The child suffering for politics and ethnic hatreds that he does not yet even comprehend. In my life I've seen the eyes of evil, the hands of injustice, the face of repression.

I hear people say, "Oh no, not another story on Haiti." Or, "We've seen enough of refugees. Cliché, been there, done that." But it's hard to tell that desperate woman holding her starving child she's merely a cliché. These people can't turn the page when they don't like the story, they can't change channels. They're stuck in reality long after the headlines are gone.

There's guilt, knowing you can simply get on a plane and fly home to comfort while others are trapped in their own personal hell. You wonder just how many pictures can you take until someone really sees. How many times can your own heart break? Are there ever any lasting answers to the suffering and turmoil our species inflicts on its own and the environment?

But then you glimpse a resilience and beauty in the human spirit, even in the most desolate of times, which is deeply moving, and you continue to record their plight.

It is haunting to voyage into so many different souls. We see people's most intimate moments — their joys and sorrows, their triumphs and tragedies. Always, trying to translate what you experience becomes a challenge. It's never, ever the same as being there, walking in another's shoes. But if we capture those moments and communicate them successfully, it can provide a greater knowledge and enrichment of spirit, strengthen a sense of purpose, and give us a deeper compassion and respect for *all* life.

Lately the new technology has grabbed our attention. Digital cameras, faster computers. But it's important to remember they are merely tools. It's eyes and minds and hearts, passion and commitment, that make the most

Newspaper Division

Business Overview

Newspaper division operating income increased 39 percent in 1997 to $162.7 million, from $116.8 million in 1996. Operating revenue totaled $812.9 million, an increase of 6 percent over revenue of $763.9 million the previous year. (Operating losses from our investments in Internet-related activities are included in Other Businesses.)

At The Washington Post, a thriving national and local economy, along with favorable newsprint pricing, fueled a strong performance. Advertising revenue grew 8 percent to $604.1 million, due largely to the continuing surge of the recruitment category. Low unemployment and the people needs of the burgeoning technology industry in the region contributed to recruitment revenue growth of 22 percent, to $137.9 million. That was the major factor in a classified volume increase of 6 percent.

Department store advertisers, led by Hecht's and J.C. Penney, helped retail advertising volume grow for the first time in years. It was up almost 1 percent. General advertising volume rose more than 6 percent as large corporate advertisers, especially the telecommunications giants, ran extensive branding and imaging campaigns.

While readership and household penetration have remained very high, circulation declined again. Average daily circulation fell 1.5 percent, while Sunday circulation was off 1.3 percent. Among the factors involved is that more city residents are moving to the outlying suburbs and becoming occasional readers.

In order to become more competitive beyond its primary circulation area, where population is growing, The Post launched the first of its new outer-county sections in Prince William County in late 1996. Another was started in Loudoun County in 1997, and a third debuted in southern Maryland early this year. These bi- and tri-weekly sections have generated encouraging results.

The Post's project to completely recapitalize its production operations made significant progress in 1997. Renovation of the Virginia plant was almost completed, and two of the four new presses for the plant were installed. Construction of the new Maryland plant and the installation of presses there also proceeded on schedule. By the end of 1998, all of the newspaper's production will be converted to the new presses at the new and renovated plants.

Bob Kaiser announced that he is stepping down as managing editor of The Post to return to writing and reporting. He has been a wise and effective leader. He will be succeeded in June by Steve Coll, a Pulitzer Prize-winning journalist who is currently editor and publisher of The Washington Post Magazine.

The National Weekly Edition of The Post, with a circulation of approximately 92,000, continues to serve a national readership with a strong interest in news about politics, foreign affairs, and public policy.

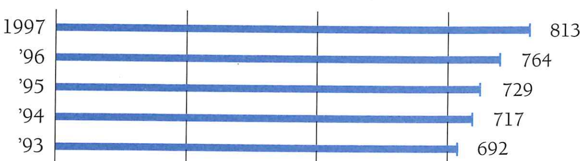
The Washington Post Writers Group expanded its international sales staff in 1997 to sell material from Newsweek to print media around the world. About 100 newspapers and magazines publish Newsweek's syndicated material. In addition, the Writers Group represents 28 columnists and cartoonists and conducts a worldwide reprint business with photos and text from The Washington Post.

The Herald capitalized on a strong local economy and posted a gain of 36 percent in operating income over 1996. Spurred by increased production at Boeing's Everett plant and by the arrival of the carrier *Abraham Lincoln* at Naval Station Everett, jobs grew at a furious pace that produced a favorable retail climate throughout the year. Herald advertising rebounded from a soft 1996 to finish 7 percent ahead in ROP revenues and 11 percent ahead in preprint volume.

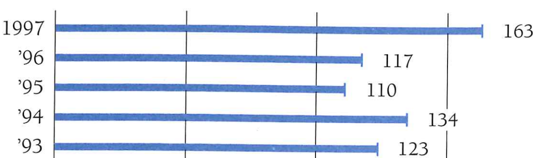
Despite a mid-year subscription price increase, Herald daily circulation registered its 38th consecutive month of year-over-year increases. The Herald Weeklies increased their distribution to 85,000 copies, while advertising revenue rose 16 percent. The Herald's commercial printing operations grew revenues by 14 percent.

Gazette Newspapers was named one of the best community newspapers in the nation by Suburban Newspapers of America. The company's operating income grew 40 percent. Three new publications were launched: TechGazette, which covers technology businesses throughout Maryland, and two new weekly Gazettes, in College Park/Greenbelt and Beltsville — the first editions in Prince George's County, Maryland. Five military newspaper and base-guide contracts were renewed during the year. An 11,000-square-foot post-press addition to the company's commercial printing business also was completed.

NEWSPAPER DIVISION OPERATING REVENUES
($ in millions)



NEWSPAPER DIVISION OPERATING INCOME
($ in millions)



compelling images or recognize a quote that will take your breath away. Remembering also that as journalists we are merely a link. It's the people *in* the pictures and those who view them who are the important ones.

Photographs can be an important tool in these times of increasing divisiveness and separatism, to build a bridge of empathy. To show not only our diversities, but also the qualities that make us all part of the human family. Our communities are not simply just beyond the front door any longer. The world is our backyard with an intricately intertwined existence. Some say readers are no longer interested in world affairs. But we may play a role in that. Katharine Graham said in a speech last year that she believes there is a vicious circle occurring. The less foreign news, the less public interest and vice versa. She said, "All Americans deserve excellent foreign news in their daily paper, no matter where they live. This means that owners must put public service ahead of maximum profits. It means foreign news editors must fight for their stories, and executive editors must not pander to readers' apparent lack of interest in them." Publications should pay heed to her words and put foreign news back on the front burner next to those equally important school board meetings. It is critically important now more than ever for Americans to be engaged in foreign affairs and U.S. policy.

There does seem to be an increasing "shoot the messenger" mentality towards the media, however. Editors have a term called the cereal factor — what folks can bear to look at over their breakfast cereal. Certainly there needs to be a balance and sensitivity to news coverage. Not all is bleak and violent.

Seeing too much death and destruction can generate a helplessness that numbs or angers readers, and fingers start pointing at the media for running those disturbing images. It's easier to criticize a photographer or editor than to address the root of the problem. But there is a great danger in censoring reality.

Yes, those photos are uncomfortable to look at, but for many in this world there is no breakfast cereal or freedom from fear. And perhaps that's what society should find most intolerable, not the pictures that remind us of it.

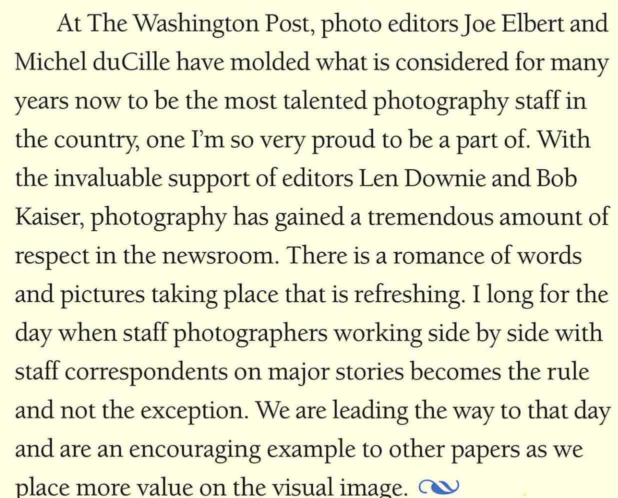
As long as abuse and conflict and inequality remain, it is our responsibility to have a social conscience and bring these issues to light, for others to judge and make educated choices. As Eugene Smith once said, "Let truth be the prejudice."

A photograph can be a powerful witness and an eloquent voice for those who have none. Pictures inform, educate, enlighten, captivate, spur governments into action. They are historical documents and poignant reminders of our human frailties. Sometimes they touch our very souls. And, yes, at times they can make a difference. Perhaps a small difference to one person on one day, but meaningful nonetheless.

Our stories allow readers to embrace the families of refugees whose last steps did not reach home. We all know what grief feels like — it has no cultural barriers. Sometimes on the pages of a newspaper we see things that tear at the very fiber of civilization. We are repulsed at the sight of a man's brutal death at the hands of a vigilante mob in Port-au-Prince, desperate for revenge after the killing of their beloved community leader. We taste his fear, hear his last heartbeat, and mourn the loss of hope in a land where the only justice is that of the streets.

We join in the revelry of a political convention, in all its pomp and circumstance — and journey into the world of nomads, living with a certain grace and elegance on the harsh desert sands of Africa. And we smile at the tender innocence of a baby's bare bottom wrapped in the warmth of family.

With pictures we can weep for Rwanda and rage at injustice everywhere. And also celebrate the daily life around us, its mystery and magic — its poetry and wonder.



At The Washington Post, photo editors Joe Elbert and Michel duCille have molded what is considered for many years now to be the most talented photography staff in the country, one I'm so very proud to be a part of. With the invaluable support of editors Len Downie and Bob Kaiser, photography has gained a tremendous amount of respect in the newsroom. There is a romance of words and pictures taking place that is refreshing. I long for the day when staff photographers working side by side with staff correspondents on major stories becomes the rule and not the exception. We are leading the way to that day and are an encouraging example to other papers as we place more value on the visual image.

Television, America, & Me

By J. Henry Maldonado
Vice President – Programming & Promotion, WDIV

J. Henry Maldonado joined WDIV-TV in Detroit in 1981 after working at several television stations in Boston and New York City.

I AM AN IMMIGRANT FROM VENEZUELA. My father, my mother, my brother, my two sisters, and I entered the U.S. in 1959 at a place called Idlewild. Together we stepped into the insensible cold of that American January. Each one of us carried a big envelope that contained everything we were, from birth certificates to x-rays, and in a blatant act of symbolism, a sudden gust of wind lifted my papers and blew my 11-year-old past into the night. And so as all immigrants, the parents went about the business of survival, and we, the children, went about the business of devouring everything American. Our constant companion was the television. Through it we learned the language, customs, rock and roll, and eventually many of the skills we would need to get along. My parents had no time for television, never really learned the language, and eventually the cold winters chased them back to Venezuela. I fell in love with democracy and all the other imperfections that make America real and wonderful, and, of course, I developed an eternal attachment to and affection for television.

You see, television creates a unique and emotional bond with the viewer that must be understood, and respected, if one is to fully appreciate this contraption.

"It ain't brain surgery" is usually the way some people excuse the triviality of television. Well, I am here to tell you, with tremendous respect and admiration for the medical profession, that when it goes right television does save lives, and when it goes awry, well, blame us for everything from El Niño to the downfall of western civilization.

I am in charge of programming and promotion at WDIV-TV in Detroit.

It is my office that purchases programs and promotes them.

It is my office that is praised when a documentary plays in prime time, or run out of town when a soap opera is preempted by a special report.

And it is my office that has to make decisions based on the instrument of the devil himself — "RATINGS." And, yes, we do make decisions based on ratings.

Television is perhaps the *most* democratic of industries because ratings represent people who tell us every day how we are doing and what they want. There are not many businesses that poll all of their customers on

Broadcast Division

Business Overview

The broadcast division had another strong year. Operating income rose 3 percent to $159.6 million, from $155.0 million in 1996. Excluding the effects of the WFSB/WKMG trade in September, division operating income rose approximately 5 percent. Revenue was flat in 1997 due to the absence of $30 million of Olympics-related and political advertising that Post-Newsweek Stations obtained in 1996.

WDIV-Detroit continued to lead the market as Detroit's number-one station and maintained the important distinction of having the most-watched news. In February the station introduced an innovative new environment for its newscast that incorporates the latest technology in news and weather in a state-of-the-art, two-level, fully operational setting.

WDIV's unique commitment to explore local history continued. "The Rouge," a primetime documentary on the life of the remarkable Ford auto plant, received a national IRIS award.

KPRC-Houston followed its game plan of emphasizing local news as a means of establishing itself as the city's leading television station. In the November 1997 ratings, KPRC tied for second place, sign-on to sign-off, in what is now a tighter-than-ever battle for audience.

The station's 4 p.m. newscast, a market innovation begun in August 1996, has far exceeded initial ratings expectations. In the last major ratings sweeps, it finished just one point behind "Oprah" on a competing station and was the second-highest rated 4 p.m. news in the country.

WPLG-Miami-Ft. Lauderdale maintained its dominance as South Florida's first choice for news and programming for the 13th consecutive year despite a fiercely competitive market environment. WPLG finished in the number-one spot in virtually every daypart. The station won every major newscast and improved its delivery of young adults in the critical 6 p.m. and 11 p.m. news shows.

The station's series of live "Town Hall Meetings" focusing on children's and family issues generated enormous public response and was instrumental in forcing the governor to call a special session of the state legislature to deal with the crisis in school overcrowding.

As a result of several trips to Cuba by the station's news management, WPLG is well positioned to become the first South Florida station to establish full-time news operations on the island.

WKMG-Orlando was acquired in September 1997 from Meredith Broadcasting in a trade for WFSB in Hartford. A strategy was immediately developed to completely overhaul the look, feel, pace, and energy of the station's existing third-place news product. This effort is part of a larger project to remake the entire on-air image of the station. This is a work in progress, but in the November ratings, WKMG won second place in early and late news.

The call letters of the station were changed from WCPX to WKMG in honor of Katharine Meyer Graham on January 30, 1998.

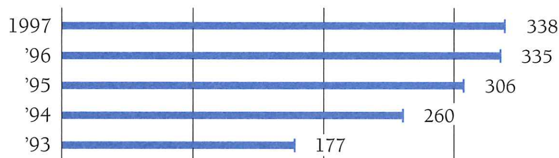
KSAT-San Antonio is the most-watched station in South Texas and dominates the market in local news and local programming. The positioning of the station among younger key demographic groups continues to be strong.

KSAT's commitment to live, local, and late-breaking coverage was enhanced by a fresh new logo presentation, improved graphics, and state-of-the-art digital disk technology, which enables the station's live broadcasters to present news and information faster and better.

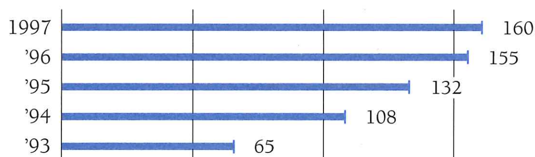
WJXT-Jacksonville enjoyed another year of dominance in the market. The station ranked number one in all newscasts, as well as sign-on to sign-off. WJXT successfully launched weekend editions of "Eyewitness News This Morning," which debuted with strong ratings in November. As a result, WJXT now leads the market in total hours of local news while maintaining top quality.

In 1997, WJXT's newscasts earned national recognition from the Radio-Television News Directors Association, winning the prestigious Edward R. Murrow Award for Overall Excellence.

BROADCAST DIVISION OPERATING REVENUES
($ in millions)



BROADCAST DIVISION OPERATING INCOME
($ in millions)



a daily basis and eventually act on *their* response. A rating is my neighbor devoted to a soap opera, a rating is the local team seeing their touchdown, bad weather for school, good news for my kid. Ratings are real living people who invite us into their home. A rating is a little boy learning the language. A rating is someone I know, someone who lives in my town.

I am a local broadcaster and I love it, because I love Detroit. I love its people. My heart breaks for its problems, but it's my town and nobody knows it better. My television station is a part of this town. We stuck with it while others left for the suburbs. We wrote songs about it as our station theme. We firmly believe in the greatness of Detroit, and we always reflect that pride on our air.

Did you know that Detroit has the largest fireworks display in North America every summer? Well, they are gorgeous and exciting, and a two-hour show.

And we have a wonderful history that sometimes is lost in tough times. Do you know that Detroit was the last stop to freedom on the Underground Railroad; or that Abraham Lincoln once declared to the nation, "Thank God for Michigan"? A year-long history series made our story the talk of the town.

And our station theme does not end in blatant self promotion, but in a very personal message that became a battle cry during the really bad years — "What do you have to show if you don't try, why don't you go for it."

And when we tell our viewers, "Local news comes first," we mean it.

A television station is not just a reflection of the community, it is a part of it.

