Financial Contents

This analysis should be read in conjunction with the Consolidated Financial Statements and the notes thereto.

RESULTS OF OPERATIONS — 2001 COMPARED TO 2000

Net income for 2001 was $229.6 million, compared with net income of $136.5 million for 2000. Diluted earnings per share totaled $24.06 in 2001, compared with $14.32 in 2000. The Company's 2001 results include after-tax gains of $196.5 million, or $20.69 per share, from the sale and exchange of certain cable systems in the first quarter; a non-cash goodwill and other intangibles impairment charge recorded by the Company's BrassRing affiliate (after-tax impact of $19.9 million, or $2.10 per share); and losses from the write-down of a non-operating parcel of land and certain cost method investments to their estimated fair value (after-tax impact of $18.3 million, or $1.93 per share). Excluding these non-operating and principally non-cash transactions in 2001, net income totaled $71.3 million, or $7.40 per share. The decline in 2001 operating earnings is largely due to a significant decline in advertising revenue, increased depreciation and amortization expenses, and higher stock-based compensation expense accruals at the education division. These factors were offset in part by increased operating income contributed by Quest Education (acquired in August 2000), higher profits from Kaplan's test preparation and professional training businesses, reduced operating losses at Kaplan's new business development activities, and an increased pension credit. In addition, 2000 earnings included a fourth quarter after-tax charge of $16.5 million, or $1.74 per share, arising from an early retirement program at The Washington Post.

Revenue for 2001 totaled $2,416.7 million, or flat compared to revenue of $2,412.2 million in 2000. Advertising revenue decreased 13 percent in 2001, and circulation and subscriber revenue increased 10 percent. Education revenue increased 40 percent in 2001, and other revenue decreased 10 percent. The large decrease in advertising revenue is due to declines at the newspaper, television, and magazine divisions. The increase in circulation and subscriber revenue is due to a 20 percent increase in Newsweek domestic circulation revenue and a 10 percent increase in subscriber revenue at the cable division. Revenue growth at Kaplan, Inc. (about two-thirds of which was from acquisitions) accounted for the increase in education revenue.

Operating costs and expenses for the year increased 6 percent to $2,196.7 million, from $2,072.3 million in 2000. The cost and expense increase is primarily attributable to companies acquired in 2001 and 2000, higher depreciation and amortization expense, and higher stock-based compensation expense accruals at the education division, offset by a higher pension credit and lower expenses at the newspaper publishing, television broadcasting, and magazine publishing segments due to extensive cost control initiatives.

Operating income decreased 35 percent to $219.9 million in 2001, from $339.9 million in 2000.

The Company's 2001 operating income includes $76.9 million of net pension credits, compared to $65.3 million in 2000. These amounts exclude $3.3 million and $29.0 million in charges related to early retirement programs in 2001 and 2000, respectively.

DIVISION RESULTS

Newspaper Publishing Division. Newspaper publishing division revenue in 2001 decreased 8 percent to $842.7 million, from $918.2 million in 2000. Division operating income for 2001 totaled $84.7 million, a decrease of 26 percent from operating income of $114.4 million in 2000.

The decrease in operating income for 2001 is due to a significant decline in print advertising, offset in part by a higher pension credit, higher online advertising revenue, lower newsprint cost, cost control initiatives employed throughout the division, and the $27.5 million charge recorded in the fourth quarter of 2000 in connection with an early retirement program completed at The Post.

Print advertising revenue at The Washington Post newspaper decreased 14 percent to $574.3 million, from $664.1 million in 2000. Volume declines of 41 percent in classified recruitment advertising for 2001 caused classified recruitment advertising revenue declines of 37 percent. The economic environment surrounding most of the other advertising categories at The Post (i.e., retail, general, preprints) was also sluggish for fiscal 2001 compared to the prior year. In these categories, rate increases only partially offset volume declines ranging from 3 percent to 28 percent during 2001. The soft advertising climate worsened late in the third quarter of 2001 as the Company experienced further reductions in advertising revenue and volumes following the events of September 11.

Daily and Sunday circulation at The Post declined 0.5 percent and 0.7 percent, respectively, in 2001. For the year ended December 30, 2001, average daily circulation at The Post totaled 773,000, and average Sunday circulation totaled 1,067,000. Newsprint expense at the newspaper publishing division decreased 6 percent for 2001 due to reduced consumption, offset by overall higher prices during the year.

Revenues generated by the Company's online publishing activities, primarily washingtonpost.com, increased 12 percent to $30.4 million during the year.

Television Broadcasting Division. Revenue for the television broadcasting division totaled $314.0 million for 2001, a 14 percent decline from 2000. Excluding approximately $42 million in political and Olympics advertising in 2000, revenue in 2001 decreased 3 percent due to a general softness in advertising (particularly national advertising) and several days of commercial-free coverage following the events of September 11.

Competitive market position remained strong for the Company's television stations. WJXT in Jacksonville and WDIV in Detroit were ranked number one in the latest ratings period, sign-on to sign-off, in their respective markets; KSAT in San Antonio ranked second; WPLG was tied for second among English-language stations in the Miami market; and KPRC in Houston and WKMG in Orlando ranked third in their respective markets.

Operating income for 2001 declined 26 percent to $131.8 million, from $177.4 million in 2000 due to revenue declines discussed above. Operating margin at the broadcast division was 42 percent for 2001 and 49 percent for 2000. Excluding amortization of goodwill and intangibles, operating margin was 46 percent for 2001 and 53 percent for 2000.

Magazine Publishing Division. Revenue for the magazine publishing division totaled $380.2 million for 2001, a 9 percent decrease from 2000. Operating income totaled $25.3 million for 2001, a decrease of 48 percent from 2000. The decline in 2001 operating income resulted from a 24 percent decrease in advertising revenue at Newsweek due to fewer advertising pages at both the domestic and international editions. The decline was offset in part by increased newsstand sales on regular and special editions related to the September 11 terrorist attacks, a higher pension credit, and reduced operating expenses.

Operating margin at the magazine publishing division decreased to 7 percent for 2001, compared to 12 percent in 2000.

Cable Television Division. Cable division revenue of $386.0 million for 2001 represents an 8 percent increase over 2000. The 2001 revenue increase is due to rapid growth in the division's digital and cable modem service revenues, along with an increased number of basic subscribers from the cable exchange transactions completed in the first quarter of 2001. Cable division operating income declined 51 percent in 2001 to $32.2 million, due mostly to a $25.3 million increase in depreciation and amortization expense compared to 2000.

Cable division cash flow (operating income excluding depreciation and amortization expense) totaled $135.3 million for 2001, a decrease of 6 percent from 2000. The decline in cable division cash flow is mostly due to higher programming expense, costs associated with the launch of digital services, and comparatively lower cash flow margin subscribers acquired in the cable system exchanges completed in the first quarter of 2001.

The increase in depreciation expense is due to capital spending, which is enabling the Company to offer digital cable services to its subscribers. The cable division began its rollout plan for these services in the third quarter of 2000. At December 31, 2001, the cable division had approximately 239,500 digital cable subscribers, representing a 35 percent penetration of the subscriber base in the markets where digital services are offered. Digital services are currently offered in markets serving 91 percent of the cable division's subscriber base. The rollout plan for the new digital cable services includes an offer for the cable division's customers to obtain these services free for one year. At the end of December 2001, the cable division had about 31,000 "paying" digital subscribers. Of these, 24,000 are from the new Idaho subscribers and were not offered one-year free digital service. Most of the benefits from these new services are expected to show beginning in 2002 and thereafter.