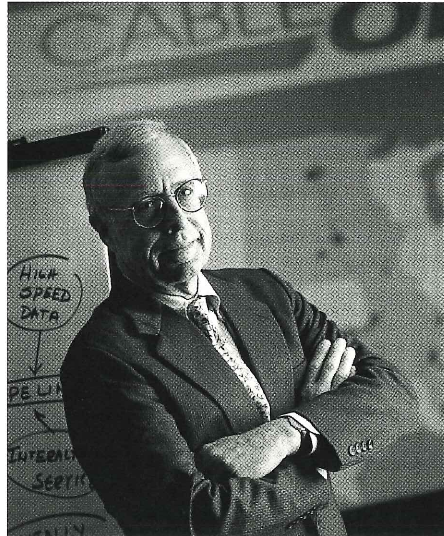
It is this feeling of community, of local broadcasting, that is the driving force behind our company. While very powerful as a group, the individuality of each of our markets and our emotional connection to each of our communities determine who we are as stations. It is this mandate from Bill Ryan and each of our general managers that makes Post-Newsweek stations leaders in their markets. And it is tradition, deeply rooted in The Washington Post Company's courage and absolute commitment to the truth, that continues to impress this immigrant, now middle-aged broadcaster. It is a source of all things important when it's time for the tough decisions.

So, while it may not be brain surgery, we at Post-Newsweek Stations certainly do very well for those under our care.

Like all immigrants, I am lucky and grateful to have landed in your midst. I am spending wonderful times with the loves of my life, America and television, and like all immigrants before me, I look to my son, American born, to do great things.

Looking Backwards Towards the Future

By Peter Newell, Vice President
Nor-West Division, Cable One



Peter Newell joined Cable One in 1982 after working in many capacities in the broadcasting industry. His retirement is effective March 31, 1998.

AT 64 YEARS OF AGE, AND WITH 18 YEARS of experience in the cable television industry, I am still considered by many to be a newcomer. (That, I hold, is at least better than being considered a novice.) The cable television industry began without me in the early 1950s. The first cable systems were designed as a substitute for outdoor antennas, in areas of the country where outdoor antennas were unable to receive television pictures. Cable's first era was begun by inventive television set dealers, who found it hard to sell sets to people who couldn't get pictures on them.

I entered the cable business from the broadcasting business at a most propitious time. Cable was being reborn in 1980 to a second life spawned by the advent of satellite program delivery. In the late '70s it became feasible for nascent cable networks like HBO, WTBS, and CNN to gain nationwide distribution by delivering their programming to receiving dishes installed by cable operators. Simultaneous advances in cable technology created the capability to squeeze as many as 54 channels onto a cable system.

What had been a pretty dull business became an exciting one! "Reborn" cable was a marketer's dream. Cable sprang up in every previously unwired city in America. This new demand was met by a plethora of new cable networks being created almost as fast as they could be imagined. Unsurpassed selling opportunities existed, and we mined them for all they were worth. We packaged programming with equipment, created optional "tiers" of service, packaged basic with premium or "pay" services, creating new and exciting ways to generate levels of subscriber revenues never before dreamed of. In some cases people were spending as much as $50.00 a month, when previously their television had been *free*. (Those high revenues were *critical* to recovering the huge capital investments we were making to get the cable to people's homes.)

Cable developed advantages over traditional broadcast networks. The dual revenue stream from both advertising sales and subscriber fees, coupled with cable's multiple channel capacity, created a slow but steady erosion of broadcast audiences. The recognition of cable's inherent advantages was a major factor in The

Cable Division

Business Overview

In 1997 the cable division focused intensely on making numerous changes necessary to thrive in the ever-more competitive telecommunications world of the future. Above all, the division acted to solidify its relationships with subscribers.

The changes began with a new name, Cable One, that unites different system names under one uniformly promoted, customer-friendly banner.

Further, the division launched over a dozen initiatives to enhance customer satisfaction. These included locating The Disney Channel on basic service everywhere, reducing pay-per-view movie prices to $2.99, and implementing a same-day service guarantee. The system upgrade effort of the last few years continued in order to provide more channels and more reliable pictures to customers, as well as to prepare the hybrid fiber-coax platform for future services. A program of daily customer research was also started.

In addition, a dozen programs were launched to enhance the customer-oriented culture of the division. The initiatives ranged from a new career recognition program to an incentive program based on customer-satisfaction scores.

All of this repositioning, important as it is to the future growth of the division, came at a price in 1997. Cash flow (earnings before interest, taxes, depreciation, and amortization) increased only 4 percent to $101.6 million, from $97.9 million in 1996. The acquisition of one system early in the year and the mid-year trade of three Cable One systems for a number of TCI systems were responsible for most of the growth; cash flow from existing systems was flat.

Revenue rose 12 percent to $257.7 million, from $229.7 million the previous year. Existing systems accounted for slightly over half the revenue increase. Operating income declined 8 percent in 1997 due to increased depreciation and amortization charges related to the division's higher pace of capital spending.

System rebuilds continued as capital spending reached $70 million in 1997, versus $37 million in 1996. This investment was already paying dividends by year end as the division's customer-satisfaction ratings rose to an all-time high. Fifty percent of the division's customers are now served by rebuilt plant, and that will increase to 75 percent in 1998.

One acquisition closed in 1997: a 16,000-subscriber group of systems around Cleveland, Mississippi. In addition, three urban Cable One systems in the San Francisco and Chicago areas were finally traded to TCI for systems in Oklahoma, Mississippi, and

Minnesota. At year end, basic subscribers in the division stood at approximately 637,300, representing an increase of 7 percent, or 43,300 subscribers, from 594,000 at year-end 1996.

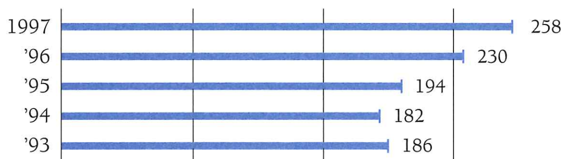
Additional acquisitions and trades continue to be pursued. As of early 1998, the division had reached agreements in principle to acquire the cable systems serving Anniston, Alabama, and Grenada, Mississippi, and had agreed to trade various systems in Texas for systems in Oklahoma. In addition, the company was negotiating the acquisition of systems serving at least 80,000 subscribers in locations near other Cable One systems.

Premium units from HBO and Showtime products rose by 15 percent in 1997. Another important Cable One initiative contributed to this growth: by the end of 1997, most systems had changed to allow customers to receive premium services without the use of a converter. In addition, the premium services are packaged to provide as many as five channels for virtually the same price as one channel — and they are available on every set in the home without the need for additional equipment.

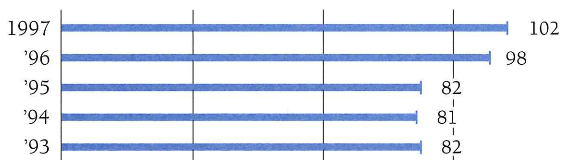
Peter Newell announced his retirement at the beginning of 1998. Pete has been a trusted and admired leader in the division since before The Washington Post Company acquired it from Capital Cities in 1986.

In last year's annual report, the division stated that it was preparing to make further investments in product, people, and customers that would help sustain growth rates in a more competitive environment. Those investments have been made. As expected, cash flow growth in existing systems significantly slowed in 1997. Now it's time to start enjoying the benefits.

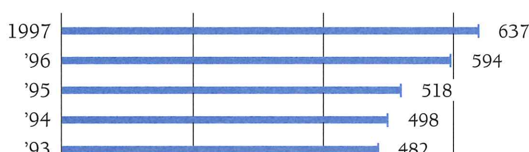
CABLE DIVISION OPERATING REVENUES
($ in millions)



CABLE DIVISION CASH FLOW
($ in millions)



CABLE DIVISION BASIC SUBSCRIBERS
(in thousands)



Washington Post Company's decision to enter the cable business in 1985. As the owner of network-affiliated television stations, the company engaged in a smart bit of defensive strategy. If you're going to have a competitor, it might as well be *you*!

The excitement of helping to lead in the development of a burgeoning new business, a business premised on supplying a high-demand product through the deployment of advanced technologies, has made my second career as stimulating as anything I can imagine. For most of my cable career I have served as the operations vice president for the Nor-West region of Cable One. My region has been responsible for something less than half of the division's subscribers and associates, and something more than half of the division's operating cash flow.

My job has been to make sure we didn't screw up a good thing.

It would have been easy to do. We could have set prices too high in proportion to what we delivered; we could have provided shoddy service and bad pictures; we could have overspent on capital projects, or failed to be appropriately cost conscious; we could have overpaid for programming or not been so selective in what we carried; we could have failed to educate our franchising authorities as to how our business works, or worse, we could have misled them as to what we could reasonably accomplish in our communities. Unfortunately, there were cable companies that did one or more of these things, and our industry has paid a heavy price for their mistakes.

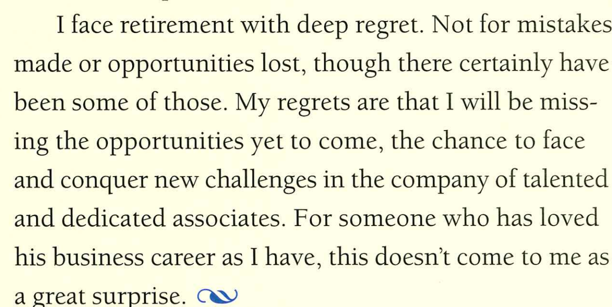
The people who work for me know the importance of doing things right. Collaborating with them in the development of innovative ideas to bring Cable One to a position of preeminence in our industry has been stimulating and just plain *fun*! We set challenging goals, and while we occasionally fall short on some of them, we have always advanced our position. What The Post has given me, and what I try in return to give my managers, is the autonomy to find their own way to be as good as they can be. This isn't just management theory. I've had 17 managers and three staff members reporting directly to me. Some would argue that this is too great a span of control, but it accomplishes three very important things. First, it prevents me from over-managing. Second, it limits the number of levels in the chain of command to three. Third, the result encourages self-reliance, initiative, and responsibility. Of course, it only works if you have the right people.

Finding those people, giving them the "benefit" of your years of experience, coaching them, and watching them develop is the most rewarding thing a senior manager can do. Planning, strategizing, and executing are fun, but as the wife of our CEO, Tom Might, said at my recent retirement dinner, "to teach is to achieve immortality." What could be better than that?

It has been my great fortune to have worked for a company whose values I could embrace wholeheartedly. For better or for worse, all companies are a reflection of the values of their most senior officer. Those values have been a pleasure to live by and a pleasure to teach.

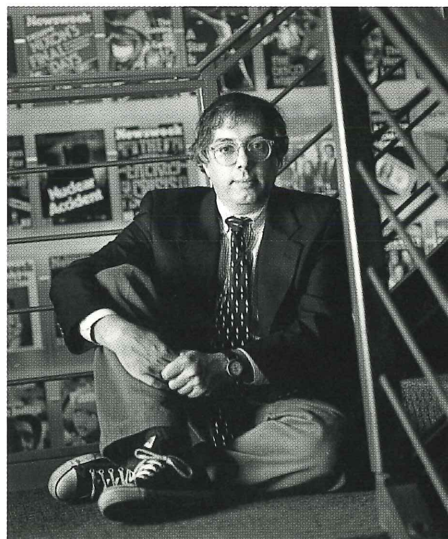
As I depart, the cable television business is experiencing another rebirth. This third lifetime promises to be even more different and exciting than the second was from the first. The convergence of computers, the Internet, interactivity, high-speed digital communications, telephony, and traditional television finds cable once more uniquely positioned to be a major player in some very promising new businesses. Bandwidth will be king, and cable, with its unmatched two-way broadband pipeline to homes and businesses, can be the major beneficiary of the convergence of these technologies. As before, the mandate to management will be to not screw it up.

I face retirement with deep regret. Not for mistakes made or opportunities lost, though there certainly have been some of those. My regrets are that I will be missing the opportunities yet to come, the chance to face and conquer new challenges in the company of talented and dedicated associates. For someone who has loved his business career as I have, this doesn't come to me as a great surprise.



A Backstage Pass to the Revolution

By Steven Levy
Senior Editor, Newsweek



Steven Levy joined Newsweek in 1995. His column, Random Access, won the 1996 Computer Press Association Award for best columnist and a 1997 Clarion Award.

HERE'S A PREDICTION THAT SEEMS OBVIOUS from where I sit: if civilization persists without some apocalypse throwing us back to the stone age, the closing decades of this action-packed century will be recalled primarily for the computer revolution and its consequences. When people look back on the good old 1900s, they won't be talking about Clinton peccadilloes, royal funerals, or even Seinfeld. They'll be obsessing on Gordon Moore's law, Bill Gates's strategies, and the first time people started buying books on the Internet. (There might be some explaining necessary to get across what a book used to be.) They'll consider these times as the kickoff to a transformation that drastically changed the way human beings live, and maybe even came to change what human beings *are* — all the stuff, happily, that falls into my beat as Newsweek's senior technology writer. It's a job with a massive built-in perk: backstage access to the big story of our time.

It's a story I've been covering for 16 years now, ever since I was assigned a seemingly unexceptional magazine feature about the folk who live and breathe computer programming. I was bowled over by these people, who not only envisioned a fantastic future but *lived* it, expressing themselves in what I learned to be a form of digital artistry. I'd like to say that right then, in 1982, I correctly guessed that these people would soon be at the center of an industry that would drive our economy and transform everything about us. But I simply wanted to write about them more. The other stuff was a bonus. Having parachuted into this revolution while its leaders were still pretty much in the jungle, I got to know the Bill Gateses, Steve Jobses, and Mitch Kapors before they became wary of my ilk. I came to know the customs and lingo of the Valley and eventually developed an armchair passion for the technology itself.

But it wasn't until 1995, when I began writing for Newsweek, that I found the ideal outlet for my writings. This came as a surprise to me: as a confirmed freelancer, I had long assumed that no job would allow me the flexibility I'd been accustomed to, and I certainly didn't expect a newsweekly to give me the freedom to express my occasionally iconoclastic views in the, um, informal style that I favor. If I'd known more

Magazine Division

Business Overview

The magazine division, which now includes Newsweek, Inc., and Post-Newsweek Business Information, Inc. (formerly TechNews, Inc.), recorded operating income of $38.0 million, an increase of 67 percent from $22.8 million in 1996. Revenue totaled $389.9 million, an increase of nearly 3 percent from $377.1 million in 1996.

Newsweek had its best year ever in 1997. Sustained growth in advertising sales, substantial revenue from special issues, and a boost in the company's pension credit helped produce the highest earnings in the magazine's history.

Once again Newsweek distinguished itself with smart, sure-footed coverage of both breaking news and feature topics. Among the top newsstand performers were the magazine's three issues on Princess Diana. For the first of these, Newsweek stopped the presses as soon as her death was announced, producing a new 24-page cover package in just 12 hours.

The Diana series culminated with a commemorative issue that sold more than 2 million copies worldwide. Other successful special issues included: "Your Child: From Birth to Three," a comprehensive guide for parents that also spawned foreign-language editions in Korea, Japan, China, and Russia, with licensees in India and Brazil; "2000: The Power of Invention," the first in a projected series on the millennium; and "Hong Kong: City of Survivors," a Newsweek International project that was accompanied by a special site on the World Wide Web.

In advertising sales, Newsweek improved on an already strong performance the previous year. Advertising pages for 1997 increased by 4.5 percent, with ad revenues gaining 6.4 percent (according to PIB). Newsweek continued to emphasize marketing programs that add value to advertising pages in the magazine. Opportunities for clients include sports-event sponsorships, a variety of special advertising sections, and promotional packages.

Domestic paid circulation was strong and steady at more than 3.2 million. The magazine's circulation strategy continues to yield the most long-term subscribers among the three newsweeklies, as well as the fewest subscriptions sold with premiums.

U.S. readership climbed to nearly 22 million, according to the most recent MRI study. For five years running, Newsweek has led the news-magazine field in both audience growth and quality, with more readers in the key groups that advertisers most want to reach.

Newsweek's overseas editions posted record circulation revenue in 1997, but advertising revenues declined in both Asia and Europe. The Pacific edition was particularly hard hit due to the regional financial crisis. However, steady circulation growth enabled Newsweek International to increase its circulation rate base guarantee in Asia to 240,000 in 1997 and in Latin America to 80,000 for 1998. The rate base for the Atlantic edition remains steady at 340,000.

Newsweek remains the only news magazine with foreign-language editions — in Japanese, Korean, and Spanish. Also published in cooperation with Newsweek is Itogi, Russia's first independent news magazine. It celebrated its one-year anniversary in May with a circulation of 85,000.

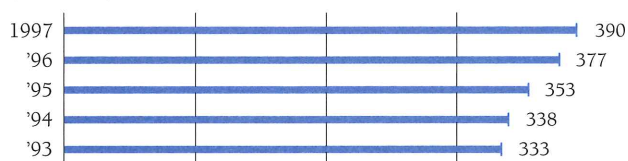
In October, Newsweek Productions was formed to create television programming and other media projects in conjunction with the magazine. Focusing on news, public affairs, and information programming, the unit produces the PBS series "HealthWeek."

Post-Newsweek Business Information (PNBI), which publishes controlled-circulation trade periodicals for the technology industry, launched two new magazines and acquired several properties during the year. PNBI's original publication, Washington Technology, had its strongest year ever in revenues and operating income.

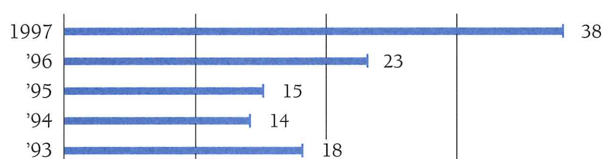
In April, PNBI launched TechCapital, a bi-monthly magazine serving technology financiers and investors in the mid-Atlantic region. In June, PNBI launched Integration Management, a bi-weekly magazine serving the burgeoning market for systems integrators and information technology service vendors.

In December, PNBI acquired Government Computer News and related publications, Contract Sourcing Guide, Reseller Management, and two trade shows, FOSE and FEDnet/FEDimaging — all from Reed Elsevier. PNBI also acquired Newsbytes News Network, a newswire service that provides technology stories to publications, online services, and Web sites worldwide.

MAGAZINE DIVISION OPERATING REVENUES
($ in millions)



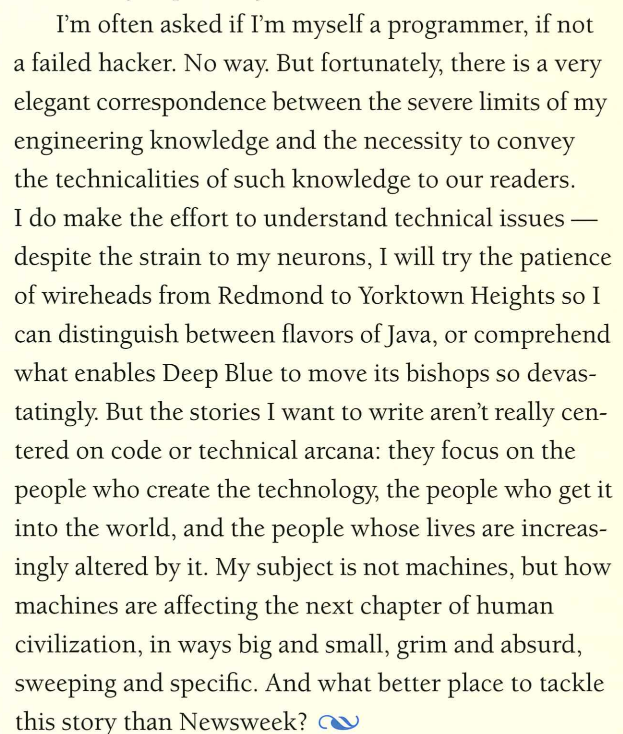
MAGAZINE DIVISION OPERATING INCOME
($ in millions)



about Newsweek, I needn't have worried: the essence of this magazine is informed writers who know their subjects well enough to use solid reporting on the week's events to form quick, informed judgments on what those events mean — and then to express those thoughts forcefully and eloquently. It's a continual challenge to attempt this feat on a subject as impenetrable as technology, but it's a delight, too. (It's also a challenge more easily mounted with the help of first-rate editors and wonderful reporting from the bureaus. And no one made me say that.) My work may appear in various formats in the magazine — column, news story, feature, and, when the stars are properly aligned, cover package — but my mission is consistent. To report upon and illuminate the potentially baffling explosion in information technology.

The best thing about my post? Maybe it's the impact that comes with appearing in such a venerable and ever-popular journalistic institution. With Newsweek I can help define what stories burst out of nerd-dom and into the national, and even global, agenda. Our cover on the IBM-Kasparov chess match helped alert the world to a potential turning point in the relationship between human and machine. People noticed when Newsweek became the first major magazine to highlight the upcoming Millennium Bug debacle on the cover. (Are we really in trouble? Let's just say I'm not planning any plane trips on December 31, 1999.) I'd like to think my early columns about the misbegotten Communications Decency Act offered our readers a thoughtful alternative to the knee-jerk sexual panic found elsewhere in the general-interest media. And Bill Gates seems to have forgiven me for helping to bury Microsoft's hapless experiment in cartoon interfaces, an annoying program called Bob.

On the other hand, my job can make me as much victim of the information revolution as chronicler. My voice mail is constantly jammed with P.R. pitches for products that, every one of them, will establish new industries, solve centuries-old problems, and finally make my computer easy to use. My e-mail inbox is in the low four figures, not including the increasingly strident pleas from our network people urging me to purge messages. My office is notorious as a mad storeroom — treacherous towers of trade magazines, boxes of software, stacks of books (an alarming number of which are labeled "For Idiots"), and piles of absurd promotional items. Yes, our high-speed Internet connection provides me a powerful information-gathering tool. But virtuality has its limits. To really plumb the psyches of the gods of the digital revolution, one has to look them in the (all too often beady) eye. That's why several times a year I find myself forced — forced, I insist! — to sit poolside at posh Arizona resorts, cosseted with polo-shirted venture capitalists, grunge-bedecked geeks from start-up companies, and the genuinely awesome innovators whose thought processes continually expand my own mind.



I'm often asked if I'm myself a programmer, if not a failed hacker. No way. But fortunately, there is a very elegant correspondence between the severe limits of my engineering knowledge and the necessity to convey the technicalities of such knowledge to our readers. I do make the effort to understand technical issues — despite the strain to my neurons, I will try the patience of wireheads from Redmond to Yorktown Heights so I can distinguish between flavors of Java, or comprehend what enables Deep Blue to move its bishops so devastatingly. But the stories I want to write aren't really centered on code or technical arcana: they focus on the people who create the technology, the people who get it into the world, and the people whose lives are increasingly altered by it. My subject is not machines, but how machines are affecting the next chapter of human civilization, in ways big and small, grim and absurd, sweeping and specific. And what better place to tackle this story than Newsweek?

Multiple Choices

By Rochelle Rothstein, M.D.
Vice President, Health Sciences, Kaplan Educational Centers

Dr. Rochelle Rothstein joined Kaplan in 1989 after earning her medical degree from the University of California at San Diego Medical School in 1988.

SERENDIPITY BROUGHT ME TO KAPLAN; OPPORTUNITY has kept me here.

Though not the most conventional career path for an M.D., my eight years at Kaplan have afforded me an amazing array of opportunities for professional growth and development. I was hired to market Kaplan's advanced medical products and am now vice president of health sciences, a department that comprises all of our medical, dental, nursing, and allied health programs. The distance between these steps on the proverbial corporate ladder represents more than just changes in title — it symbolizes my personal and professional journey from medical resident to corporate executive.

In some ways, my own professional evolution has paralleled Kaplan's metamorphosis from a mom & pop-style test-prep company to a leader in educational and career services. When I joined Kaplan, the marketing department had three people, there was no communications department, no technology department (what did we do without e-mail?), and the company was as rooted in test preparation as I was grounded in pre-medical and medical studies.

As I traded my stethoscope for a laptop and learned a whole new lexicon of acronyms, I witnessed the company grow and branch out in new directions, acquiring new businesses, providing new products and services, becoming an oft-quoted voice on national educational issues, and growing our core test-prep business. The latter goal was achieved in part by focusing on how technology could help us manage our student database and provide computer-based customized products. And while Kaplan's technological revolution began in earnest several years ago, the recent advent of computer-based test delivery changed the pace from evolutionary to revolutionary.

With the aid of technology, the Kaplan-customer relationship took on more parallels to a doctor-patient relationship. Like the best doctors, we treat every student-customer as a unique individual. We now use increasingly sophisticated diagnostic measurement tools to assess baseline test readiness (our equivalent to "health"), and we base our educational prescription on each individual's needs. Each prescription includes a healthy diet of the Kaplan equivalent of the four major food

Kaplan Educational Centers

In 1997, Kaplan continued to expand its mission of helping individuals achieve their educational and career goals. Revenues climbed to $117 million in 1997. The company showed significant growth in its test preparation and admissions businesses while broadening its product offerings in the areas of after-school learning programs, educational services for schools and universities, career services, and publishing.

Test Preparation and Admissions. Kaplan's test preparation profits remained strong, and revenues climbed 15 percent for the year. Revenue was up in every region of the country, in every major city, and in virtually every course.

Students continued to respond to Kaplan's focus on product quality and teaching excellence. Despite declines in the number of test-takers for the Law School Admission Test (LSAT) and Medical College Admission Test (MCAT), Kaplan's business for both tests kept growing. In courses where the number of test-takers was flat or up, revenues surged. Revenues in courses for the Graduate Management Admission Test (GMAT) and United States Medical Licensing Examination (USMLE) were up nearly 35 percent, while English-language programs were up 27 percent. Kaplan's pre-college business was solid, with a particularly strong showing in private tutoring, which grew 60 percent.

Kaplan continued to capitalize on the migration of standardized tests to computer. The Computer Adaptive Test (CAT) creates a greater need for preparation, and Kaplan has already begun to dominate the market. Kaplan installed computers for student use in every center in North America, providing a key benefit that its competitors do not offer. In addition, Kaplan expanded its array of CAT courses and products.

Publishing. Kaplan's publishing venture with Simon & Schuster's Consumer Group produced 69 book titles in 1997, up from 23 in 1996. The venture sold more than half a million units, with gross sales exceeding $5 million. Kaplan's admissions and test preparation titles were extremely popular, and a number of new titles helped to leverage Kaplan's brand into new areas such as basic skills development and career guidance.

Kaplan's software had its most successful year ever, recapturing the number-one position with 45 percent market share in 1997. In addition, Kaplan formed an alliance with Davidson & Associates, Inc., to jointly develop, market, and distribute educational software.

Kaplan continued to provide information and services to students through its award-winning Web site, www.kaplan.com, which received more than eight million hits per month, and its electronic newsletters, which reached nearly 200,000 subscribers daily.

Kaplan and Newsweek again published *How to Get Into College,* which received the 1997 Benjamin Fine Award for Outstanding Education Reporting, and added *How to Get Into Graduate School.*

Score! Educational Centers. Score, Kaplan's after-school tutoring and enrichment subsidiary, grew from 18 centers to 37 in 1997. Company revenues and enrollments doubled. Same-center revenues increased by more than 25 percent. Score students showed significant academic gains, as the average child progressed more than six grade-equivalent months with 20 hours of math and reading instruction. Score's success relies largely on its ability to attract top talent, and last year it received nearly 7,000 applications for 150 positions. At a number of prestigious universities, such as Stanford, Northwestern, and the University of Pennsylvania, over 5 percent of the 1997–98 graduating classes applied to Score.

Favorable demographics and increasing demand for after-school educational opportunities bode well for Score's future growth. The company plans to add 35 new centers in 1998.

Kaplan Learning Services. This division, which markets Kaplan services to schools, universities, and businesses, piloted three in-school Score centers in the Los Angeles Unified School District, laying the groundwork for additional contracts in 1998. Kaplan reached agreements with Chattanooga State Technical Community College and Greenville Technical College to help incoming students pass college placement tests, improve academic performance, and boost their chances of graduating. In addition, Kaplan invested in Academic Systems, a leading provider of networked-based multimedia curricula for higher education.

Career Services. In December, Kaplan acquired The Lendman Group, which produces high-tech job fairs and sales and marketing job fairs in North America, Europe, and online. Kaplan's Career Services division, which includes Crimson & Brown Associates, the nation's leading diversity recruiting and publishing company, became the largest provider of career fairs in North America. Kaplan plans additional acquisitions in this field in 1998.

groups: high-quality review materials, classroom-based instruction with an expert, practice questions with comprehensive, test-savvy explanations, and simulated test experiences.

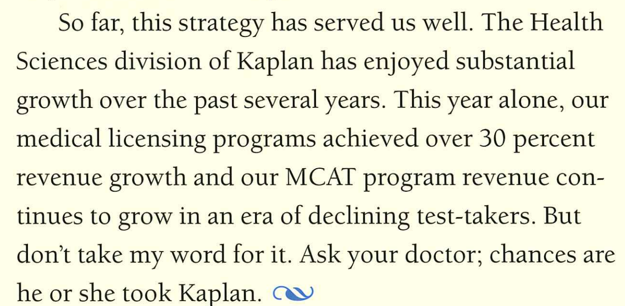
As the company continued to move forward at warp speed, our technological advances introduced new challenges and dialectics such as paper versus computer-based content, center- versus Web-based distribution. But for me, the most personally compelling dynamic has been the age-old tension between academia and for-profit education.

The relationship between Kaplan and academia has been a delicate and ever-evolving one. When I first came to Kaplan, it felt as though there were an iron curtain separating us and the medical schools. Academics had a preconceived notion about test prep; they thought it was somehow anti-intellectual and subversive. They maybe even felt threatened by the notion that students were seeking supplementary help (and paying for it). When I went to academic medical conferences, I had to conceal my name tag in order to talk to deans or the testmakers (strategic accessorizing helped). It took years of traveling to medical schools and talking to faculty about who we are and what we do to establish our credibility and gain their trust. Now, I have several deans and dozens of medical school professors and clinicians on the faculty of our medical division. I've even had the opportunity to hire some of my favorite professors from my years at UC San Diego Medical School (I live in fear that they'll decide to quiz me). I've had one medical school ask for advice on how to integrate its curriculum across organ systems (like our program), and another school asked to review our books to make sure its faculty was covering the most frequently tested material. In 1998 we will launch a major new program in full partnership with a prestigious medical school.

This academic side of my job is incredibly rewarding and allows me to continue to pursue my medical interests. I write questions for our courses, edit our review books, audition the faculty lecturers, and periodically give lectures myself. I have the career in medical education I always wanted. I also have a career in business that I never anticipated. I manage a staff of M.D.s, Ph.D.s, scientists, and business people; write brochure copy; give marketing lectures around the country, and have responsibility for a multimillion dollar P & L (profit and loss) — a key acronym I've picked up over the years. I've learned that the liberating aspect of working in the for-profit sector is that we don't have to follow any of the time-honored rules or contend with the departmental bureaucracy that can slow progress in education. We just need to make sure that we satisfy our students. By listening to the students — and treating them as customers — we have been able to create innovative products that reflect the fact that style matters and need not compromise substance.

In the Health Sciences division at Kaplan, product is created by a team of faculty (assuring accuracy), students (assuring accessibility), and designers (assuring marketability). Our goal is to be the educational equivalent of the Luden's cough drop: something that contains therapeutic medicine, but tastes good too. And the pressure of market dynamics ensures that we achieve this balance. If we fail at being substantive, program efficacy will suffer and bad word of mouth will metastasize; if the packaging isn't compelling, students may well choose a competitor.

So far, this strategy has served us well. The Health Sciences division of Kaplan has enjoyed substantial growth over the past several years. This year alone, our medical licensing programs achieved over 30 percent revenue growth and our MCAT program revenue continues to grow in an era of declining test-takers. But don't take my word for it. Ask your doctor; chances are he or she took Kaplan.



My Journey Into Cyberspace

By Retha Hill
Style Editor, washingtonpost.com

Before joining Digital Ink in April 1995, Retha Hill had been a Metro reporter at The Washington Post since 1987.

THE SCANDAL SURROUNDING PRESIDENT Clinton and intern Monica Lewinsky aptly shows the Web at its best (updated, in-depth reporting) and its worst (unsubstantiated rumors posted as fact). But, for me, it was the best reminder of why I am an online journalist. We are breaking new ground and learning with each major news story how to better use the power of the Net. Nowadays, the Web is ground zero for any evolving, consuming news story.

Being an online journalist is not always fun. The "gee whiz" factor of the Web wears off after about six months, usually the first time fickle Internet technology fails you at a crucial moment. Such as during election night '96 when a surge in demand coupled with technical problems on a major nationwide data line brought many Web sites' updating efforts to their knees. (The Post's Web site's reporting remained operable because we used an old-fashioned relay system of interns stationed in the newsroom who telephoned in voting updates to washingtonpost.com.) Or when the only way to get the full text of a D.C. financial control board report online is to scan it in, then painstakingly check character recognition by comparing each letter of the online document with the written report. Or doing data entry of thousands of database records so residents of Prince William County will know the exact address and function of all of their major government agencies.

Unexplained server outages, banal conversations in discussion groups that pass for the elusive online "community," dozens of e-mails each month about the crossword puzzle are part of my daily existence.

Then along comes a major story like Clinton-Lewinsky or the death of Princess Diana or the downing of TWA Flight 800 and the Web's purpose and potential become crystal clear. It allows the traditional print media not only to compete with broadcast but do a better job than radio and television in quickly sorting out a complicated news story. But it is not enough.

Three years ago, I became a cyberjournalist for two reasons. I felt it was important for minority journalists to be in on the ground floor of a burgeoning new medium. As the president of the Washington Association of Black Journalists in 1992 and 1993, I

Digital Ink Co.

Digital Ink continues to define the company's voice in electronic journalism. In 1997 its focus was washingtonpost.com and making it the indispensable first source of news, information, and commerce for the Internet audience focused on Washington. Signs indicate that the site is well on its way to achieving that goal. In 1998 the subsidiary also is taking responsibility for Newsweek's new-media activities and plans to aggressively grow its online presence.