At December 31, 2001, the cable division had 752,700 basic subscribers, compared to 735,400 at the end of December 2000. The increase in basic subscribers is largely due to a net gain in subscribers arising from cable system exchanges and sale transactions completed in the first quarter of 2001. At December 31, 2001, the cable division had 46,400 CableONE.net service subscribers, compared to 18,200 at the end of 2000, with the increase due to a large increase in the Company's cable modem deployment (offered to 89 percent of homes passed at the end of December 2001) and take-up rates. Of these subscribers, 32,900 and 3,600 were cable modem service subscribers at the end of 2001 and 2000, respectively, with the remainder being dial-up subscribers.

Education Division. Education revenue in 2001 increased 40 percent to $493.7 million, from $353.8 million in 2000; excluding Quest Education (acquired in August 2000), education division revenue increased 15 percent to $342.3 million for 2001, compared to $296.9 million for 2000.

Due to the amortization of goodwill and the accounting for stock options at Kaplan, which unlike most companies includes a charge related to options held by management, Kaplan reported a loss of $28.3 million in 2001, compared with a loss of $41.8 million in 2000. Excluding these charges, Kaplan's operating earnings were $12.7 million in 2001, compared to a loss of $25.8 million in 2000. A summary of operating results for 2001 compared to 2000 is as follows:

(in thousands)	2001	2000	% Change
Revenue			
Test prep and professional training	$ 271,931	$ 244,189	11%
Quest post-secondary education	151,400	56,908	166%
New business development activities	70,350	52,724	33%
	$ 493,681	$ 353,821	40%
Operating income (loss)			
Test prep and professional training	$ 36,391	$ 30,315	20%
Quest post-secondary education	19,858	8,359	138%
New business development activities	(24,136)	(55,313)	56%
Kaplan corporate overhead	(19,436)	(9,123)	(113%)
Stock-based incentive compensation	(25,302)	(6,000)	(322%)
Goodwill and other intangible amortization	(15,712)	(10,084)	(56%)
	$ (28,337)	$ (41,846)	32%

The improvement in test prep and professional training results for 2001 is due mostly to higher enrollments and, to a lesser extent, higher rates at Kaplan's traditional test prep business (particularly the GMAT and the LSAT prep courses) and higher revenues and profits from Kaplan's CFA and real estate exam preparation services. Quest's results increased as 2001 includes a full year versus five months of activity in 2000.

New business development activities represent the results of Score! and The Kaplan Colleges (various distance-learning businesses). The improvement in new business development revenue is primarily attributable to Score!, with both increased enrollment from new learning centers opened (147 centers at the end of 2001, versus 142 centers at the end of 2000) and rate increases implemented early in 2001. In early 2002, Kaplan put all of its post-secondary schools (Quest and The Kaplan Colleges) under a single higher education division.

Corporate overhead represents unallocated expenses of Kaplan, Inc.'s corporate office, including expenses associated with the design and development of educational software that, if successfully completed, will benefit all of Kaplan's business units. The increase in this expense category in 2001 is principally due to increased spending for these development initiatives.

Kaplan records accrued charges for stock-based incentive compensation arising from a stock option plan established for certain members of Kaplan's management (the general provisions of which are discussed in Note G to the Consolidated Financial Statements). Under the stock-based incentive plan, the amount of compensation expense varies directly with the estimated fair value of Kaplan's common stock and the number of options outstanding. The increase in stock-based incentive compensation for 2001 is due to an increase in Kaplan's estimated value.

Equity in Losses of Affiliates. The Company's equity in losses of affiliates for 2001 was $68.7 million, compared to losses of $36.5 million for 2000. The Company's affiliate investments consist of a 39.7 percent common equity interest in BrassRing LLC, a 50 percent interest in the International Herald Tribune, and a 49 percent interest in Bowater Mersey Paper Company Limited.

BrassRing accounted for approximately $75.1 million of the 2001 equity in losses of affiliates, compared to $37.0 million in 2000. The increase in 2001 equity in affiliate losses from BrassRing is largely due to a one-time non-cash goodwill and other intangibles impairment charge that BrassRing recorded in 2001 primarily to reduce the carrying value of its career fair business. As a substantial portion of BrassRing's losses arose from goodwill and intangible amortization expense for both 2001 and 2000, the $75.1 million and $37.0 million of equity in affiliate losses recorded by the Company in 2001 and 2000, respectively, did not require significant funding by the Company.

In December 2001, BrassRing, Inc. was restructured, and the Company's interest in BrassRing, Inc. was converted into an interest in the newly-formed BrassRing LLC. At December 30, 2001, the Company held a 39.7 percent interest in the BrassRing LLC common equity and a $14.9 million Subordinated Convertible Promissory Note ("Note") from BrassRing LLC. In February 2002, the Note was converted into Preferred Units, which are convertible at the Company's option to BrassRing LLC common equity. Assuming the conversion of the Preferred Units, the Company's common equity interest in BrassRing LLC would be approximately 49.5 percent.

Non-operating Items. The Company recorded other non-operating income of $283.7 million in 2001, compared to $19.8 million in non-operating expense for 2000. The 2001 non-operating income mostly comprises gains arising from the sale and exchange of certain cable systems completed in January and March of 2001. Offsetting these gains were losses from the write-downs of a non-operating parcel of land and certain investments to their estimated fair value. For income tax purposes, substantial components of the cable system sale and exchange transactions qualify as like-kind exchanges, and therefore, a large portion of these transactions does not result in a current tax liability.

The Company incurred net interest expense of $47.5 million in 2001, compared to $53.8 million in 2000. At December 30, 2001, the Company had $933.1 million in borrowings outstanding at an average interest rate of 3.5 percent.

Income Taxes. The effective rate was 40.7 percent for 2001, compared to 40.6 percent for 2000. Excluding the effect of the cable gain transactions, the Company's effective tax rate approximated 50.2 percent for 2001, with the increase in rate due mostly to the decline in pre-tax income.

RESULTS OF OPERATIONS — 2000 COMPARED TO 1999

Net income for 2000 was $136.5 million, compared with net income of $225.8 million for 1999. Diluted earnings per share totaled $14.32 in 2000, compared with $22.30 in 1999, with fewer average shares outstanding in 2000. The decline in 2000 net income and diluted earnings per share was primarily caused by increased costs associated with the development of new businesses (impact of $28.9 million, or $3.47 per diluted share), a charge arising from an early retirement program at The Washington Post newspaper (impact of $16.5 million, or $1.74 per diluted share), higher interest expense (impact of $16.6 million, or $1.85 per diluted share), and a reduced pension credit (impact of $11.7 million, or $0.92 per diluted share). In addition, 1999 net income included gains from the sale of marketable equity securities, which did not recur in 2000 (impact of $18.6 million, or $1.81 per share). These factors were offset in part by improved operating results at The Washington Post newspaper and the television broadcasting division.