According to research conducted by Media Metrix, washingtonpost.com has the highest in-market penetration among newspaper Web sites in the top-ten designated market areas (DMAs) in the country. It is consistently ranked as one of the top five news sites on the World Wide Web. Since the beginning of 1997, washingtonpost.com's page views have more than doubled to 30 million a month.

Several significant new services debuted on washingtonpost.com in 1997. As a result of an agreement to license tools and technology from CitySearch, a provider of community-based online information services, washingtonpost.com launched Style Live, Community Resources, and the washingtonpost.com Yellow Pages. The three sections together form a comprehensive guide to greater Washington, tapping a common library of searchable listings about civic and business groups in Washington and its surrounding counties.

Readers quickly recognized the value of these new services, as did advertisers. Hundreds of local businesses signed on as advertisers, purchasing Web sites to enhance their basic Yellow Pages listings. More than 80 percent of those businesses had never advertised with The Post before.

At the close of 1997, Digital Ink was at the forefront of developments in the online classifieds area. This resulted from The Washington Post Company's partnership with The Times Mirror Company and Tribune Company to create Classified Ventures. This operation provides solutions using Internet technologies that help newspapers expand their position as the nation's leading suppliers of classified advertising and related content. Already, national sites have been announced in key classified categories, including autos (www.cars.com) and apartments (www.apartments.com), with more announcements planned for 1998.

LEGI-SLATE

LEGI-SLATE, along with its subsidiary, State Capital Strategies, continues to be the premier online information service covering federal and state legislation and regulation for business, government, law firms, trade associations, educational institutions, and other major organizations.

In August a new president, Christopher Schroeder, was appointed. He had been treasurer and director of corporate strategy for The Washington Post Company. Under his leadership, LEGI-SLATE introduced an ambitious plan to combine its unique data gathering, news and analysis, and customer service into proactive industry and customer-specific solutions to critical legislative and regulatory information needs. The launch of new e-mail alert products and issue-specific analyses has already attracted new customer interest.

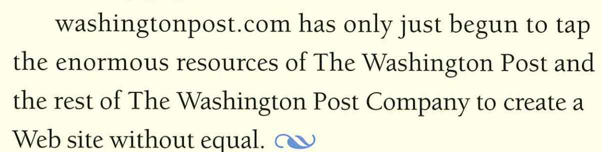
often warned my colleagues in the Washington market about being left behind during this shift in resources toward an online delivery of news. I had no idea what career opportunities would be available at America Online, Prodigy, CompuServe, or the new Digital Ink, but I knew that African-Americans, Asians, Hispanics, and Native Americans needed to be there at the beginning to shape how this medium would cover the news, create community, and play to a variety of niche audiences. The second reason I left a fairly comfortable reporting job in The Post newsroom is because I truly believed that an online product could come closer to carrying out our community journalism mandate in a sophisticated way, that an online product could close the gap between big city newspapers and the city and suburban audiences we are supposed to cover.

We have had victories and failures. When there is a breaking story, especially ones that center on Washington — such as the Clinton-Lewinsky scandal or the 1997 Inauguration — our Web coverage has shone brightly. The newsroom has stepped up to allow Post stories to be posted early, to allow Post reporters and editors to engage in discussion with a news-hungry audience. The other victories have been less high profile. For example, the medium of the Web has made available information that would not otherwise be immediately available, such as reports from the proceedings of the D.C. school system's emergency board of trustees at a time when parents, students, and teachers had no idea what was going on in those closed-door meetings. Although it was time consuming to scan in those documents, it helped establish the Web site as the place to go for material not available through other sources. A calculator built by my staff when I was online Metro editor is another case in point. The calculator allowed city and suburban residents to compute, using their particular family income and data, what their savings would be under the flat-tax proposal being pushed by Del. Eleanor Holmes Norton. Norton found the calculator so useful she simply referred members of Congress and constituents to it to get a full explanation of the flat tax's potential impact. The Metro graphics staff was helpful in helping us create interactive maps to show area residents the projected patterns of growth — and the impact of development on green space, school crowding, and traffic patterns — in the metropolitan region.

Further, we need to fully use the technology of the Web to tell the story. It's not just about being an unlimited news hole, a repository for documents or background articles on a particular subject, although that is important. Web technology includes animation, sound, and video, polling software and moderated discussion software. The Web component should be a part of the initial discussions about the reporting and presentation of a story, especially stories that contain a lot of data (campaign contributions, health statistics, population or development figures) that could be fed into a searchable database made available to the public via the Web. This is not bells-and-whistles stuff for the sake of being cool; such interactive content actually *helps to bring the story home* to people who might otherwise have trouble understanding a complicated story. Online editors and producers and the newspaper's reporting staff should work together whenever possible — for example, to animate informational graphics such as the downing of an airplane or the bombing of a building. Another news operation has a service that provides animated graphics to Web sites; however, the graphics leave much to be desired. (For example, it was hardly worth the download time to see a spinning molecule that was supposed to explain the common cold.) washingtonpost.com will only improve if we more fully use the reporting, editorial, and technological resources of The Post newsroom and Web site.

We need to quickly develop community publishing software that will allow community groups, high school newspapers, religious institutions, and schools to become a part of washingtonpost.com's community pages.

washingtonpost.com has only just begun to tap the enormous resources of The Washington Post and the rest of The Washington Post Company to create a Web site without equal.



REPORT OF INDEPENDENT ACCOUNTANTS

TO THE BOARD OF DIRECTORS AND SHAREHOLDERS
OF THE WASHINGTON POST COMPANY.

In our opinion, the consolidated financial statements appearing on pages 25 through 41 of this report present fairly, in all material respects, the financial position of The Washington Post Company and its subsidiaries at December 28, 1997 and December 29, 1996, and the results of their operations and their cash flows for each of the three fiscal years in the period ended December 28, 1997, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

Price Waterhouse LLP

Washington, D.C.
January 27, 1998

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

This analysis should be read in conjunction with the consolidated financial statements and the notes thereto.

RESULTS OF OPERATIONS — 1997 COMPARED TO 1996

Net income in 1997 was $281.6 million, an increase of 28 percent over net income of $220.8 million in 1996. Basic and diluted earnings per share rose 31 and 30 percent to $26.23 and $26.15, respectively, in 1997. The company's 1997 net income includes $28.5 million from the sale of the company's investment in Bear Island Paper Company, L.P., and Bear Island Timberlands Company, L.P., as well as $16.0 million relating to the sale of the assets of its PASS Sports subsidiary. Excluding these non-recurring gains, net income increased 7 percent in 1997 and basic and diluted earnings per share each increased 10 percent.

Revenues for 1997 totaled $1.956 billion, an increase of 6 percent from $1.853 billion in 1996. Advertising revenues increased 5 percent in 1997, and circulation and subscriber revenues increased 6 percent. Other revenues increased 5 percent. Substantially all of the increase in advertising revenues was generated by the newspaper and magazine divisions. The increase in circulation and subscriber revenues is due to growth at the cable division and the increase in other revenues is attributable to higher tuition revenues at Kaplan partially offset by reduced fees for engineering services at MLJ.

Costs and expenses for the year increased 4 percent to $1.575 billion, from $1.516 billion in 1996. In addition to the normal growth in the costs of operations, the cost and expense increase is attributable to companies acquired in 1997, expansion of Kaplan's business offerings, increased spending for new media activities offset partially by decreased newsprint and magazine paper costs, and other favorable cost experience at Newsweek.

Operating income increased 13 percent to $381.4 million in 1997.

Newspaper Division. Newspaper division revenues increased 6 percent to $812.9 million, from $763.9 million in 1996. Advertising revenues at the newspaper division rose 8 percent over the previous year. At The Washington Post, advertising revenues increased 8 percent as a result of strong volume increases and, to a lesser extent, higher rates. Classified revenues at The Washington Post increased 12 percent due to higher recruitment volume and associated rates. The Washington Post's retail revenues rose 4 percent due to higher rates and a 1 percent increase in volume. Other advertising revenues (including general and preprint) at The Washington Post increased 8 percent. General advertising and preprint volume each increased 8 percent over 1996.

Circulation revenues for the newspaper division increased 1 percent in 1997 resulting mostly from rate increases enacted in the beginning of 1997 at The Washington Post. Average daily circulation at The Washington Post fell 1.5 percent, while Sunday circulation declined 1.3 percent.

Newspaper division operating margin in 1997 increased to 20 percent from 15 percent in 1996. The increase in 1997 operating margin is primarily attributable to increased advertising revenues and lower newsprint expense (down 9 percent). Average newsprint prices paid by the newspaper division in 1997 declined about 14 percent from 1996, the positive effects of which were partially offset by a 4 percent increase in newsprint consumed.

Broadcast Division. Revenues at the broadcast division rose 1 percent to $338.4 million over last year. An increase in advertising from a number of industry categories, including restaurants, utilities, banks and finance, as well as an overall revenue share increase, allowed the broadcast division to offset the approximate $30.0 million in non-recurring advertising revenues generated in 1996 from political and Olympics-related advertising. Network revenues were down slightly from 1996.

Competitive market position remained strong for the television stations. Four stations were ranked number one in the latest ratings period, sign-on to sign-off, in their markets; one station was ranked a strong number two; one station was ranked number three.

The operating margin at the broadcast division increased to 47 percent, from 46 percent in 1996. Excluding amortization of goodwill and intangibles, operating margins for 1997 and 1996 were 51 percent and 50 percent, respectively. The improvement in the 1997 operating margin is due to increased advertising revenues and benefits derived from 1997 expense control initiatives which, in total, outpaced higher expenses associated with the new station, WCPX (renamed WKMG).

Magazine Division. Magazine division revenues, which beginning in 1997 also included the company's business information unit, rose 3 percent to $389.9 million due primarily to increased advertising revenues at the Newsweek domestic edition. The Newsweek domestic advertising revenue increase over the prior year resulted from a 6 percent increase in domestic advertising pages sold in 1997 versus 1996. Total circulation revenues for the magazine division increased 1 percent in 1997.

Operating margin of the magazine division increased to 10 percent in 1997, from 6 percent in 1996. The increase in operating margin is primarily attributable to the operating results of Newsweek, including the higher sales of domestic advertising pages, reduced magazine paper costs, realized savings from prior year outsourcing initiatives, and other favorable cost experience.

Cable Division. Revenues at the cable division increased 12 percent to $257.7 million in 1997. Basic and tier, pay, and advertising revenue categories showed improvement over 1996. Increased subscribers in 1997 accounted for the majority of the total increase in revenues. The number of basic subscribers increased 7 percent to 637,300. About 37,000 subscribers

were added in 1997 as a result of cable system acquisitions and exchanges and the remainder by internal growth.

Cable operating cash flow increased 4 percent to $101.6 million, from $97.9 million in 1996. Operating margin at the cable division was 20 percent in 1997 compared to 24 percent in 1996, reflecting the effects of increased depreciation and amortization in 1997 from recent cable system acquisitions and capital improvements.

Other Businesses. In 1997, revenues from other businesses, including Kaplan, MLJ, LEGI-SLATE, Digital Ink, and PASS Sports (nine months of 1997), increased 7 percent over the prior year to $157.4 million. The majority of the increase in other businesses revenues is attributable to Kaplan, where revenues increased 21 percent. Student enrollments at Kaplan increased 3 percent in 1997. Partially offsetting the revenue increase generated by Kaplan was a decrease in engineering consulting revenues at MLJ.

Other businesses recorded an operating loss in 1997 of $30.1 million, compared to a loss of $13.5 million in 1996. The 1997 operating loss generated by other businesses is directly attributable to the company's investing activities in new media, the 1997 decline in MLJ's revenues, and, to a lesser extent, the start-up costs associated with Kaplan's significant expansion of its Score elementary education business. Offsetting these losses was improved and continued profitability from Kaplan's core test preparation business.

Equity in Earnings of Affiliates. The company's equity in earnings of affiliates for 1997 declined to $10.0 million, from $19.7 million in 1996, reflecting the effect of lower earnings at the company's affiliated newsprint mills for the majority of 1997 compared to 1996. The decline in earnings at the affiliated newsprint mills is due to lower average newsprint prices charged by the mills in 1997 versus 1996.

Non-Operating Items. Interest income, net of interest expense, was $2.2 million, compared to $3.8 million in 1996. Increased spending in 1997 for acquisitions, capital expenditures, and stock repurchases resulted in less invested cash in 1997 versus 1996, causing a decline in interest income. Other income (expense), net in 1997 was $69.5 million, compared with an expense of $0.5 million in 1996. The increase in other income is attributable to the 1997 gains arising from the company's sale of its investment in Bear Island Paper Company, L.P., and Bear Island Timberlands Company, L.P., as well as the sale of the assets of the PASS Sports subsidiary.

Income Taxes. The effective tax rate in both 1997 and 1996 was approximately 39 percent.

RESULTS OF OPERATIONS — 1996 COMPARED TO 1995

Net income in 1996 was $220.8 million, an increase of 16 percent over net income of $190.1 million in 1995. Basic and diluted earnings per share each rose 17 percent to $20.08 and $20.05, respectively, in 1996. The company's 1995 net income included $8.4 million ($0.75 per share basic and diluted) from the sale of the company's investment in American PCS, L.P. (APC), as well as an after-tax charge of $5.6 million ($0.51 per share basic and diluted) relating to the write-off of the company's interest in Mammoth Micro Productions. Excluding these items, net income and earnings per share (basic and diluted) increased 18 percent and 19 percent, respectively, in 1996.

Revenues for 1996 totaled $1.853 billion, an increase of 8 percent from $1.719 billion in 1995. Advertising revenues increased 7 percent in 1996, and circulation and subscriber revenues increased 8 percent. Other revenues increased 11 percent. The broadcast, newspaper, and magazine divisions all contributed significantly to the improvement in advertising revenues. The increase in circulation and subscriber revenues was principally due to growth at the cable division. About two-thirds of growth in other revenues over 1995 was attributable to new businesses acquired in 1996.

Costs and expenses for 1996 increased 5 percent to $1.516 billion, from $1.448 billion in 1995. Approximately one-half of the increase is attributable to businesses acquired in 1996, while the remainder of the increase reflects normal growth in the costs of operations.

Operating income increased 24 percent to $337.2 million, from $271.0 million in 1995.

Newspaper Division. Newspaper division revenues increased 5 percent to $763.9 million, from $729.2 million in 1995. Advertising revenues at the newspaper division rose 4 percent over 1995. At The Washington Post, advertising revenues increased 3 percent as higher rates offset a decline in volume. Retail revenues at The Washington Post declined 4 percent as a result of a 9 percent decline in inches. Classified revenues rose 13 percent in 1996 primarily as a result of higher recruitment volume and associated rates. Other advertising revenues (including general and preprint) at The Washington Post increased 2 percent. General advertising volume was essentially unchanged from 1995, though preprint volume at The Washington Post increased 2 percent.

Circulation revenues for the newspaper division rose 2 percent in 1996 due to a home delivery price increase at The Washington Post. For the 12-month period ended September 30, 1996, both daily and Sunday circulation at The Washington Post declined 1 percent. The Washington Post's share of the market was 48.5 percent penetration in its daily editions and 63.9 percent penetration in its Sunday editions.

Newspaper division operating margin in 1996 remained at 15 percent, consistent with 1995. The previously mentioned increases in advertising and circulation revenues were offset by higher newsprint expense (up 4 percent) and other normal operating cost increases.

Broadcast Division. Revenues at the broadcast division rose 9 percent over 1995 to $335.2 million, with both national and

local advertising revenues increasing by 10 percent. The improvement for 1996 is attributable almost entirely to political and Olympics-related advertising as other categories generally remained unchanged. Network revenues rose 12 percent in 1996.

Viewership remained strong for the television stations. Four stations were ranked number one in the latest ratings period, sign-on to sign-off, in their markets; one station was ranked a strong number two; one station was ranked number three.

The increases in advertising and network compensation were partially offset by normal operating cost increases of about 4 percent. As a result, the operating margin at the broadcast division increased to 46 percent, from 43 percent in 1995. Excluding amortization of goodwill and intangibles, operating margins for 1996 and 1995 were 50 percent and 47 percent, respectively.

Magazine Division. Newsweek revenues in 1996 increased 7 percent to $377.1 million due primarily to increased advertising revenues at the domestic edition. Advertising revenues rose 11 percent overall, 16 percent at the domestic edition. The domestic improvement was due to a 9 percent increase in page volume as well as the realization of higher advertising rates. Total circulation revenues for 1996 increased 1 percent over 1995. In 1996 the domestic and international editions published 52 weekly issues versus 51 issues in 1995.

At Newsweek, the operating margin increased to 6 percent, from 4 percent in 1995. The increased cost of magazine paper, one-time costs associated with the magazine's decision to outsource its fulfillment operations, and higher general operating costs offset much of the revenue increase.

Cable Division. Revenues at the cable division increased 18 percent to $229.7 million in 1996 over 1995. All revenue categories — basic, tier, pay, pay-per-view, advertising, and other — showed improvement from 1995. About two-thirds of the total increase is attributable to higher average subscriber counts, with the remainder due to higher rates and increased advertising. During 1996, the number of domestic basic subscribers rose by 15 percent to 594,000. About 66,000 subscribers were added as a result of cable system acquisitions and the remainder by internal growth.

Operating margin at the cable division was 24 percent, compared to 21 percent in 1995. Cable cash flow increased 19 percent to $97.9 million, from $82.0 million in 1995. About half of the improvement in cash flow is attributable to the results of cable systems acquired in 1996.

Other Businesses. In 1996, revenues from other businesses, including Kaplan, MLJ, PASS Sports, LEGI-SLATE, and Digital Ink, increased 7 percent to $147.6 million, from $137.4 million in 1995. Half of the increase related to Kaplan, where tuition revenues increased 6 percent. Most of the remainder was due to PASS Sports, which experienced revenue growth of 18 percent.

Other businesses recorded an operating loss in 1996 of $13.5 million, compared with a loss of $27.1 million in 1995. The 1995 results included the write-off of Mammoth Micro Productions as previously mentioned. If all costs associated with Mammoth Micro Productions are excluded from the 1995 results, other businesses operating losses amounted to $5.3 million in 1995. The increase in the 1996 operating loss over this latter amount reflects the company's increased expenditures for digital media and electronic information services and other new business ventures.

Equity in Earnings of Affiliates. The company's equity in earnings of affiliates for 1996 declined to $19.7 million, from $24.5 million in 1995. The reduction in earnings resulted from lower income at the company's affiliated newsprint mills, which were adversely affected by declining newsprint prices beginning in mid-1996.

Non-Operating Items. Interest income, net of interest expense, was $3.8 million, compared with $2.4 million in 1995. The increase was a result of lower interest expense following the retirement of the company's remaining long-term debt in March 1996. Other income (expense), net in 1996 was a loss of $0.5 million, compared with income of $13.5 million in 1995. The gain from the sale of the company's investment in APC is included in the 1995 amount.

Income Taxes. The effective tax rate in both 1996 and 1995 was approximately 39 percent.

FINANCIAL CONDITION: CAPITAL RESOURCES AND LIQUIDITY

From 1995 through 1997, the company spent approximately $1.235 billion on purchases of additional property, plant, and equipment, investments in new businesses, and the repurchase of Class B common stock. The company also retired its $50.2 million of long-term debt.

During 1997, the company acquired various businesses for an aggregate purchase price of about $118.9 million. These acquisitions included, among others, cable systems serving approximately 16,000 subscribers, the publishing rights to two computer services industry trade periodicals, the rights to conduct two computer industry trade shows, and a company that produces job fairs serving the information systems and technology industry. In 1996, the company purchased cable systems serving about 66,000 subscribers in four states, for about $129 million, including $11.9 million of the company's redeemable Series A Preferred Stock. The company also acquired various other new businesses in 1996 for an aggregate purchase price of about $18.5 million. These acquisitions include, among others, Comprint, Inc., a commercial printer in the Maryland suburbs of Washington, D.C., Score Learning Corp., which provides educational services to students in grades K through 12, and TechNews, Inc., a producer of business publications for the computer services industry and the Washington-area technology community.

During 1997, the company exchanged the assets of certain cable systems with Tele-Communications, Inc. resulting in an increase of about 21,000 subscribers for the company. The company also completed, in 1997, a transaction with Meredith Corporation whereby the company exchanged the assets of WFSB-TV, the CBS affiliate in Hartford, Connecticut and $60.0 million in cash for the assets of WCPX-TV (renamed WKMG), the CBS affiliate in Orlando, Florida.

During 1997, the company sold its 35 percent interest in both Bear Island Paper Company, L.P., and Bear Island Timberlands Company, L.P., for approximately $92.8 million. The company also sold the assets of its PASS Sports subsidiary in 1997 for approximately $27.4 million. In 1995, the company divested substantially all of its 70 percent limited partnership in APC for a sales price of approximately $33 million.

During 1997, 1996, and 1995, the company repurchased 846,290, 103,642, and 361,106 shares, respectively, of its Class B common stock at a cost of $368.6 million, $32.3 million, and $89.6 million, respectively. The annual dividend rate for 1998 was increased to $5.00 per share, from $4.80 per share in 1997, $4.60 per share in 1996, and $4.40 per share in 1995.

The company estimates that in 1998 it will spend approximately $225.0 million for plant and equipment, principally for various projects at the newspaper and cable divisions. This estimate includes about $90.0 million to be expended as part of a project to provide new production facilities for The Washington Post newspaper. This project is expected to be substantially completed in late 1998.

In November 1997, the management of Cowles and McClatchy Newspapers, Inc., announced that shareholders representing a majority of each of the respective companies' outstanding voting shares have agreed to vote to approve a series of transactions whereby Cowles and McClatchy will be merged into a newly created company (New McClatchy). Under the terms of the proposed merger, each share of Cowles stock will be converted into a right to receive (based on elections made by Cowles stockholders) either $90.50 in cash or shares of stock in New McClatchy, or a combination of cash and New McClatchy stock. The company owns 3,893,796 shares of Cowles stock and intends to submit an election requesting to be paid in cash for all of its shares. However, depending on the elections made by other Cowles stockholders, the company may be required to accept up to approximately 15 percent of the consideration otherwise payable to it in the form of New McClatchy stock. At December 28, 1997, the carrying value of the company's investment in Cowles approximated $91,900,000. If and when the merger described above is completed, the company will adjust the carrying value of such investment and record the corresponding gain.

At December 28, 1997, the company had $21 million in cash and cash equivalents. In early 1996, the company established a five-year, $300 million revolving credit facility with a group of banks to provide for general corporate purposes and support the issuance of commercial paper. At December 28, 1997, the company had issued approximately $296.4 million in commercial paper borrowings at an average interest rate of 5.8 percent. The average short-term borrowings outstanding during 1997 were approximately $10.7 million. In February 1998, the company borrowed an additional $45.0 million under a short-term unsecured note bearing interest at 5.76 percent. The company expects to fund the majority of its estimated capital needs through internally generated funds. In management's opinion, the company will have ample liquidity to meet its various cash needs in 1998.

Many computer systems experience problems handling dates beyond the year 1999. Therefore, some computer hardware and software will need to be modified prior to the year 2000 in order to remain functional. The company has formed a year 2000 task force which is assessing the readiness of the company's computer systems and software. The task force has also begun seeking confirmations from key vendors stating that materials and services provided to the company will not be interrupted by year 2000 processing issues. The company plans to implement the system and programming changes necessary to address year 2000 issues, and does not believe based upon present facts that the cost of such actions will have a material effect on the company's results of operations or financial condition.

Consolidated Statements of Income

(in thousands, except share amounts)	Fiscal year ended December 28, 1997	December 29, 1996	December 31, 1995
OPERATING REVENUES			
Advertising	$1,236,877	$1,172,706	$1,094,620
Circulation and subscriber	519,620	490,973	453,330
Other	199,756	189,766	171,499
	1,956,253	1,853,445	1,719,449
OPERATING COSTS AND EXPENSES			
Operating	1,019,869	1,007,057	948,088
Selling, general, and administrative	449,996	414,280	403,064
Depreciation and amortization of property, plant, and equipment	71,478	65,103	65,850
Amortization of goodwill and other intangibles	33,559	29,836	31,429
	1,574,902	1,516,276	1,448,431
INCOME FROM OPERATIONS	381,351	337,169	271,018
Equity in earnings of affiliates	9,955	19,702	24,512
Interest income	3,471	5,359	7,974
Interest expense	(1,252)	(1,514)	(5,600)
Other income (expense), net	69,549	(499)	13,492
INCOME BEFORE INCOME TAXES	463,074	360,217	311,396
PROVISION FOR INCOME TAXES	181,500	139,400	121,300
NET INCOME	281,574	220,817	190,096
REDEEMABLE PREFERRED STOCK DIVIDENDS	(956)	(680)	—
NET INCOME AVAILABLE FOR COMMON SHARES	$ 280,618	$ 220,137	$ 190,096
BASIC EARNINGS PER COMMON SHARE	$ 26.23	$ 20.08	$ 17.16
DILUTED EARNINGS PER COMMON SHARE	$ 26.15	$ 20.05	$ 17.15

The information on pages 30 through 41 is an integral part of the financial statements.

Consolidated Balance Sheets

(in thousands, except share amounts)	December 28, 1997	December 29, 1996
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 21,117	$ 102,278
Accounts receivable, net	244,203	233,063
Inventories	19,213	24,427
Other current assets	23,959	22,863
	308,492	382,631
INVESTMENTS IN AFFILIATES	154,791	199,278
PROPERTY, PLANT, AND EQUIPMENT		
Buildings	188,836	188,527
Machinery, equipment, and fixtures	800,435	768,509
Leasehold improvements	39,017	28,883
	1,028,288	985,919
Less accumulated depreciation and amortization	(577,445)	(594,195)
	450,843	391,724
Land	33,953	34,332
Construction in progress	168,954	85,307
	653,750	511,363
GOODWILL AND OTHER INTANGIBLES, less accumulated amortization of $241,308 and $207,768	679,714	544,349
DEFERRED CHARGES AND OTHER ASSETS	280,570	232,790
	$2,077,317	$1,870,411

The information on pages 30 through 41 is an integral part of the financial statements.

(in thousands, except share amounts)	December 28, 1997	December 29, 1996
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 213,824	$ 194,186
Federal and state income taxes	18,352	5,381
Deferred subscription revenue	80,186	82,069
Short-term borrowings	296,394	—
	608,756	281,636
OTHER LIABILITIES	241,234	223,878
DEFERRED INCOME TAXES	31,306	30,147
	881,296	535,661
COMMITMENTS AND CONTINGENCIES		
REDEEMABLE PREFERRED STOCK, Series A, $1 par value, with a redemption and liquidation value of $1,000 per share; 23,000 shares authorized; 11,947 shares issued and outstanding	11,947	11,947
PREFERRED STOCK, $1 par value; 977,000 shares authorized	—	—
COMMON SHAREHOLDERS' EQUITY		
Common stock		
Class A common stock, $1 par value; 7,000,000 shares authorized; 1,739,250 and 1,779,250 shares issued and outstanding	1,739	1,779
Class B common stock, $1 par value; 40,000,000 shares authorized; 18,260,750 and 18,220,750 shares issued; 8,349,962 and 9,131,165 shares outstanding	18,261	18,221
Capital in excess of par value	33,415	26,455
Retained earnings	2,231,341	2,002,359
Cumulative foreign currency translation adjustment	(464)	4,663
Unrealized gain on available-for-sale securities (net of taxes)	31	3,155
Cost of 9,910,913 and 9,089,585 shares of Class B common stock held in treasury	(1,100,249)	(733,829)
	1,184,074	1,322,803
	$2,077,317	$1,870,411

The information on pages 30 through 41 is an integral part of the financial statements.

Consolidated Statements of Cash Flows

(in thousands)	Fiscal year ended December 28, 1997	December 29, 1996	December 31, 1995
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$281,574	$220,817	$190,096
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization of property, plant, and equipment	71,478	65,103	65,850
Amortization of goodwill and other intangibles	33,559	29,836	31,429
Gain from disposition of businesses, net	(44,560)	(3,112)	(1,341)
Equity in earnings of affiliates, net of distributions	(6,996)	(11,099)	(18,090)
Provision for deferred income taxes	3,089	(4,273)	5,408
Change in assets and liabilities:			
Increase in accounts receivable, net	(8,438)	(31,444)	(25,579)
Decrease (increase) in inventories	5,214	2,339	(6,388)
Increase (decrease) in accounts payable and accrued liabilities	19,638	26,923	(15,507)
(Decrease) increase in income taxes payable	(13,709)	1,887	(3,099)
(Increase) decrease in other assets and other liabilities, net	(27,537)	(19,635)	13,074
Other	6,785	10,093	10,605
Net cash provided by operating activities	320,097	287,435	246,458
CASH FLOWS FROM INVESTING ACTIVITIES:			
Net proceeds from sale of businesses	120,208	3,517	32,743
Purchases of property, plant, and equipment	(214,573)	(79,981)	(121,697)
Purchases of marketable debt securities	—	—	(55,649)
Maturities and sales of marketable debt securities	—	12,821	67,453
Investments in certain businesses	(178,943)	(147,471)	(1,757)
Other	(3,187)	784	552
Net cash used in investing activities	(276,495)	(210,330)	(78,355)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Principal payments on debt	—	(50,209)	—
Net short-term borrowings	296,394	—	—
Issuance of redeemable preferred stock	—	11,947	—
Dividends paid	(52,592)	(51,164)	(48,887)
Common shares repurchased	(368,565)	(32,302)	(89,584)
Net cash used in financing activities	(124,763)	(121,728)	(138,471)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(81,161)	(44,623)	29,632
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	102,278	146,901	117,269
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 21,117	$102,278	$146,901
SUPPLEMENTAL CASH FLOW INFORMATION:			
Cash paid during the year for:			
Income taxes	$164,000	$142,000	$122,000
Interest	$ 350	$ 5,115	$ 5,102

The information on pages 30 through 41 is an integral part of the financial statements.

Consolidated Statements of Changes in Common Shareholders' Equity

(in thousands, except share amounts)	Class A Common Stock	Class B Common Stock	Capital in Excess of Par Value	Retained Earnings	Cumulative Foreign Currency Translation Adjustment	Unrealized Gain on Available-for-Sale Securities	Treasury Stock
Balance, January 1, 1995	$1,843	$18,157	$21,273	$1,691,497	$5,328	$2,933	$ (614,098)
Net income for the year				190,096			
Dividends paid on common stock — $4.40 per share				(48,887)			
Repurchase of 361,106 shares of Class B common stock							(89,584)
Issuance of 20,465 shares of Class B common stock, net of restricted stock award forfeitures			3,403				1,478
Change in foreign currency translation adjustment					209		
Change in unrealized gain on available-for-sale securities (net of taxes)						291	
Conversion of Class A common stock to Class B common stock	(39)	39					
Other			265				
Balance, December 31, 1995	1,804	18,196	24,941	1,832,706	5,537	3,224	(702,204)
Net income for the year				220,817			
Dividends paid on common stock — $4.60 per share				(50,484)			
Dividends paid on redeemable preferred stock				(680)			
Repurchase of 103,642 shares of Class B common stock							(32,302)
Issuance of 8,644 shares of Class B common stock, net of restricted stock award forfeitures			1,173				677
Change in foreign currency translation adjustment					(874)		
Change in unrealized gain on available-for-sale securities (net of taxes)						(69)	
Conversion of Class A common stock to Class B common stock	(25)	25					
Other			341				
Balance, December 29, 1996	1,779	18,221	26,455	2,002,359	4,663	3,155	(733,829)
Net income for the year				281,574			
Dividends paid on common stock — $4.80 per share				(51,636)			
Dividends paid on redeemable preferred stock				(956)			
Repurchase of 846,290 shares of Class B common stock							(368,565)
Issuance of 24,962 shares of Class B common stock, net of restricted stock award forfeitures			6,025				2,145
Change in foreign currency translation adjustment					(5,127)		
Change in unrealized gain on available-for-sale securities (net of taxes)						(3,124)	
Conversion of Class A common stock to Class B common stock	(40)	40					
Other			935				
Balance, December 28, 1997	$1,739	$18,261	$33,415	$2,231,341	$ (464)	$ 31	$(1,100,249)

The information on pages 30 through 41 is an integral part of the financial statements.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Washington Post Company (the company) operates principally in four areas of the media business: newspaper publishing, television broadcasting, magazine publishing, and cable television. Segment data is set forth in Note M.

Fiscal Year. The company reports on a 52-53 week fiscal year ending on the Sunday nearest December 31. The fiscal years 1997, 1996, and 1995, which ended December 28, 1997, December 29, 1996, and December 31, 1995, respectively, included 52 weeks. With the exception of the newspaper publishing operations, subsidiaries of the company report on a calendar-year basis.

Principles of Consolidation. The accompanying financial statements include the accounts of the company and its subsidiaries; significant intercompany transactions have been eliminated.

Use of Estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements. Actual results could differ from those estimates.

Cash Equivalents. Short-term investments with original maturities of 90 days or less are considered cash equivalents.

Investments in Marketable Securities. Investments in marketable equity securities available for sale are classified in "Deferred charges and other assets" in the Consolidated Balance Sheets. Unrealized gains or losses (net of taxes) relating to such investments are reported separately in the "Unrealized gain on available-for-sale securities (net of taxes)" in the Consolidated Balance Sheets.

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

Investments in Affiliates. The company uses the equity method of accounting for its investments in and earnings or losses of affiliates.

Property, Plant, and Equipment. Property, plant, and equipment is recorded at cost and includes interest capitalized in connection with major long-term construction projects. Replacements and major improvements are capitalized; maintenance and repairs are charged to operations as incurred.

Depreciation is calculated using the straight-line method over the estimated useful lives of the property, plant, and equipment: 3 to 12 years for machinery and equipment, and 20 to 50 years for buildings. The costs of leasehold improvements are amortized over the lesser of the useful lives or the terms of the respective leases.

Goodwill and Other Intangibles. Goodwill and other intangibles represent the unamortized excess of the cost of acquiring subsidiary companies over the fair values of such companies' net tangible assets at the dates of acquisition. Goodwill and other intangibles are being amortized by use of the straight-line method over various periods up to 40 years.