Revenue for 2000 totaled $2,412.2 million, an increase of 9 percent from $2,215.6 million in 1999. Advertising revenue increased 5 percent in 2000, and circulation and subscriber revenue increased 4 percent. Education revenue increased 47 percent in 2000, and other revenue decreased 6 percent. Increases in advertising revenue at the newspaper and television broadcasting divisions accounted for most of the increase in advertising revenue. The increase in circulation and subscriber revenue is primarily due to a 6 percent increase in subscriber revenue at the cable division. Revenue growth at Kaplan, Inc. (about two-thirds of which was from acquisitions) accounted for the increase in education revenue. The decrease in other revenue is primarily due to the disposition of Legi-Slate in June of 1999.

Operating costs and expenses for the year increased 13 percent to $2,072.3 million, from $1,827.1 million in 1999. The cost and expense increase is primarily attributable to the charge arising from the early retirement program at The Post, companies acquired in 2000 and 1999, greater spending for new business development at Kaplan, Inc. and washingtonpost.com, higher depreciation and amortization expense, and a reduced pension credit.

Operating income decreased 13 percent to $339.9 million in 2000, from $388.5 million in 1999.

The Company's 2000 operating income includes $65.3 million of net pension credits, compared to $84.4 million in 1999. These amounts exclude $29.0 million and $2.7 million in charges related to early retirement programs in 2000 and 1999, respectively.

Division Results

Newspaper Publishing Division. Newspaper division revenue in 2000 increased 5 percent to $918.2 million, from $875.1 million in 1999. Advertising revenue at the newspaper division rose 5 percent over the previous year; circulation revenue remained essentially unchanged.

Total print advertising revenue grew 4 percent in 2000 at The Washington Post newspaper, principally as a result of higher advertising rates. At The Post, higher advertising rates, offset in part by advertising volume declines, generated a 4 percent and 2 percent increase in full run retail and classified print advertising revenue, respectively. Other print advertising revenue (including general and preprint) at The Post increased 5 percent due mainly to increased general advertising volume and higher rates.

Newspaper division operating margin in 2000 decreased to 12 percent, from 18 percent in 1999. Excluding the $27.5 million pre-tax charge for the early retirement program completed at The Washington Post, the 2000 newspaper division operating margin totaled 15 percent. The decline in operating margin resulted mostly from increased spending on marketing and sales initiatives at washingtonpost.com, an 8 percent increase in newsprint expense, and a reduced pension credit, offset in part by higher advertising revenues.

Daily circulation remained unchanged at The Washington Post; Sunday circulation declined 1 percent.

Revenue generated by the Company's online publishing activities, primarily washingtonpost.com, totaled $27.1 million for 2000, versus $15.6 million for 1999.

Television Broadcasting Division. Revenue at the broadcast division increased 7 percent to $364.8 million, from $341.8 million in 1999. Political and Olympics advertising in the third and fourth quarters of 2000 totaled approximately $42 million, accounting for the increase in 2000 revenue.

Competitive market position remained strong for the Company's television stations. WJXT in Jacksonville, KSAT in San Antonio, and WDIV in Detroit were all ranked number one in the latest ratings period, sign-on to sign-off, in their respective markets; WPLG was tied for first among English-language stations in the Miami market; and KPRC in Houston and WKMG in Orlando ranked third in their respective markets, but continued to make good progress in improving market share.

Operating margin at the broadcast division was 49 percent for both 2000 and 1999. Excluding amortization of goodwill and intangibles, operating margin was 53 percent for 2000 and 1999.

Magazine Publishing Division. Magazine division revenue was $416.4 million for 2000, up 4 percent over 1999 revenue of $401.1 million. Operating income for the magazine division totaled $49.1 million for 2000, a decrease of 21 percent from operating income of $62.1 million in 1999. The 21 percent decrease in operating income occurred primarily at Newsweek, where reduced pension credits and higher subscription acquisition costs at the domestic edition outpaced revenue and operating income improvements at the international edition.

Operating margin at the magazine publishing division decreased to 12 percent for 2000, compared to 15 percent in 1999.

Cable Television Division. Revenue at the cable division rose 7 percent to $358.9 million in 2000, compared to $336.3 million in 1999. Basic, tier, and advertising revenue categories each showed improvement over 1999. The increase in subscriber revenue is attributable to higher rates. The number of basic subscribers at the end of 2000 totaled 735,400, a 1 percent decline from 739,850 basic subscribers at the end of 1999.

Cable operating cash flow (operating income excluding depreciation and amortization expense) increased 2 percent to $143.7 million, from $140.2 million in 1999; operating cash flow margins totaled 40 percent and 42 percent, for 2000 and 1999, respectively.

Operating income at the cable division for 2000 and 1999 totaled $66.0 million and $67.1 million, respectively. The decline in operating income is primarily attributable to an increase in programming expense, additional costs associated with the launch of new services, and higher depreciation expense, offset in part by higher revenue.

The increase in depreciation expense is due to capital spending for continuing system rebuilds and upgrades, which will enable the cable division to offer new digital and high-speed cable modem services to its subscribers. The cable division began its rollout plan for these services in the second and third quarters of 2000. The rollout plan for the new digital cable services includes an offer to provide services free for one year.

Education Division. Excluding the operating results of the career fair and HireSystems businesses from 1999 (these businesses were contributed to BrassRing at the end of the third quarter of 1999), 2000 education division operating results compared with 1999 are as follows:

(in thousands)	2000	1999	% Change
Revenue			
Test prep and professional training	$ 244,189	$ 209,964	16%
Quest post-secondary education	56,908	—	n/a
New business development activities	52,724	30,175	75%
	$ 353,821	$ 240,139	47%
Operating income (loss)			
Test prep and professional training	$ 30,315	$ 25,733	18%
Quest post-secondary education	8,359	—	n/a
New business development activities	(55,313)	(20,128)	(175%)
Kaplan corporate overhead	(9,123)	(7,153)	(28%)
Stock-based incentive compensation	(6,000)	(7,250)	17%
Goodwill and other intangible amortization	(10,084)	(6,861)	(47%)
	$ (41,846)	$ (15,659)	(167%)

Approximately 50 percent of the 2000 increase in test preparation and professional training revenue is attributable to acquisitions; the remaining increase is due to higher enrollments and tuition increases. Post-secondary education represents the results of Quest Education from the date of its acquisition in August 2000. New business development activities represent the results of Score!, eScore.com, and The Kaplan Colleges. The increase in new business development revenue is attributable mostly to new learning centers opened by Score!, which operated 142 centers at the end of 2000, versus 100 centers at the end of 1999. The increase in new business development losses is attributable to start-up period spending at eScore.com and kaplancollege.com (part of The Kaplan Colleges) and to losses associated with the early operating periods of new Score! centers.

Corporate overhead represents unallocated expenses of Kaplan, Inc.'s corporate office.

Stock-based incentive compensation represents expense arising from a stock option plan established for certain members of Kaplan's management (the general provisions of which are discussed in Note G to the Consolidated Financial Statements). Under this plan, the amount of stock-based incentive compensation expense varies directly with the estimated fair value of Kaplan's common stock.