Long-Lived Assets. The recoverability of long-lived assets, including goodwill and other intangibles, is assessed annually or whenever adverse events and changes in circumstances indicate that previously anticipated undiscounted cash flows warrant assessment.

Program Rights. The broadcast subsidiaries are parties to agreements that entitle them to show syndicated and other programs on television. The cost of such program rights is recognized as the gross amount of the related liability when the programs are available for broadcasting. The cost is charged to operations using accelerated and straight-line rates that appropriately match the cost of programming with associated revenues. The unamortized cost of such rights and the liability for future payments under these agreements are included in the Consolidated Balance Sheets.

Deferred Subscription Revenue and Magazine Subscription Procurement Costs. Deferred subscription revenue, which primarily represents amounts received from customers in advance of magazine and newspaper deliveries, is included in revenues over the subscription term. Deferred subscription revenue to be earned after one year is included in "Other liabilities" in the Consolidated Balance Sheets. Magazine subscription procurement costs are charged to operations as incurred.

Income Taxes. The provision for income taxes is determined using the asset and liability approach. Under this approach, deferred income taxes represent the expected future tax consequences of temporary differences between the carrying amounts and tax bases of assets and liabilities.

Foreign Currency Translation. Gains and losses on foreign currency transactions and the translation of the accounts of the company's foreign operations where the U.S. dollar is the functional currency are recognized currently in the Consolidated Statements of Income. Gains and losses on translation of the accounts of the company's foreign operations where the local currency is the functional currency and the company's equity investments in its foreign affiliates are accumulated and reported separately in the "Cumulative foreign currency translation adjustment" in the Consolidated Balance Sheets.

Postretirement Benefits Other Than Pensions. The company provides certain health care and life insurance benefits for retired employees. The expected cost of providing these postretirement benefits is accrued over the years that employees render services.

Stock-Based Compensation. The company accounts for stock-based compensation using the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." Pro forma disclosures of net income and earnings per share as if the fair-value based method prescribed by Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation" had been applied in measuring compensation expense are provided in Note G.

Earnings per Share. In 1997, the company adopted SFAS No. 128, "Earnings per Share," which requires the presentation of both basic and diluted earnings per share data for fiscal 1997 and all prior fiscal periods.

Fair Value of Financial Instruments. The carrying amount of the company's cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and short-term borrowings approximates fair value because of the short maturity of those instruments.

B. ACCOUNTS RECEIVABLE AND ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts receivable at December 28, 1997, and December 29, 1996, consist of the following (in thousands):

	1997	1996
Accounts receivable, less estimated returns, doubtful accounts and allowances of $49,706 and $48,388	$229,782	$220,168
Other	14,421	12,895
	$244,203	$233,063

Accounts payable and accrued liabilities at December 28, 1997, and December 29, 1996, consist of the following (in thousands):

	1997	1996
Accounts payable and accrued expenses	$136,368	$121,485
Accrued payroll and related benefits	48,115	41,083
Deferred tuition revenue	20,988	18,299
Due to affiliates (newsprint)	8,353	13,319
	$213,824	$194,186

C. INVESTMENTS IN AFFILIATES

The company's investments in affiliates at December 28, 1997, and December 29, 1996, include the following (in thousands):

	1997	1996
Cowles Media Company	$ 91,904	$ 86,087
Newsprint mills	39,995	87,122
Other	22,892	26,069
	$154,791	$199,278

The company's investments in affiliates include a 28 percent interest in the stock of Cowles Media Company (Cowles), which owns and operates the Minneapolis Star Tribune and several other smaller properties.

At December 28, 1997 and December 29, 1996, the company's interest in newsprint mills includes a 49 percent interest in the common stock of Bowater Mersey Paper Company Limited, which owns and operates a newsprint mill in Nova Scotia. At December 29, 1996, the company's interest in newsprint mills also includes a 35 percent limited partnership interest in both Bear Island Paper Company, which owns and operates a newsprint mill near Richmond, Virginia, and Bear Island Timberlands Company, which owns timberland and supplies Bear Island Paper Company with a major portion of its wood requirements (collectively "Bear Island"). In December 1997, the company sold its interest in Bear Island for approximately $92,800,000 (see Note K). Operating costs and expenses of the company include newsprint supplied by Bowater, Inc. (parent to Bowater Mersey Paper Company), and Bear Island Paper Company, the cost of which was approximately $63,800,000 in 1997, $67,200,000 in 1996, and $73,600,000 in 1995.

The company's other affiliate investments represent a 50 percent common stock interest in the International Herald Tribune newspaper, published near Paris, France, and a 50 percent common stock interest in the Los Angeles Times-Washington Post News Service, Inc.

Summarized financial data for the affiliates' operations, excluding Bear Island financial position data at December 28, 1997 and including Bear Island's results of operations through the date of sale, are as follows (in thousands):

	1997	1996	1995
Financial Position			
Working capital	$ (41,614)	$ (31,042)	$ (82,505)
Property, plant, and equipment	237,864	411,644	415,874
Total assets	586,842	788,024	791,748
Long-term debt	84,593	158,999	165,284
Net equity	211,024	304,828	265,918
Results of Operations			
Operating revenues	$879,884	$918,148	$904,482
Operating income	88,110	115,738	120,843
Net income	49,273	68,918	69,070

The following table summarizes the status and results of the company's investments in affiliates (in thousands):

	1997	1996
Beginning investment	$199,278	$189,053
Equity in earnings	9,955	19,702
Dividends and distributions received	(2,959)	(8,603)
Foreign currency translation	(5,128)	(874)
Sale of interest in Bear Island	(46,355)	—
Ending investment	$154,791	$199,278

At December 28, 1997, the unamortized excess of the company's investments over its equity in the underlying net assets of its affiliates at the dates of acquisition was approximately $76,000,000. Amortization included in "Equity in earnings of affiliates" in the Consolidated Statements of Income was approximately $2,500,000 for the year ended December 28, 1997, and $2,600,000 for the years ended December 29, 1996, and December 31, 1995.

In November 1997, the management of Cowles and McClatchy Newspapers, Inc., announced that shareholders representing a majority of each of the respective companies' outstanding voting shares have agreed to vote to approve a series of transactions whereby Cowles and McClatchy will be merged into a newly created company (New McClatchy). Under the terms of the proposed merger, each share of Cowles stock will be converted into a right to receive (based on elections made by Cowles stockholders) either $90.50 in cash or shares of stock in New McClatchy, or a combination of cash and New McClatchy stock. The company owns 3,893,796 shares of Cowles stock and intends to submit an election requesting to be paid in cash for all of its shares. However, depending on the elections made by other Cowles stockholders, the company may be required to accept up to approximately 15 percent of the consideration otherwise payable to it in the form of New McClatchy stock. At December 28, 1997, the carrying value of the company's investment in Cowles approximated $91,900,000. If and when the merger described above is completed, the company will adjust the carrying value of such investment and record the corresponding gain.

D. INCOME TAXES

The provision for income taxes consists of the following (in thousands):

	Current	Deferred
1997		
U.S. Federal	$149,003	$ 2,210
Foreign	915	(165)
State and local	28,493	1,044
	$178,411	$ 3,089
1996		
U.S. Federal	$120,612	$(3,575)
Foreign	718	598
State and local	22,343	(1,296)
	$143,673	$(4,273)
1995		
U.S. Federal	$ 96,630	$ 3,525
Foreign	608	1,215
State and local	18,654	668
	$115,892	$ 5,408

The provision for income taxes exceeds the amount of income tax determined by applying the U.S. Federal statutory rate of 35 percent to income before taxes as a result of the following (in thousands):

	1997	1996	1995
U.S. Federal statutory taxes	$162,076	$126,076	$108,989
State and local taxes net of U.S. Federal income tax benefit	19,199	13,681	12,559
Amortization of goodwill not deductible for income tax purposes	2,492	2,336	2,373
Other, net	(2,267)	(2,693)	(2,621)
Provision for income taxes	$181,500	$139,400	$121,300

Deferred income taxes at December 28, 1997, December 29, 1996, and December 31, 1995, consist of the following (in thousands):

	1997	1996	1995
Accrued postretirement benefits	$ 51,076	$ 49,363	$ 47,167
Other benefit obligations	34,358	26,634	20,963
Accounts receivable	9,127	8,399	6,765
Other	8,319	12,373	9,134
Deferred tax asset	102,880	96,769	84,029
Property, plant, and equipment	40,498	39,248	42,159
Prepaid pension cost	79,978	65,300	55,574
Affiliate operations	7,645	14,977	14,165
Investment tax credit	813	1,589	2,301
Other	5,252	5,802	4,473
Deferred tax liability	134,186	126,916	118,672
Deferred income taxes	$ 31,306	$ 30,147	$ 34,643

E. DEBT

In 1996, the company established a five-year, $300,000,000 revolving credit facility to provide for direct borrowings and also support the issuance of short-term promissory notes. Under the terms of the credit agreement, interest on borrowings is at floating rates (average outstanding rate of 5.8 percent at December 28, 1997), and the company is required to pay a facility fee of .07 percent on used and unused portions of the facility. The agreement also contains certain covenants, including a financial covenant that requires the company to maintain common shareholders' equity of $850,000,000. At December 28, 1997 and December 29, 1996, there were approximately $296,394,000 and zero borrowings outstanding under the facility, respectively, and the company was in compliance with all covenants. Interest expense incurred under the revolving credit facility was approximately $552,000 and zero during 1997 and 1996, respectively.

In the first quarter of 1996, the company retired approximately $50,222,000 in debt outstanding, the only long-term debt then outstanding, bearing interest at 10.1 percent.

F. REDEEMABLE PREFERRED STOCK

In connection with the acquisition of a cable television system during the first quarter of 1996, the company issued 11,947 shares of its Series A Preferred Stock and agreed to issue an additional 1,282 shares of such stock on February 23, 2000 (which additional number of shares is subject to reduction in the event of any breach of the representations and warranties made by the seller in the acquisition agreement).

The Series A Preferred Stock has a par value of $1.00 per share and a liquidation preference of $1,000 per share; it is redeemable by the company at any time on or after October 1, 2015 at a redemption price of $1,000 per share. In addition, the holders of such stock have a right to require the company to purchase their shares at the redemption price during an annual 60-day election period, with the first such period beginning on February 23, 2001. Dividends on the Series A Preferred Stock are payable four times a year at the annual rate of $80.00 per share and in preference to any dividends on the company's common stock. The Series A Preferred Stock is not convertible into any other security of the company, and the holders thereof have no voting rights except with respect to any proposed changes in the preferences and special rights of such stock.

G. CAPITAL STOCK, STOCK AWARDS, AND STOCK OPTIONS

Capital Stock. 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 percent 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.

During 1997, 1996, and 1995, the company purchased a total of 846,290, 103,642 and 361,106 shares, respectively, of its Class B common stock at a cost of approximately $368,565,000, $32,302,000, and $89,584,000.

Stock Awards. In 1982, the company adopted a Long-Term Incentive Compensation Plan that, among other provisions, authorizes the awarding of Class B common stock to key employees. Stock awards made under the Incentive Compensation Plan are subject to the general restriction that stock awarded to a participant will be forfeited and revert to company ownership if the participant's employment terminates before the end of a specified period of service to the company. At December 28, 1997, there were 107,966 shares reserved for issuance under the Incentive Compensation Plan. Of this number, 34,331 shares were subject to awards outstanding, and

73,635 shares were available for future awards. Activity related to stock awards for the years ended December 28, 1997, December 29, 1996, and December 31, 1995 was as follows:

	1997		1996		1995	
	Number of Shares	Average Award Price	Number of Shares	Average Award Price	Number of Shares	Average Award Price
Awards Outstanding						
Beginning of year ...	30,490	$237.83	31,378	$237.85	26,860	$214.79
Awarded	20,285	351.68	64	313.88	17,753	244.90
Vested	(13,521)	228.96	—	—	(12,472)	198.50
Forfeited	(2,923)	285.35	(952)	243.61	(763)	233.23
End of year.........	34,331	$281.19	30,490	$237.83	31,378	$237.85

For the share awards outstanding at December 28, 1997, the aforementioned restriction will lapse in January 1999 for 15,321 shares, January 2001 for 18,010 shares, and January 2004 for 1,000 shares. Stock-based compensation costs resulting from stock awards reduced net income by $1.2 million ($0.11 per share, basic and diluted), $1.1 million ($0.10 per share, basic and diluted), and $1.1 million ($0.10 per share, basic and diluted) in 1997, 1996, and 1995, respectively.

Stock Options. The Employee Stock Option Plan, which was adopted in 1971 and amended in 1993, reserves 1,900,000 shares of the company's Class B common stock for options to be granted under the plan. The purchase price of the shares covered by an option cannot be less than the fair value on the granting date. At December 28, 1997, there were 642,475 shares reserved for issuance under the Stock Option Plan, of which 251,225 shares were subject to options outstanding and 391,250 shares were available for future grants.

Changes in options outstanding for the years ended December 28, 1997, December 29, 1996, and December 31, 1995 were as follows:

	1997		1996		1995	
	Number of Shares	Average Option Price	Number of Shares	Average Option Price	Number of Shares	Average Option Price
Beginning of year...	178,625	$270.21	168,525	$258.59	164,500	$255.35
Granted	80,200	583.62	19,500	343.94	9,000	298.75
Exercised	(7,600)	234.20	(9,400)	214.89	(3,475)	204.81
Canceled	—		—		(1,500)	268.50
End of year	251,225	$371.35	178,625	$270.21	168,525	$258.59

Of the shares covered by options outstanding at the end of 1997, 133,900 are now exercisable, 21,425 will become exercisable in 1998, 68,425 will become exercisable in 1999, 16,175 will become exercisable in 2000, and 11,300 will become exercisable in 2001.

Information related to stock options outstanding at December 28, 1997 is as follows:

Range of exercise prices	Number outstanding at 12/28/97	Weighted average remaining contractual life (yrs.)	Weighted average exercise price	Number exercisable at 12/28/97	Weighted average exercise price
$173–200	22,900	1.8	$192.00	22,900	$192.00
205–319	128,625	4.4	275.08	71,125	244.44
343–350	21,000	9.1	344.35	4,875	343.94
472	43,700	10.0	472.00	–	–
733	35,000	10.0	733.00	35,000	733.00

All options were granted at an exercise price equal to or greater than the fair market value of the company's common stock at the date of grant. The weighted-average fair value at date of grant for options granted during 1997, 1996, and 1995 was $87.94, $96.53 and $77.12, respectively. The fair value of options at date of grant was estimated using the Black-Scholes method with the following assumptions:

	1997	1996	1995
Expected life (years)...........	7	7	7
Interest rate	5.84%	6.26%	5.61%
Volatility.....................	14.2%	14.6%	14.3%
Dividend yield................	1.5%	1.5%	1.5%

Had the fair values of options granted in 1997, 1996, and 1995 been recognized as compensation expense, net income would have been reduced by $1.6 million ($.15 per share, basic and diluted), $0.4 million ($.04 per share, basic and diluted) and $0.1 million ($.01 per share, basic and diluted), in 1997, 1996, and 1995, respectively.

Average Number of Shares Outstanding. Basic earnings per share are based on the weighted average number of shares of common stock outstanding during each year. Diluted earnings per common share are based upon the weighted average number of shares of common stock outstanding each year, adjusted for the dilutive effect of shares issuable under outstanding stock options. Basic and diluted weighted average share information for 1997, 1996, and 1995 is as follows:

	Basic Weighted Average Shares	Dilutive Effect of Stock Options	Diluted Weighted Average Shares
1997	10,699,713	33,278	10,732,991
1996	10,963,761	16,036	10,979,797
1995	11,074,978	10,537	11,085,515

H. RETIREMENT PLANS

The company and its subsidiaries have various funded and unfunded pension and incentive savings plans and in addition, contribute to several multi-employer plans on behalf of certain union-represented employee groups. Substantially all of the company's employees, including some located in foreign countries, are covered by these plans. Pension benefit for all retirement plans combined was $12,200,000, $3,900,000, and $600,000 in 1997, 1996, and 1995, respectively.

The costs for the company's defined benefit pension plans are actuarially determined and include amortization of prior service costs over various periods, generally not exceeding 20 years. The company's policy is to fund the costs accrued for its defined benefit plans.

The following table sets forth the funded status of the defined benefit plans and amounts recognized in "Deferred charges and other assets" in the Consolidated Balance Sheets at December 28, 1997, and December 29, 1996 (in thousands):

	1997	1996
Actuarial present value of accumulated plan benefits, including vested benefits of $232,385 and $212,158	$ 240,414	$219,154
Plan assets at fair value, primarily listed securities	$1,014,531	$731,999
Projected benefit obligation for service rendered to date	(284,278)	(261,266)
Plan assets in excess of projected benefit obligation	730,253	470,733
Prior service cost not yet recognized in periodic pension cost	14,824	15,987
Less unrecognized net gain from past experience different from that assumed	(512,669)	(277,049)
Less unrecognized net asset (transition amount) being recognized over approximately 17 years	(38,271)	(45,937)
Prepaid pension cost	$ 194,137	$163,734

The net pension benefit for the years ended December 28, 1997, December 29, 1996, and December 31, 1995, consists of the following components (in thousands):

	1997	1996	1995
Service cost for benefits earned during the period	$ 10,567	$ 10,373	$ 10,623
Interest cost on projected benefit obligation	19,433	17,741	15,430
Actual return on plan assets	(294,212)	(129,756)	(162,253)
Net amortization and deferral	233,985	78,373	116,812
Net pension benefit	$ (30,227)	$ (23,269)	$ (19,388)

The weighted average discount rate of 7.5 percent and rate of increase in future compensation levels of 4 percent were used in determining the actuarial present value of the projected benefit obligation in 1997, 1996, and 1995. The expected long-term rate of return on assets was 9 percent in 1997, 1996, and 1995.

Contributions to multi-employer pension plans, which are generally based on hours worked, amounted to $2,000,000 in 1997, $1,700,000 in 1996, and $1,800,000 in 1995.

The costs of unfunded retirement plans are charged to expense when accrued. The company's liability for such plans, which is included in "Other liabilities" in the Consolidated Balance Sheets, was $54,235,000 at December 28, 1997, and $51,600,000 at December 29, 1996.

I. POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

The company and its subsidiaries provide health care and life insurance benefits to certain retired employees. These employees become eligible for benefits after meeting minimum age and service requirements.

The following table sets forth the amounts included in "Other liabilities" in the Consolidated Balance Sheets at December 28, 1997, and December 29, 1996 (in thousands):

	1997	1996
Accumulated postretirement benefit obligation:		
Retirees	$ 50,213	$ 49,806
Fully eligible active plan participants	16,937	7,828
Other active plan participants	34,105	36,125
	101,255	93,759
Unrecognized prior service costs arising from plan amendments	3,744	4,123
Unrecognized net gain from past experience different from that assumed	12,968	15,911
Accrued postretirement benefit cost	$117,967	$113,793

Net periodic postretirement benefit cost for 1997, 1996, and 1995 includes the following components (in thousands):

	1997	1996	1995
Service cost for benefits earned during the period	$3,511	$2,939	$2,719
Interest cost on accumulated post-retirement benefit obligation	6,973	6,546	6,515
Amortization of prior service costs	(378)	(290)	(290)
Amortization of gains	(1,576)	(909)	(1,296)
Net periodic postretirement benefit cost	$8,530	$8,286	$7,648

The assumed health care cost trend rate used in measuring the benefit obligation at December 28, 1997 was 10.8 percent for pre-age 65 benefits (10.3% for post-age 65 benefits) decreasing to 5.5 percent in the year 2015 and thereafter. The discount rate used in determining the benefit obligation at December 28, 1997 and December 29, 1996 was 7.5 percent.

The effect on the accumulated postretirement benefit obligation of a 1 percent increase each year in the health care cost trend rate used would result in increases of approximately $11,800,000 in the obligation at December 28, 1997 and $1,500,000 in the aggregate service and interest components of the 1997 expense.

The company's policy is to fund the above-mentioned benefits as claims and premiums are paid. The cash expenditures for postretirement benefits were approximately $3,700,000 in 1997, $3,850,000 in 1996, and $2,980,000 in 1995.

J. LEASE AND OTHER COMMITMENTS

The company leases primarily real property under operating agreements. Many of the leases contain renewal options and escalation clauses that require payments of additional rent to the extent of increases in the related operating costs.

At December 28, 1997, future minimum rental payments under noncancelable operating leases approximate the following (in thousands):

1998	$ 25,300
1999	23,300
2000	19,600
2001	15,300
2002	11,900
Thereafter	50,100
	$145,500

Minimum payments have not been reduced by minimum sublease rentals of $3,300,000 due in the future under noncancelable subleases.

Rent expense under operating leases included in operating costs and expenses was approximately $27,800,000, $24,900,000, and $22,900,000 in 1997, 1996, and 1995, respectively. Sublease income was approximately $400,000, $800,000, and $1,600,000 in 1997, 1996, and 1995, respectively.

The company's broadcast subsidiaries are parties to certain agreements that commit them to purchase programming to be produced in future years. At December 28, 1997, such commitments amounted to approximately $55,500,000. If such programs are not produced, the company's commitment would expire without obligation.

In conjunction with the construction of new newspaper production facilities in the Washington, D.C. area, the company has entered into certain commitments to purchase plant and equipment. As of December 28, 1997, the open commitments relating to this project were approximately $89,000,000. The company expects this project to be completed in late 1998.

K. ACQUISITIONS AND DISPOSITIONS

Acquisitions. In February 1997, the company acquired cable systems serving approximately 16,000 subscribers in Cleveland, Mississippi. In December 1997, the company acquired the publishing rights to two computer services industry trade periodicals and the rights to conduct two computer industry trade shows. The aggregate purchase price for these acquisitions approximated $108,400,000.

In January and February 1996, the company acquired cable systems in Texarkana and Columbus, Missouri serving approximately 39,700 subscribers. In August 1996, the company acquired cable systems in Prescott, Arizona serving approximately 26,300 subscribers. The aggregate purchase price for these acquisitions approximated $129,000,000.

The company also spent $10,500,000 and $18,500,000 in 1997 and 1996, respectively, for other smaller business acquisitions.

All acquisitions discussed above were accounted for using the purchase method and, accordingly, the assets and liabilities of the companies acquired have been recorded at their estimated fair values at the date of acquisition. The excess of the cost over the fair value of net assets acquired is being amortized over periods from 15 to 20 years. Pro forma results of operations for 1997, 1996, and 1995, assuming the acquisitions occurred at the beginning of 1995, are not materially different from reported results of operations.

Exchanges. In June 1997, the company exchanged the assets of certain cable systems with Tele-Communications, Inc. This trade resulted in an increase of about 21,000 subscribers for the company.

In September 1997, the company completed a transaction with Meredith Corporation whereby the company exchanged the assets of WFSB-TV, the CBS affiliate in Hartford, Connecticut and approximately $60,000,000 for the assets of WCPX-TV, the CBS affiliate in Orlando, Florida.

The assets obtained in these transactions were recorded at the carrying value of the assets exchanged plus cash consideration. No gain or loss resulted from these exchange transactions.

Dispositions. In September 1997, the company sold the assets of its PASS Sports subsidiary for approximately $27,400,000. In December 1997, the company sold its 35 percent limited partnership interest in both Bear Island Paper Company and Bear Island Timberlands Company for approximately $92,800,000. The gains resulting from these dispositions, which are included in "Other income (expense), net" in the Consolidated Statements of Income, increased 1997 net income by approximately $44,560,000 and basic and diluted earnings per share by $4.16 and $4.15, respectively.

In January 1995, the company sold substantially all of its 70 percent limited partnership interest in American Personal Communications (APC) to its partner, APC, Inc., and others, for approximately $33,000,000. The resulting gain, which is included in "Other income (expense), net" in the Consolidated Statements of Income, increased 1995 net income by $8,400,000 and basic and diluted earnings per share by $0.75.

In September 1995, the company wrote off its investment in Mammoth Micro Productions, a producer and publisher of multimedia CD-ROM titles, originally acquired in 1994 for approximately $23,000,000. The loss resulting from the write-off, which is included in "Operating costs and expenses" in the Consolidated Statements of Income, decreased 1995 net income by approximately $5,600,000 and basic and diluted earnings per share by $0.51.

L. CONTINGENCIES

The company and its subsidiaries are parties to various civil lawsuits that have arisen in the ordinary course of their businesses, including actions for libel and invasion of privacy. Management does not believe that any litigation pending against the company will have a material adverse effect on its business or financial condition.

M. BUSINESS SEGMENTS

The company operates principally in four areas of the media business: newspaper publishing, television broadcasting, magazine publishing, and cable television.

Newspaper operations involve the publication of newspapers in the Washington, D.C. area and Everett, Washington, and newsprint warehousing and recycling facilities.

Broadcast operations are conducted primarily through six VHF television stations. All stations are network-affiliated, with revenues derived primarily from sales of advertising time.

Magazine operations consist of the publication of a weekly news magazine, Newsweek, which has one domestic and three international editions, and beginning in 1997, the publication of six business periodicals for the computer services industry and the Washington-area technology community. Revenues from both newspaper and magazine publishing operations are derived from advertising and, to a lesser extent, from circulation.

Cable television operations consist of over 50 cable systems offering basic cable and pay television services to approximately 637,000 subscribers in 16 midwestern, western, and southern states. The principal source of revenues is monthly subscription fees charged for services.

Other businesses include the operations of educational centers engaged in preparing students for admissions tests and licensing examinations and offering academic enrichment programs, an engineering firm which provides services to the telecommunications industry, a regional sports cable system (sold in September 1997, see Note K), an online information service devoted to federal and state legislation and regulations, and a digital media and electronic information services provider. The results of APC and Mammoth Micro Productions are included in other businesses prior to their disposition in January 1995 and September 1995, respectively.

Income from operations is the excess of operating revenues over operating expenses including corporate expenses, which are allocated based on relative operating revenues to operations of the segments. In computing income from operations by segment, the effects of equity in earnings of affiliates, interest income, interest expense, other income and expense items, and income taxes are not included.

Identifiable assets by segment are those assets used in the company's operations in each business segment. Investments in affiliates are discussed in Note C. Corporate assets are principally cash and cash equivalents and investments in marketable securities.

(in thousands)	Newspaper Publishing	Broadcasting	Magazine Publishing	Cable Television	Other Businesses	Consolidated
1997						
Operating revenues	$812,896	$338,373	$389,853	$257,732	$157,399	$1,956,253
Income (loss) from operations	$162,721	$159,620	$ 38,015	$ 51,549	$ (30,554)	$ 381,351
Equity in earnings of affiliates						9,955
Interest income, net						2,219
Other income, net						69,549
Income before income taxes						$ 463,074
Identifiable assets	$515,745	$436,760	$323,573	$502,642	$114,890	$1,893,610
Investments in affiliates						154,791
Corporate assets						28,916
Total assets						$2,077,317
Depreciation and amortization of property, plant, and equipment	$ 19,104	$ 11,011	$ 4,484	$ 30,672	$ 6,207	$ 71,478
Amortization of goodwill and other intangibles	$ 874	$ 12,213	$ 136	$ 19,371	$ 965	$ 33,559
Capital expenditures	$110,070	$ 11,651	$ 3,022	$ 73,156	$ 16,674	$ 214,573
1996						
Operating revenues	$763,935	$335,156	$377,063	$229,695	$147,596	$1,853,445
Income (loss) from operations	$116,773	$155,026	$ 22,823	$ 56,023	$ (13,476)	$ 337,169
Equity in earnings of affiliates						19,702
Interest income, net						3,845
Other expense, net						(499)
Income before income taxes						$ 360,217
Identifiable assets	$420,601	$377,799	$226,411	$452,525	$ 86,070	$1,563,406
Investments in affiliates						199,278
Corporate assets						107,727
Total assets						$1,870,411
Depreciation and amortization of property, plant, and equipment	$ 20,386	$ 10,482	$ 4,610	$ 25,075	$ 4,550	$ 65,103
Amortization of goodwill and other intangibles	$ 830	$ 11,252		$ 16,785	$ 969	$ 29,836
Capital expenditures	$ 19,441	$ 10,923	$ 4,798	$ 37,362	$ 7,457	$ 79,981
1995						
Operating revenues	$729,172	$306,108	$352,619	$194,142	$137,408	$1,719,449
Income (loss) from operations	$109,737	$132,351	$ 15,008	$ 41,019	$ (27,097)	$ 271,018
Equity in earnings of affiliates						24,512
Interest income, net						2,374
Other income, net						13,492
Income before income taxes						$ 311,396
Identifiable assets	$399,090	$387,462	$204,947	$322,443	$ 73,055	$1,386,997
Investments in affiliates						189,053
Corporate assets						156,843
Total assets						$1,732,893
Depreciation and amortization of property, plant, and equipment	$ 18,248	$ 9,958	$ 4,633	$ 28,819	$ 4,192	$ 65,850
Amortization of goodwill and other intangibles	$ 800	$ 11,253		$ 12,150	$ 7,226	$ 31,429
Capital expenditures	$ 61,879	$ 9,265	$ 4,145	$ 40,050	$ 6,358	$ 121,697

N. SUMMARY OF QUARTERLY OPERATING RESULTS (UNAUDITED)

Quarterly results of operations for the years ended December 28, 1997, and December 29, 1996, are as follows (in thousands, except per share amounts):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
1997				
Operating revenues				
Advertising	$278,528	$327,949	$286,074	$344,326
Circulation and subscriber	123,674	128,901	134,238	132,807
Other	51,899	44,525	58,063	45,269
	454,101	501,375	478,375	522,402
Operating costs and expenses				
Operating	243,504	246,478	253,565	276,322
Selling, general, and administrative	106,886	118,875	107,186	117,049
Depreciation and amortization of property, plant, and equipment	17,790	17,871	18,007	17,810
Amortization of goodwill and other intangibles	7,953	8,214	8,382	9,010
	376,133	391,438	387,140	420,191
Income from operations	77,968	109,937	91,235	102,211
Other income (expense)				
Equity in earnings of affiliates	125	3,331	4,712	1,787
Interest income	1,112	1,079	725	554
Interest expense	(165)	(158)	(182)	(747)
Other income (expense), net	(846)	1,668	23,471	45,257
Income before income taxes	78,194	115,857	119,961	149,062
Provision for income taxes	30,500	44,500	48,410	58,090
Net income	47,694	71,357	71,551	90,972
Redeemable preferred stock dividends	(478)	(239)	(239)	0
Net income available for common shares	$ 47,216	$ 71,118	$ 71,312	$ 90,972
Basic earnings per common share	$ 4.35	$ 6.62	$ 6.66	$ 8.66
Diluted earnings per common share	$ 4.35	$ 6.60	$ 6.64	$ 8.63
Basic average number of common shares outstanding	10,844	10,744	10,708	10,502
Diluted average number of common shares outstanding	10,866	10,772	10,743	10,544

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
1996				
Operating revenues				
Advertising	$252,807	$310,459	$274,719	$334,720
Circulation and subscriber	117,070	121,488	124,916	127,498
Other	46,742	40,905	60,691	41,430
	416,619	472,852	460,326	503,648
Operating costs and expenses				
Operating	242,482	253,639	245,763	265,173
Selling, general, and administrative	100,792	100,562	103,937	108,988
Depreciation and amortization of property, plant, and equipment	16,160	16,004	15,979	16,960
Amortization of goodwill and other intangibles	6,985	7,162	7,427	8,262
	366,419	377,367	373,106	399,383
Income from operations	50,200	95,485	87,220	104,265
Other income (expense)				
Equity in earnings of affiliates	7,353	7,807	2,537	2,005
Interest income	1,224	1,175	1,358	1,602
Interest expense	(1,083)	(139)	(168)	(124)
Other income (expense), net	2,867	(689)	(53)	(2,625)
Income before income taxes	60,561	103,639	90,894	105,123
Provision for income taxes	23,619	40,421	35,503	39,857
Net income	36,942	63,218	55,391	65,266
Redeemable preferred stock dividends	(202)	—	(478)	—
Net income available for common shares	$ 36,740	$ 63,218	$ 54,913	$ 65,266
Basic earnings per common share	$ 3.34	$ 5.76	$ 5.01	$ 5.97
Diluted earnings per common share	$ 3.34	$ 5.76	$ 5.00	$ 5.96
Basic average number of common shares outstanding	10,997	10,970	10,957	10,931
Diluted average number of common shares outstanding	11,011	10,970	10,975	10,953

The sum of the four quarters may not necessarily be equal to the annual amounts reported in the Consolidated Statements of Income due to rounding.

Ten-Year Summary of Selected Historical Financial Data

See Notes to Consolidated Financial Statements for the summary of significant accounting policies and additional information relative to the years 1995–1997.