Including the operating results of the career fair and HireSystems businesses for the first nine months of 1999 (these businesses were contributed to BrassRing at the end of the third quarter of 1999), education division revenue increased 37 percent to $353.8 million for 2000, compared to $257.5 million for 1999. Operating losses increased 10 percent in 2000 to $41.8 million, from $38.0 million in 1999.

Other Businesses and Corporate Office. For 2000, other businesses and corporate office includes the expenses of the Company's corporate office. For 1999, other businesses and corporate office includes the expenses associated with the corporate office and the operating results of Legi-Slate through June 30, 1999, the date of its sale.

Operating losses for 2000 totaled $25.2 million, representing a 7 percent improvement over 1999. The reduction in 2000 losses is primarily attributable to the absence of losses generated by Legi-Slate and reduced spending at the Company's corporate office.

Equity in Losses of Affiliates. The Company's equity in losses of affiliates for 2000 was $36.5 million, compared to losses of $8.8 million for 1999. The Company's affiliate investments consisted of a 42 percent effective interest in BrassRing, Inc. (formed in late September 1999), a 50 percent interest in the International Herald Tribune, and a 49 percent interest in Bowater Mersey Paper Company Limited. The decline in 2000 affiliate results is attributable to BrassRing, Inc., which was in the integration and marketing phase of its operations.

BrassRing accounted for approximately $37.0 million of the Company's 2000 equity in affiliate losses. A substantial portion of BrassRing's losses arises from goodwill and intangible amortization expense. Accordingly, the $37.0 million of equity in affiliate losses recorded by the Company in 2000 did not require significant funding by the Company.

Non-operating Items. In 2000, the Company incurred net interest expense of $53.8 million, compared to $25.7 million of net interest expense in 1999. The 2000 increase in net interest expense is attributable to borrowings executed by the Company during 1999 and 2000 to fund capital improvements, acquisition activities, and share repurchases.

The Company recorded other non-operating expense of $19.8 million in 2000, compared to $21.4 million in non-operating income for 1999. The 1999 non-operating income mostly comprised non-recurring gains arising from the sale of marketable securities (mostly various Internet-related securities). The 2000 non-operating expense resulted mostly from the write-downs of certain of the Company's e-commerce focused cost method investments.

Income Taxes. The effective tax rate in 2000 was 40.6 percent, compared to 39.9 percent in 1999. The increase in the effective tax rate is principally due to the non-recognition of benefits from state net operating loss carryforwards generated by certain of the Company's new business start-up activities and an increase in goodwill amortization expense that is not deductible for income tax purposes.

FINANCIAL CONDITION: CAPITAL RESOURCES AND LIQUIDITY

Acquisitions, Exchanges, and Dispositions. During 2001, the Company spent approximately $104.4 million on business acquisitions and exchanges, which principally included the purchase of Southern Maryland Newspapers, a division of Chesapeake Publishing Corporation, and amounts paid as part of a cable system exchange with AT&T Broadband. During 2001, the Company also acquired a provider of CFA exam preparation services and a company that provides pre-certification training for real estate, insurance, and securities professionals.

Southern Maryland Newspapers publishes the Maryland Independent in Charles County, Maryland; The Enterprise in St. Mary's County, Maryland; and The Calvert Recorder in Calvert County, Maryland, with a combined total paid circulation of approximately 50,000.

The cable system exchange with AT&T Broadband was completed on March 1, 2001 and consisted of the exchange by the Company of its cable systems in Modesto and Santa Rosa, California, and approximately $42.0 million to AT&T Broadband for cable systems serving approximately 155,000 subscribers principally located in Idaho. In a related transaction on January 11, 2001, the Company completed the sale of a cable system serving about 15,000 subscribers in Greenwood, Indiana, for $61.9 million. The gain resulting from the cable system sale and exchange transactions increased net income by $196.5 million, or $20.69 per share. For income tax purposes, substantial components of the cable system sale and exchange transactions qualify as like-kind exchanges, and therefore, a large portion of these transactions does not result in a current tax liability.

During 2000, the Company spent $212.3 million on business acquisitions. These acquisitions included $177.7 million for Quest Education Corporation, a provider of post-secondary education; $16.2 million for two cable systems serving 8,500 subscribers; and $18.4 million for various other small businesses (principally consisting of educational services companies). There were no significant business dispositions in 2000.

During 1999, the Company acquired various businesses for about $90.5 million, which included, among others, $18.3 million for cable systems serving approximately 10,300 subscribers and $61.8 million for various educational and training companies to expand Kaplan, Inc.'s business offerings.

The Company sold the assets of Legi-Slate, Inc. in June 1999; no significant gain or loss resulted.

Capital Expenditures. During 2001, the Company's capital expenditures totaled $224.2 million, more than half of which related to the Company's rollout of digital and cable modem services. The Company's capital expenditures for 2001, 2000, and 1999 are itemized by operating division in Note L to the Consolidated Financial Statements.

The Company estimates that in 2002 its capital expenditures will decrease to approximately $130 million, as the Company's rollout of digital and cable modem service was nearing completion by the end of 2001.

Investments in Marketable Equity Securities. At December 30, 2001, the fair value of the Company's investments in marketable equity securities was $235.4 million, which includes $219.0 million in Berkshire Hathaway Inc. Class A and B common stock and $16.4 million of various common stocks of publicly traded companies with e-commerce business concentrations.

At December 30, 2001, the gross unrealized gain related to the Company's Berkshire Hathaway Inc. stock investment totaled $34.1 million; the gross unrealized gain on this investment was $25.3 million at December 31, 2000. The Company presently intends to hold the Berkshire Hathaway stock long term.

Cost Method Investments. At December 30, 2001 and December 31, 2000, the Company held minority investments in various non-public companies. The companies represented by these investments have products or services that in most cases have potential strategic relevance to the Company's operating units. The Company records its investment in these companies at the lower of cost or estimated fair value. During 2001 and 2000, the Company invested $11.7 million and $42.5 million, respectively, in various cost method investees. At December 30, 2001 and December 31, 2000, the carrying value of the Company's cost method investments totaled $29.6 million and $48.6 million, respectively.

Common Stock Repurchases and Dividend Rate. During 2001, 2000, and 1999, the Company repurchased 714, 200, and 744,095 shares, respectively, of its Class B common stock at a cost of $0.4 million, $0.1 million, and $425.9 million. The annual dividend rate for 2002 was authorized to remain at $5.60 per share, consistent with 2001, as compared to $5.40 per share in 2000, and $5.20 per share in 1999.

Liquidity. At December 30, 2001, the Company had $31.5 million in cash and cash equivalents.

At December 30, 2001, the Company had $533.9 million in commercial paper borrowings outstanding at an average interest rate of 2.0 percent with various maturities throughout the first and second quarters of 2002. In addition, the Company had outstanding $398.1 million of 5.5 percent, 10-year unsecured notes due February 2009. These notes require semi-annual interest payments of $11.0 million payable on February 15 and August 15. The Company also had $1.0 million in other debt.

The Company's five-year $500 million revolving credit facility, which expires in March 2003, and one-year $250 million revolving credit facility, which expires in September 2002, support the issuance of the Company's short-term commercial paper and provide for general corporate purposes. The Company intends to extend or replace the revolving credit facility agreements prior to their expiration.

At December 30, 2001, the Company has classified $483.9 million of its commercial paper borrowings as "Long-Term Debt" in its Consolidated Balance Sheets as the Company has the ability and intent to finance such borrowings on a long-term basis under its credit agreements.

During 2001, the Company's borrowings, net of repayments, increased by $9.8 million. The net increase is principally attributable to significant capital expenditures in 2001, mostly offset by cash generated by operations.

The Company expects to fund its estimated capital needs primarily through internally generated funds and, to a lesser extent, commercial paper borrowings. In management's opinion, the Company will have ample liquidity to meet its various cash needs in 2002.

CRITICAL ACCOUNTING POLICIES AND 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. In preparing these financial statements, management has made their best estimates and judgments of certain amounts included in the financial statements. Actual results will inevitably differ to some extent from these estimates.

The following are accounting policies that management believes are the most important to the Company's portrayal of the Company's financial condition and results and require management's most difficult, subjective, or complex judgments.

Revenue Recognition and Trade Accounts Receivable, Less Estimated Returns, Doubtful Accounts, and Allowances. Revenue from media advertising is recognized, net of agency commissions, when the underlying advertisement is published or broadcast. Revenues from newspaper and magazine subscriptions are recognized upon delivery. Revenues from newspaper retail sales are recognized upon delivery, and revenues from magazine retail sales are recognized on the later of delivery or the cover date, with adequate provision made for anticipated sales returns. The Company bases its estimates for sales returns on historical experience and has not experienced significant fluctuations between estimated and actual return activity. Cable subscriber revenue is recognized monthly as services are delivered. Education revenue is recognized ratably over the period during which educational services are delivered. As Kaplan's businesses and related course offerings have expanded, including distance-learning businesses, the complexity and significance of management estimates have increased.

Accounts receivable have been reduced by an allowance for amounts that may be uncollectible in the future. This estimated allowance is based primarily on the aging category, historical trends, and management's evaluation of the financial condition of the customer. Accounts receivable have also been reduced by an estimate of advertising rate adjustments and discounts, based on estimates of advertising volumes for contract customers that are eligible for advertising rate adjustments and discounts.

Pension Costs. Excluding expenses related to early retirement programs, the company's net pension credit was $76.9 million, $65.3 million, and $84.4 million for 2001, 2000, and 1999, respectively. The Company's pension benefit costs are actuarially determined and are impacted significantly by the Company's assumptions related to future events, including the discount rate, expected return on plan assets, and rate of compensation increases. At December 30, 2001, the Company modified certain assumptions surrounding the Company's pension plans. Specifically, the Company reduced its assumptions on discount rate from 7.5 percent to 7.0 percent and expected return on plan assets from 9.0 percent to 7.5 percent. These assumption changes are incorporated into the computation of the total benefit obligation at December 30, 2001, and the combined effect on the 2002 pension credit amount is an estimated reduction of $20 million to $25 million. However, due to higher than expected investment returns in 2001, the pension credit for 2002 is expected to be down by $10 million to $15 million compared to 2001. For each one-half percent increase or decrease to the Company's assumed discount rate or expected return on plan assets, the pension credit increases or decreases by approximately $5 million. Note H to the Consolidated Financial Statements provides additional details surrounding pension costs and related assumptions.

Cost Method Investments. The Company uses the cost method of accounting for its minority investments in non-public companies where it does not have significant influence over the operations and management of the investee. Most of the companies represented by these cost method investments have concentrations in Internet-related business activities. Investments are recorded at the lower of cost or fair value as estimated by management. Fair value estimates are based on a review of the investees' product development activities, historical financial results, and projected discounted cash flows. These estimates are highly judgmental, given the inherent lack of marketability of investments in private companies. The Company has recorded write-down charges on cost method investments of $32.4 million, $23.1 million, and $13.6 million in 2001, 2000, and 1999, respectively. Note C to the Consolidated Financial Statements provides additional details surrounding cost method investments.

Kaplan Stock Option Plan. The Company maintains a stock option plan at its Kaplan subsidiary that provides for the issuance of stock options representing 10.6 percent of Kaplan, Inc. common stock to certain members of Kaplan's management. Under the provisions of this plan, options are issued with an exercise price equal to the estimated fair value of Kaplan's common stock. Options vest ratably over five years from issuance, and upon exercise, an option holder has the right to require the Company to repurchase the Kaplan stock at the stock's then fair value. The fair value of Kaplan's common stock is determined by the compensation committee of the Company's Board of Directors, with input from management and an independent outside valuation firm. The compensation committee has historically modified the fair value of Kaplan stock on an annual basis, and management expects this practice to continue. At December 30, 2001, options representing 10.0 percent of Kaplan's common stock were issued and outstanding. For 2001, 2000, and 1999, the Company recorded expense of $25,302,000, $6,000,000, and $7,250,000, respectively, related to this plan. In 2001, payouts from option exercises totaled $2.1 million. At December 30, 2001, the Company's Kaplan stock-based compensation accrual balance totaled $41,400,000. Management expects Kaplan's profits and related fair value to increase significantly again in 2002, with a corresponding increase in the stock-based compensation expense for 2002 as compared to 2001.

Other. The Company does not have any off-balance sheet arrangements or financing activities with special-purpose entities (SPEs). Transactions with related parties, as discussed in Note C to the Consolidated Financial Statements, are in the ordinary course of business and are conducted on an arms-length basis.

OTHER

New Accounting Pronouncements. In July 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets." SFAS No. 142 supersedes APB 17 and provides, among other provisions, that (1) goodwill and indefinite lived intangible assets will no longer be amortized, (2) goodwill will be tested for impairment at least annually at the reporting unit level, (3) intangible assets deemed to have an indefinite life will be tested for impairment at least annually, and (4) the amortization period of intangible assets with finite lives will no longer be limited to 40 years. The Company adopted SFAS No. 142 effective in fiscal 2002 and estimates that the application of its requirements will result in the cessation of most of the periodic charges presently being recorded from the amortization of goodwill and other intangible assets.

Forward-looking Statements. This annual report contains certain forward-looking statements that are based largely on the Company's current expectations. Forward-looking statements are subject to certain risks and uncertainties that could cause actual results and achievements to differ materially from those expressed in the forward-looking statements. For more information about these forward-looking statements and related risks, please refer to the section titled "Forward-looking Statements" in Part 1 of the Company's Annual Report on Form 10-K.

CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share amounts)	Fiscal year ended December 30, 2001	December 31, 2000	January 2, 2000
Operating Revenues			
Advertising	$ 1,209,327	$ 1,396,583	$ 1,330,560
Circulation and subscriber	658,620	601,258	579,693
Education	493,271	352,753	240,075
Other	55,455	61,556	65,243
	2,416,673	2,412,150	2,215,571
Operating Costs and Expenses			
Operating	1,392,750	1,308,063	1,189,734
Selling, general, and administrative	586,758	583,623	474,586
Depreciation of property, plant, and equipment	138,300	117,948	104,235
Amortization of goodwill and other intangibles	78,933	62,634	58,563
	2,196,741	2,072,268	1,827,118
Income from Operations	219,932	339,882	388,453
Equity in losses of affiliates	(68,659)	(36,466)	(8,814)
Interest income	2,167	967	1,097
Interest expense	(49,640)	(54,731)	(26,786)
Other income (expense), net	283,739	(19,782)	21,435
Income Before Income Taxes	387,539	229,870	375,385
Provision for Income Taxes	157,900	93,400	149,600
Net Income	229,639	136,470	225,785
Redeemable Preferred Stock Dividends	(1,052)	(1,026)	(950)
Net Income Available for Common Shares	$ 228,587	$ 135,444	$ 224,835
Basic Earnings per Common Share	$ 24.10	$ 14.34	$ 22.35
Diluted Earnings per Common Share	$ 24.06	$ 14.32	$ 22.30

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)	Fiscal year ended December 30, 2001	December 31, 2000	January 2, 2000
Net Income	$ 229,639	$ 136,470	$ 225,785
Other Comprehensive Income (Loss)			
Foreign currency translation adjustments	(3,104)	(1,685)	(3,289)
Change in net unrealized gain on available-for-sale securities	14,528	13,527	(48,176)
Less reclassification adjustment for realized losses (gains) included in net income	3,238	(197)	(11,995)
	14,662	11,645	(63,460)
Income tax (expense) benefit related to other comprehensive income (loss)	(6,987)	(5,097)	23,460
	7,675	6,548	(40,000)
Comprehensive Income	$ 237,314	$ 143,018	$ 185,785

The information on pages 42 through 54 is an integral part of the financial statements.

CONSOLIDATED BALANCE SHEETS

(in thousands)	December 30, 2001	December 31, 2000
Assets		
Current Assets		
Cash and cash equivalents	$ 31,480	$ 20,345
Investments in marketable equity securities	16,366	10,948
Accounts receivable, net	279,328	306,016
Federal and state income taxes	10,253	12,370
Inventories	19,042	15,178
Other current assets	40,388	40,210
	396,857	405,067
Property, Plant, and Equipment		
Buildings	267,658	263,311
Machinery, equipment, and fixtures	1,422,228	1,217,282
Leasehold improvements	79,108	70,706
	1,768,994	1,551,299
Less accumulated depreciation	(794,596)	(736,781)
	974,398	814,518
Land	34,733	38,000
Construction in progress	89,080	74,543
	1,098,211	927,061
Investments in Marketable Equity Securities	219,039	210,189
Investments in Affiliates	80,936	131,629
Goodwill and Other Intangibles, less accumulated amortization of $443,282 and $404,513	1,205,747	1,007,720
Prepaid Pension Cost	447,688	374,084
Deferred Charges and Other Assets	110,620	144,993
	$ 3,559,098	$ 3,200,743

The information on pages 42 through 54 is an integral part of the financial statements.

(in thousands, except share amounts)	December 30, 2001	December 31, 2000
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable and accrued liabilities	$ 298,565	$ 273,076
Deferred subscription revenue	85,525	85,721
Short-term borrowings	50,000	50,000
	434,090	408,797
Postretirement Benefits Other Than Pensions	130,824	128,764
Other Liabilities	192,540	178,029
Deferred Income Taxes	221,949	117,731
Long-Term Debt	883,078	873,267
	1,862,481	1,706,588
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; 13,132 and 13,148 shares issued and outstanding	13,132	13,148
Preferred Stock, $1 par value; 977,000 shares authorized, none issued	—	—
Common Shareholders' Equity		
Common stock		
Class A common stock, $1 par value; 7,000,000 shares authorized; 1,722,250 and 1,739,250 shares issued and outstanding	1,722	1,739
Class B common stock, $1 par value; 40,000,000 shares authorized; 18,277,750 and 18,260,750 shares issued; 7,772,616 and 7,721,225 shares outstanding	18,278	18,261
Capital in excess of par value	142,814	128,159
Retained earnings	3,029,595	2,854,122
Accumulated other comprehensive income (loss), net of taxes		
Cumulative foreign currency translation adjustment	(9,678)	(6,574)
Unrealized gain on available-for-sale securities	24,281	13,502
Cost of 10,505,134 and 10,539,525 shares of Class B common stock held in treasury	(1,523,527)	(1,528,202)
	1,683,485	1,481,007
	$ 3,559,098	$ 3,200,743

The information on pages 42 through 54 is an integral part of the financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)	Fiscal year ended December 30, 2001	December 31, 2000	January 2, 2000
Cash Flows from Operating Activities:			
Net income	$ 229,639	$ 136,470	$ 225,785
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation of property, plant, and equipment	138,300	117,948	104,235
Amortization of goodwill and other intangibles	78,933	62,634	58,563
Net pension benefit	(76,945)	(65,312)	(84,416)
Early retirement program expense	3,344	29,049	2,733
Gain from sale or exchange of certain businesses	(321,091)	—	—
Loss (gain) on disposition of marketable equity securities and cost method investments, net	511	(11,588)	(38,799)
Cost method investment and other write-downs	36,672	23,097	13,555
Equity in losses of affiliates, net of distributions	68,659	37,406	9,744
Provision for deferred income taxes	97,302	(7,743)	29,988
Change in assets and liabilities:			
Decrease (increase) in accounts receivable, net	28,803	(44,413)	(28,194)
(Increase) decrease in inventories	(3,390)	(1,265)	6,264
Increase (decrease) in accounts payable and accrued liabilities	24,756	22,192	(7,749)
Decrease (increase) in income taxes receivable	1,591	36,227	(2,909)
Decrease in other assets and other liabilities, net	38,294	23,141	3,314
Other	3,452	10,701	(1,521)
Net cash provided by operating activities	348,830	368,544	290,593
Cash Flows from Investing Activities:			
Investments in certain businesses	(104,356)	(212,274)	(90,455)
Net proceeds from sale of businesses	61,921	1,650	2,000
Purchases of property, plant, and equipment	(224,227)	(172,383)	(130,045)
Purchases of marketable equity securities	—	—	(23,332)
Purchases of cost method investments	(11,675)	(42,459)	(33,549)
Investments in affiliates	(21,112)	(12,430)	—
Proceeds from sale of marketable equity securities	145	6,332	54,805
Other	1,477	8,036	12,605
Net cash used in investing activities	(297,827)	(423,528)	(207,971)
Cash Flows from Financing Activities:			
Issuance of commercial paper, net	10,072	35,071	34,087
Issuance of notes	—	—	397,620
Dividends paid	(54,166)	(52,024)	(53,326)
Common shares repurchased	(445)	(96)	(425,865)
Proceeds from exercise of stock options	4,671	7,056	25,151
Other	—	9,843	—
Net cash used in financing activities	(39,868)	(150)	(22,333)
Net Increase (Decrease) in Cash and Cash Equivalents	11,135	(55,134)	60,289
Cash and Cash Equivalents at Beginning of Year	20,345	75,479	15,190
Cash and Cash Equivalents at End of Year	$ 31,480	$ 20,345	$ 75,479
Supplemental Cash Flow Information:			
Cash paid during the year for:			
Income taxes	$ 52,600	$ 95,000	$ 125,000
Interest, net of amounts capitalized	$ 48,000	$ 52,700	$ 16,000

The information on pages 42 through 54 is an integral part of the financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN COMMON SHAREHOLDERS' EQUITY