(in thousands, except per share amounts)	1997	1996	1995
RESULTS OF OPERATIONS			
Operating revenues	$1,956,253	$1,853,445	$1,719,449
Income from operations	$ 381,351	$ 337,169	$ 271,018
Income before cumulative effect of changes in accounting principle	$ 281,574	$ 220,817	$ 190,096
Cumulative effect of change in method of accounting for income taxes	—	—	—
Cumulative effect of change in method of accounting for postretirement benefits other than pensions	—	—	—
Net income	$ 281,574	$ 220,817	$ 190,096
PER SHARE AMOUNTS			
Basic earnings per common share			
Income before cumulative effect of changes in accounting principles	$ 26.23	$ 20.08	$ 17.16
Cumulative effect of changes in accounting principles	—	—	—
Net income	$ 26.23	$ 20.08	$ 17.16
Basic average shares outstanding	10,700	10,964	11,075
Diluted earnings per share			
Income before cumulative effect of changes in accounting principles	$ 26.15	$ 20.05	$ 17.15
Cumulative effect of changes in accounting principles	—	—	—
Net income	$ 26.15	$ 20.05	$ 17.15
Diluted average shares outstanding	10,733	10,980	11,086
Cash dividends	$ 4.80	$ 4.60	$ 4.40
Common shareholders' equity	$ 117.36	$ 121.24	$ 107.60
FINANCIAL POSITION			
Current assets	$ 308,492	$ 382,631	$ 406,570
Working capital	(300,264)	100,995	98,393
Property, plant, and equipment	653,750	511,363	457,359
Total assets	2,077,317	1,870,411	1,732,893
Long-term debt	—	—	—
Common shareholders' equity	1,184,074	1,322,803	1,184,204

1994	1993	1992	1991	1990	1989	1988
$1,613,978	$1,498,191	$1,450,867	$1,380,261	$1,438,640	$1,444,094	$1,367,613
$ 274,875	$ 238,980	$ 232,112	$ 192,866	$ 281,768	$ 313,691	$ 233,290
$ 169,672	$ 153,817	$ 127,796	$ 118,721	$ 174,576	$ 197,893	$ 269,117
—	11,600	—	—	—	—	—
—	—	—	(47,897)	—	—	—
$ 169,672	$ 165,417	$ 127,796	$70,824	$ 174,576	$ 197,893	$ 269,117
$ 14.66	$ 13.10	$ 10.81	$ 10.00	$ 14.46	$ 15.51	$ 20.92
—	0.98	—	(4.04)	—	—	—
$ 14.66	$ 14.08	$ 10.81	$ 5.96	$ 14.46	$ 15.51	$ 20.92
11,577	11,746	11,827	11,874	12,073	12,755	12,864
$ 14.65	$ 13.10	$ 10.80	$ 10.00	$ 14.45	$ 15.50	$ 20.91
—	0.98	—	(4.04)	—	—	—
$ 14.65	$ 14.08	$ 10.80	$ 5.96	$ 14.45	$ 15.50	$ 20.91
11,582	11,750	11,830	11,876	12,081	12,768	12,873
$ 4.20	$ 4.20	$ 4.20	$ 4.20	$ 4.00	$ 1.84	$ 1.56
$ 99.32	$ 92.84	$ 84.17	$ 78.12	$ 76.31	$ 75.40	$ 67.50
$ 375,879	$ 625,574	$ 524,975	$ 472,219	$ 471,669	$ 553,188	$ 493,736
102,806	367,041	242,627	183,959	175,807	283,118	235,698
411,396	363,718	390,804	390,313	394,979	370,597	352,113
1,696,868	1,622,504	1,568,121	1,487,661	1,496,509	1,532,211	1,422,267
50,297	51,768	51,842	51,915	126,988	152,061	154,751
1,126,933	1,087,419	993,005	924,285	905,112	941,522	868,240

Corporate Directory

BOARD OF DIRECTORS

Donald E. Graham (3,4)
Chairman of the Board and
Chief Executive Officer
Publisher, The Washington Post

Alan G. Spoon (3,4)
President and Chief Operating Officer

Katharine Graham (3,4)
Chairman of the Executive Committee

Warren E. Buffett (3)
Chairman of the Board, Berkshire Hathaway Inc.

Daniel B. Burke (1,2)
Former President and Chief Executive Officer,
Capital Cities/ABC, Inc.

James E. Burke (2,3)
Chairman, Partnership for a Drug-Free America
Former Chairman and Chief Executive Officer,
Johnson & Johnson

Martin Cohen (3)
Former Vice President,
The Washington Post Company

George J. Gillespie III (3)
Attorney, Member of Cravath, Swaine & Moore

Ralph E. Gomory (1)
President, Alfred P. Sloan Foundation

Donald R. Keough (2)
Chairman, Allen & Company Incorporated

Barbara Scott Preiskel (1)
Attorney

William J. Ruane (1,3)
Chairman of the Board, Ruane, Cunniff & Co., Inc.

Richard D. Simmons (3)
Former President and Chief Operating Officer,
The Washington Post Company

George W. Wilson (2)
President, Concord (N.H.) Monitor

COMMITTEES OF THE BOARD OF DIRECTORS

(1) Audit Committee
(2) Compensation Committee
(3) Finance Committee
(4) Executive Committee

OTHER COMPANY OFFICERS

Patrick Butler
Vice President

Diana M. Daniels
Vice President, General Counsel, and Secretary

Ross F. Hamachek
Vice President – Planning and Development

Polly Povejsil Heath
Controller

Beverly R. Keil
Vice President

Guyon Knight
Vice President – Corporate Communications

Daniel Lynch
Treasurer

John B. Morse, Jr.
Vice President – Finance
Chief Financial Officer

Ralph S. Terkowitz
Vice President – Technology

John F. Hockenberry
Assistant Secretary

James W. Keller
Assistant Treasurer

NEWSPAPER DIVISION

The Washington Post — a morning daily and Sunday newspaper published in Washington, D.C. For the 12-month period ending September 30, 1997, The Post's unaudited estimated average circulation was 793,000 daily and 1,108,000 Sunday. The Post maintains 20 foreign, 5 national, and 13 metropolitan news bureaus.

The Washington Post National Weekly Edition — a tabloid publication of selected Post articles on politics and government, edited for a national audience, with a circulation of approximately 92,000.

The Washington Post Writers Group — a syndicator of 28 writers and cartoonists and material from Newsweek to newspapers and magazines throughout the world.

The Herald — a morning daily and Sunday newspaper published in Everett, Washington, 30 miles north of Seattle. The Herald's unaudited estimated average circulation for the 12-month period ending September 30, 1997, was 54,692 daily and 64,159 Sunday.

Gazette Newspapers, Inc. — a publisher of 25 community weekly newspapers in Montgomery, Frederick, Carroll, and Prince George's Counties, Maryland, with a combined controlled circulation of 390,000; one paid-circulation weekend newspaper with a circulation of 13,000 and a monthly business publication with a circulation of 30,000 in Montgomery County; a monthly technology publication with a circulation of 30,000 that covers technology in Maryland and is distributed throughout the Baltimore–Washington region; 11 military publications with a controlled circulation of 157,000; and operator of one of the largest commercial printing sites in the Washington area.

Robinson Terminal Warehouse — a newsprint handling and storage facility with operations in Alexandria and Springfield, Virginia.

Capitol Fiber Inc. — a handler and seller to recycling industries of old newspaper and other waste paper collected in the Washington/Baltimore area.

BROADCAST DIVISION

Post-Newsweek Stations — the owner and operator of six network-affiliated VHF television stations.

WDIV — the NBC affiliate in Detroit, Michigan, the 9th-largest broadcasting market in the United States, with 1,781,710 television households.

KPRC — the NBC affiliate in Houston, Texas, the 11th-largest broadcasting market in the United States, with 1,624,340 television households.

WPLG — the ABC affiliate in Miami, Florida, the 16th-largest broadcasting market in the United States, with 1,385,940 television households.

WKMG — the CBS affiliate in Orlando, Florida, the 22nd-largest broadcasting market in the United States, with 1,041,380 television households.

KSAT — the ABC affiliate in San Antonio, Texas, the 38th-largest broadcasting market in the United States, with 648,550 television households.

WJXT — the CBS affiliate in Jacksonville, Florida, the 54th-largest broadcasting market in the United States, with 502,370 television households.

MAGAZINE DIVISION

Newsweek — a weekly news magazine published in New York City, with a 1998 circulation rate base of 3.1 million and a 12-month average circulation for 1997 of more than 3.2 million. Newsweek maintains 9 U.S. and 13 overseas bureaus.

Newsweek International — a weekly English-language news magazine published in New York City and circulated throughout the world. For 1998, Newsweek International's combined circulation for its three editions is 752,000: Atlantic, 340,000; Pacific, 332,000 (including 92,000 for The Bulletin with Newsweek, Australia's largest news magazine); Latin America, 80,000.

Newsweek Japan (Newsweek Nihon Ban) — a Japanese-language newsweekly with a circulation of 140,000. It is produced with TBS-Britannica, which translates and publishes the magazine.

Newsweek Korea (Newsweek Hankuk Pan) — a Korean-language newsweekly with a circulation of 120,000. It is produced with Joong-ang Ilbo, a division of the Samsung Group, which translates and publishes the magazine.

Newsweek en Español — a Spanish-language newsweekly with a Latin American circulation of 43,000. It is produced with Ideas & Capital, based in Miami.

Itogi — a Russian-language newsweekly with a circulation of 85,000. Itogi, "summing up," is Russia's first independent newsweekly. It is produced by Seven Days Publishing, a subsidiary of Media Most.

Newsweek Productions — a television production company that produces "HealthWeek," broadcast nationally on PBS, and other television programming and media projects.

Post-Newsweek Business Information, Inc. (formerly TechNews, Inc.) — Headquartered in Vienna, Virginia, Post-Newsweek Business Information publishes trade magazines and organizes trade shows in three technology sectors: government computing, computer sales channels, and technology finance and investment.

CABLE DIVISION

Cable One, Inc. — Headquartered in Phoenix, Arizona, Cable One systems served over 637,000 subscribers in 17 midwestern, western, and southern states in 1997. States served and the number of basic subscribers in each as of December 31, 1997, were:

State	Subscribers	State	Subscribers
Arizona	64,946	Nebraska	12,851
Arkansas	7,907	New Mexico	24,919
California	104,321	North Dakota	25,696
Indiana	16,084	Ohio	16,949
Iowa	25,180	Oklahoma	75,128
Kansas	8,463	South Dakota	652
Minnesota	8,937	Tennessee	9,873
Mississippi	108,464	Texas	99,169
Missouri	27,797	Total	637,336

OTHER BUSINESSES

Kaplan Educational Centers — Headquartered in New York City, Kaplan is one of the nation's premier education companies. With 1,200 locations in the U.S. and abroad, Kaplan provides individuals with a full range of resources to achieve their educational and career goals. The company also offers K-12 after-school programs at its Score! Educational Centers; customized education services for schools, universities, and businesses; books, software, and online services; and career/recruiting services through The Lendman Group and Crimson & Brown Associates.

Digital Ink Co. — Headquartered in Arlington, Virginia, Digital Ink is the new-media and electronic-publishing subsidiary of The Washington Post Company. Its mission is to develop the company's editorial products and businesses on the World Wide Web. Digital Ink's flagship products include washingtonpost.com, The Washington Post's Web site (www.washingtonpost.com), Newsweek on America Online (Keyword: Newsweek), and Newsweek's forthcoming Web site (www.newsweek.com). washingtonpost.com offers the day's Washington Post, breaking news coverage, and extensive original news content, as well as a growing suite of cultural, community, and commerce services. Its Style Live service is the definitive insider's guide to the area's arts and entertainment scene. The washingtonpost.com Yellow Pages are a comprehensive, convenient online tool for accessing information on businesses in the Greater Washington area. Its Classified offerings — from autos and employment to real estate and rentals — are breaking new ground in the category and generating new revenue streams for the company.

LEGI-SLATE, Inc. — Headquartered in Washington, D.C., LEGI-SLATE® is the nation's leading commercial online information service for legislation, regulations, and related news and analysis covering the federal government and all 50 state governments.

Moffet, Larson & Johnson, Inc. (80 percent of common stock) — Headquartered in Arlington, Virginia, MLJ provides advanced network design support, software design tools, database services, and measurement hardware to the telecommunications industry. MLJ specializes in the design and development of advanced mobile, broadcast, and common carrier radio systems both domestically and internationally.

AFFILIATES

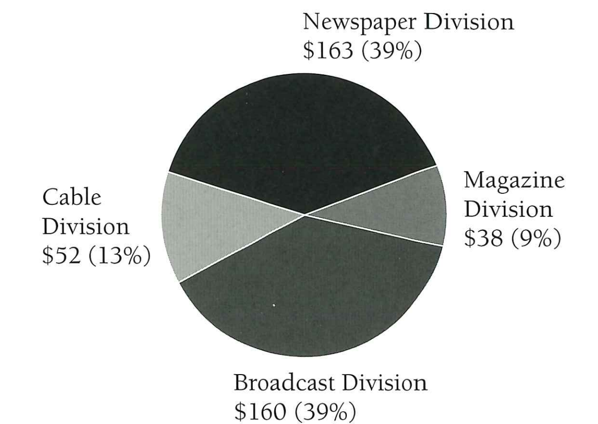
International Herald Tribune (50 percent of common stock) — a daily newspaper headquartered in Paris, France. In 1997 the International Herald Tribune had an average daily paid circulation of 194,500 in 184 countries.

Los Angeles Times-Washington Post News Service, Inc. (50 percent of common stock) — a supplier of news, features, commentary, and photos to 768 clients in 50 countries.

Bowater Mersey Paper Company Limited (49 percent of common stock) — a newsprint manufacturer in Liverpool, Nova Scotia.

THE WASHINGTON POST COMPANY 1997 OPERATING INCOME

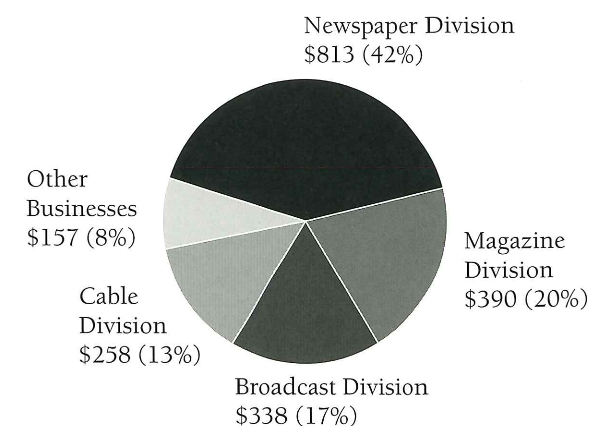
*($ in millions)**



*excluding losses from Other Businesses

THE WASHINGTON POST COMPANY 1997 OPERATING REVENUES

($ in millions)



STOCK TRADING

The Washington Post Company Class B common stock is traded on the New York Stock Exchange with the symbol WPO.

STOCK TRANSFER AGENT AND REGISTRAR

(General Shareholder Correspondence)
First Chicago Trust Company of New York
Post Office Box 2500
Jersey City, NJ 07303-2500

(Transfers by Overnight Courier)
First Chicago Trust Company of New York
14 Wall Street
Mail Suite 4680
New York, NY 10005

(Transfers by Certified Mail)
First Chicago Trust Company of New York
Post Office Box 2506
Jersey City, NJ 07303-2506

SHAREHOLDER INQUIRIES

Communications concerning transfer requirements, lost certificates, dividends, and changes of address should be directed to First Chicago Trust Company of New York Shareholder Relations Group. Inquiries may be made by telephone (201) 324-0498, or by fax (201) 222-4892 or 222-4872. Those who are hearing impaired may call the Telecommunications Device for the Deaf (TDD) at (201) 222-4955.

Internet — www.fctc.com
E-mail — fctc@em.fcnbd.com

FORM 10-K

The company's Form 10-K annual report to the Securities and Exchange Commission will be provided to shareholders upon written request to Treasurer, The Washington Post Company, 1150 15th Street, N.W., Washington, D.C. 20071.

ANNUAL MEETING

The annual meeting of stockholders will be held on Thursday, May 14, 1998, at 8:00 a.m., at The Washington Post Company, 9th floor, 1150 15th Street, N.W., Washington, D.C.

COMMON STOCK PRICES AND DIVIDENDS

The Class A common stock of the company is not traded publicly. The Class B common stock of the company is listed on the New York Stock Exchange. High and low sales prices during the last two years were:

	1997		1996	
Quarter	High	Low	High	Low
January – March	$361	$325	$300	$278
April – June	$413	$335	$324	$277
July – September	$448	$400	$350	$300
October – December	$491	$426	$352	$325

During 1997 the company repurchased 846,290 outstanding shares of Class B common stock in unsolicited transactions at prices no higher than the last sale price on the New York Stock Exchange. Of the total shares repurchased in 1997, 832,250 were included in trading volume on that year's consolidated tape 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 $1.20 per share in 1997. At February 12, 1998, there were 23 Class A and 1,281 Class B shareholders of record.

ELECTRONIC ADDRESSES

The Washington Post Company
www.washpostco.com

The Washington Post
www.washingtonpost.com

The Herald
www.heraldnet.com

Gazette Newspapers
www.gazette.net

Comprint Military Publications
www.dcmilitary.com

Post-Newsweek Stations
www.wdiv.com
www.kprc.com
www.wplg.com
www.wkmg.com
www.wjxt.com

Cable One
www.cableone.net

Kaplan Educational Centers
www.kaplan.com
America Online: Keyword: Kaplan

Score! Educational Centers
www.score.kaplan.com

Post-Newsweek Business Information
www.pnbi.com
www.fedimaging.com
www.fose.com
www.gcn.com
www.integrationmanagement.com
www.newsbytes.com
www.resellermgmt.com
www.techcapital.com
www.wtonline.com

HealthWeek
www.pbs.org/healthweek

Digital Ink Co.
www.washingtonpost.com

Newsweek
America Online: Keyword: Newsweek

PhotoStore
www.photostore.com

Legi-Slate
www.legislate.com

State Capital Strategies
www.scsalert.com

Moffet, Larson & Johnson
www.mlj.com

International Herald Tribune
www.iht.com

Los Angeles Times-Washington Post News Service
www.newsservice.com

Design: The Invisions Group; Photography: Rhoda Baer; Printing: Westland Printers; Printed on recycled paper.

THE WASHINGTON POST COMPANY
1150 15th Street, N.W.
Washington, D.C. 20071
(202) 334-6000