(in thousands)	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 3, 1999	$ 1,739	$ 18,261	$ 46,199	$ 2,597,217	$ (1,600)	$ 41,980	$ (1,115,693)
Net income for the year				225,785			
Dividends paid on common stock— $5.20 per share				(52,376)			
Dividends paid on redeemable preferred stock				(950)			
Repurchase of 744,095 shares of Class B common stock							(425,865)
Issuance of 90,247 shares of Class B common stock, net of restricted stock award forfeitures			16,023				10,425
Change in foreign currency translation adjustment (net of taxes)					(3,289)		
Change in unrealized gain on available-for-sale securities (net of taxes)						(36,711)	
Issuance of subsidiary stock (net of taxes)			34,571				
Tax benefits arising from employee stock plans			12,074				
Balance, January 2, 2000	1,739	18,261	108,867	2,769,676	(4,889)	5,269	(1,531,133)
Net income for the year				136,470			
Dividends paid on common stock— $5.40 per share				(50,998)			
Dividends paid on redeemable preferred stock				(1,026)			
Repurchase of 200 shares of Class B common stock							(96)
Issuance of 21,279 shares of Class B common stock, net of restricted stock award forfeitures			4,433				3,027
Change in foreign currency translation adjustment (net of taxes)					(1,685)		
Change in unrealized gain on available-for-sale securities (net of taxes)						8,233	
Issuance of subsidiary stock (net of taxes)			13,332				
Tax benefits arising from employee stock plans			1,527				
Balance, December 31, 2000	1,739	18,261	128,159	2,854,122	(6,574)	13,502	(1,528,202)
Net income for the year				229,639			
Dividends paid on common stock— $5.60 per share				(53,114)			
Dividends paid on redeemable preferred stock				(1,052)			
Repurchase of 714 shares of Class B common stock							(445)
Issuance of 35,105 shares of Class B common stock, net of restricted stock award forfeitures			10,639				5,120
Change in foreign currency translation adjustment (net of taxes)					(3,104)		
Change in unrealized gain on available-for-sale securities (net of taxes)						10,779	
Conversion of Class A common stock to Class B common stock	(17)	17					
Tax benefits arising from employee stock plans			4,016				
Balance, December 30, 2001	$ 1,722	$ 18,278	$ 142,814	$ 3,029,595	$ (9,678)	$ 24,281	$ (1,523,527)

The information on pages 42 through 54 is an integral part of the financial statements.

A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Washington Post Company (the “Company”) is a diversified media organization whose principal operations consist of newspaper publishing (primarily The Washington Post newspaper), television broadcasting (through the ownership and operation of six network-affiliated television stations), the ownership and operation of cable television systems, and magazine publishing (primarily Newsweek magazine). Through its subsidiary Kaplan, Inc., the Company provides educational services for individuals, schools, and businesses. The Company also owns and operates a number of media web sites for the primary purpose of developing the Company’s newspaper and magazine publishing businesses on the World Wide Web.

Fiscal Year. The Company reports on a 52–53 week fiscal year ending on the Sunday nearest December 31. The fiscal years 2001, 2000, and 1999, which ended on December 30, 2001, December 31, 2000, and January 2, 2000, 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.

Presentation. Certain amounts in previously issued financial statements have been reclassified to conform to the 2001 presentation.

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 Equity Securities. The Company’s investments in marketable equity securities are classified as available-for-sale and therefore are recorded at fair value in the Consolidated Balance Sheets, with the change in fair value during the period excluded from earnings and recorded net of tax as a separate component of comprehensive income. Marketable equity securities that the Company expects to hold long-term are classified as non-current assets.

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.

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 20 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.

Investments in Affiliates. The Company uses the equity method of accounting for its investments in and earnings or losses of affiliates that it does not control but over which it does exert significant influence.

Cost Method Investments. The Company uses the cost method of accounting for its minority investments in non-public companies where it does not have significant influence over the operations and management of the investee. Investments are recorded at the lower of cost or fair value as estimated by management. Charges recorded to write-down cost method investments to estimated fair value and gross realized gains or losses upon the sale of cost method investments are included in “Other income (expense), net” in the Consolidated Statements of Income.

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 periods ranging from 15 to 40 years (with the majority being amortized over 15 to 25 years). See New Accounting Pronouncements below for additional discussion.

Long-lived Assets. The recoverability of long-lived assets, including goodwill and other intangibles, is assessed 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 costs of such program rights are recorded when the programs are available for broadcasting, and such costs are charged to operations as the programming is aired.

Revenue Recognition. Revenue from media advertising is recognized, net of agency commissions, when the underlying advertisement is published or broadcast. Revenues from newspaper and magazine subscriptions are recognized upon delivery. Revenues from newspaper retail sales are recognized upon delivery, and revenues from magazine retail sales are recognized on the later of delivery or cover date, with adequate provision made for anticipated sales returns. Cable subscriber revenue is recognized monthly as services are delivered. Education revenue is recognized ratably over the period during which educational services are delivered.

The Company bases its estimates for sales returns on historical experience and has not experienced significant fluctuations between estimated and actual return activity. Amounts received from customers in advance of revenue recognition are deferred as liabilities. Deferred revenue to be earned after one year is included in “Other Liabilities” in the Consolidated Balance Sheets.

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

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 as a separate component of equity and comprehensive income.

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.

Sale of Subsidiary/Affiliate Securities. The Company records investment basis gains arising from the sale of equity interests in subsidiaries and affiliates that are in the early stages of building their operations as additional paid-in capital, net of taxes.

New Accounting Pronouncements. In July 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 142, “Goodwill and Other Intangible Assets.” SFAS No. 142 supersedes APB 17 and provides, among other provisions, that (1) goodwill and indefinite lived intangible assets will no longer be amortized, (2) goodwill will be tested for impairment at least annually at the reporting unit level, (3) intangible assets deemed to have an indefinite life will be tested for impairment at least annually, and (4) the amortization period of intangible assets with finite lives will no longer be limited to 40 years. The Company adopted SFAS No. 142 effective in fiscal 2002 and estimates that the application of its requirements will result in the cessation of most of the periodic charges presently being recorded from the amortization of goodwill and other intangible assets.

B ACCOUNTS RECEIVABLE AND ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts receivable at December 30, 2001 and December 31, 2000 consist of the following:

(in thousands)	2001	2000
Trade accounts receivable, less estimated returns, doubtful accounts, and allowances of $73,248 and $65,198	$261,898	$ 277,788
Other accounts receivable	17,430	28,228
	$279,328	$ 306,016

Accounts payable and accrued liabilities at December 30, 2001 and December 31, 2000 consist of the following:

(in thousands)	2001	2000
Accounts payable and accrued expenses	$158,744	$ 163,197
Accrued compensation and related benefits	89,061	66,169
Deferred tuition revenue	45,219	36,414
Due to affiliates (newsprint)	5,541	7,296
	$298,565	$ 273,076

C INVESTMENTS

Investments In Marketable Equity Securities. Investments in marketable equity securities at December 30, 2001 and December 31, 2000 consist of the following:

(in thousands)	2001	2000
Total cost	$195,661	$ 199,159
Net unrealized gains	39,744	21,978
Total fair value	$235,405	$ 221,137

At December 30, 2001 and December 31, 2000, the Company's ownership of 2,634 shares of Berkshire Hathaway Inc. ("Berkshire") Class A common stock and 9,845 shares of Berkshire Class B common stock accounted for $219,039,000, or 93 percent, and $210,189,000, or 95 percent, respectively, of the total fair value of the Company's investments in marketable equity securities. The remaining investments in marketable equity securities at December 30, 2001 and December 31, 2000 consisted of common stock investments in various publicly traded companies, most of which have concentrations in Internet business activities. In most cases, the Company obtained ownership of these common stocks as a result of merger or acquisition transactions in which these companies merged or acquired various small Internet-related companies in which the Company held minor investments.

Berkshire is a holding company owning subsidiaries engaged in a number of diverse business activities; the most significant of which consist of property and casualty insurance business conducted on both a direct and reinsurance basis. Berkshire also owns approximately 18 percent of the common stock of the Company. The chairman, chief executive officer, and largest shareholder of Berkshire, Mr. Warren Buffett, is a member of the Company's Board of Directors. Neither Berkshire nor Mr. Buffett participated in the Company's evaluation, approval, or execution of its decision to invest in Berkshire common stock. The Company's investment in Berkshire common stock is less than 1 percent of the consolidated equity of Berkshire. At December 30, 2001 and at December 31, 2000, the gross unrealized gain related to the Company's Berkshire stock investment totaled $34,121,000 and $25,271,000, respectively. The Company presently intends to hold the Berkshire common stock investment long term; thus the investment has been classified as a non-current asset in the Consolidated Balance Sheets.

During 2001, 2000, and 1999 proceeds from sales of marketable equity securities were $145,000, $6,332,000, and $54,805,000, respectively, and gross realized (losses) gains on such sales were ($354,000), $4,929,000, and $38,799,000, respectively. Gross realized gains or losses upon the sale of marketable equity securities are included in "Other income (expense), net" in the Consolidated Statements of Income. For purposes of computing realized gains and losses, the cost basis of securities sold is determined by specific identification.

Investments in Affiliates. The Company's investments in affiliates at December 30, 2001 and December 31, 2000 include the following:

(in thousands)	2001	2000
BrassRing	$ 19,992	$ 73,310
Bowater Mersey Paper Company	45,822	40,227
International Herald Tribune	14,480	17,561
Other	642	531
	$ 80,936	$ 131,629

The Company's investments in affiliates consist of a 39.7 percent common equity interest in BrassRing LLC, which provides recruiting, career development, and hiring management services for employers and job candidates; a 49 percent interest in the common stock of Bowater Mersey Paper Company Limited, which owns and operates a newsprint mill in Nova Scotia; 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 are as follows:

(in thousands)	2001	2000	1999
Financial Position:			
Working capital	$ (8,767)	$ 29,427	$ 69,155
Property, plant, and equipment	126,682	143,749	133,425
Total assets	246,321	432,458	365,694
Long-term debt	—	—	—
Net equity	125,211	291,481	236,597
Results of Operations:			
Operating revenues	$ 317,389	$ 345,913	$ 267,788
Operating loss	(14,793)	(27,505)	(37,889)
Net loss	(157,409)	(77,739)	(40,035)

The following table summarizes the status and results of the Company's investments in affiliates:

(in thousands)	2001	2000
Beginning investment	$131,629	$ 140,669
Issuance of stock by BrassRing, Inc.	—	21,973
Additional investment	21,112	12,480
Equity in losses	(68,659)	(36,466)
Dividends and distributions received	—	(940)
Foreign currency translation	(3,122)	(1,685)
Other	(24)	(4,402)
Ending investment	$ 80,936	$ 131,629

On September 29, 1999, the Company merged its career fair and HireSystems businesses together and renamed the combined operations BrassRing, Inc. On the same date, BrassRing issued stock representing a 46 percent equity interest to two parties under two separate transactions for cash and businesses with an aggregate fair value of $87,000,000. As a result of this transaction, the Company's ownership of BrassRing was reduced to 54 percent, and the minority investors were granted certain participatory rights. As such, the Company de-consolidated BrassRing on September 29, 1999 and recorded its investment under the equity method of accounting. The 1999 increase in the basis of the Company's investment in BrassRing resulting from this transaction of $34,571,000, net of taxes, was recorded as contributed capital.

During 2000, BrassRing issued stock to various parties in connection with its acquisitions of various career fair and recruiting services companies. The effect of these transactions reduced the Company's investment interest in BrassRing to 42 percent, from 54 percent, at January 2, 2000, and increased the Company's investment basis in BrassRing by $13,332,000, net of taxes. The increase in investment basis was recorded as contributed capital.

BrassRing accounted for approximately $75.1 million of the 2001 equity in losses of affiliates compared to $37.0 million in 2000. The increase in 2001 equity in affiliate losses from BrassRing is largely due to a one-time non-cash goodwill and other intangibles impairment charge that BrassRing recorded in 2001 primarily to reduce the carrying value of its career fair business. As a substantial portion of BrassRing's losses arose from goodwill and intangible amortization expense for both 2001 and 2000, the $75.1 million and $37.0 million of equity in affiliate losses recorded by the Company in 2001 and 2000 did not require significant funding by the Company.

In December 2001, BrassRing, Inc. was restructured, and the Company's interest in BrassRing, Inc. was converted into an interest in the newly-formed BrassRing LLC. At December 30, 2001, the Company held a 39.7 percent interest in the BrassRing LLC common equity and a $14.9 million Subordinated Convertible Promissory Note from BrassRing LLC.

Cost Method Investments. The Company's cost method investments consist of minority investments in non-public companies where the Company does not have significant influence over the investees' operating and management decisions. Most of the companies represented by these cost method investments have concentrations in Internet-related business activities. At December 30, 2001 and December 31, 2000, the carrying value of the Company's cost method investments was $29,595,000 and $48,617,000, respectively. Cost method investments are included in "Deferred Charges and Other Assets" in the Consolidated Balance Sheets.

During 2001, 2000, and 1999, the Company invested $11,675,000, $42,459,000 and $33,549,000, respectively, in companies constituting cost method investments and recorded charges of $32,415,000, $23,097,000, and $13,555,000, respectively, to write-down cost method investments to estimated fair value. Charges recorded to write-down cost method investments are included in "Other income (expense), net" in the Consolidated Statements of Income.

During 2001 and 2000, proceeds from sales of cost method investments were $451,000 and $7,070,000, and gross realized (losses) gains on such sales were ($157,000) and $6,570,000, respectively. There were no sales of cost method investments in 1999. Gross realized gains or losses upon the sale of cost method investments are included in "Other income (expense), net" in the Consolidated Statements of Income.

D INCOME TAXES

The provision for income taxes consists of the following:

(in thousands)	Current	Deferred
2001		
U.S. Federal	$ 48,253	$ 86,384
Foreign	1,270	714
State and local	11,075	10,204
	$ 60,598	$ 97,302
2000		
U.S. Federal	$ 77,517	$ 4,854
Foreign	1,033	75
State and local	22,593	(12,672)
	$101,143	$ (7,743)
1999		
U.S. Federal	$ 94,609	$ 30,346
Foreign	1,306	(22)
State and local	23,697	(336)
	$119,612	$ 29,988

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)	2001	2000	1999
U.S. Federal statutory taxes	$ 135,639	$ 80,455	$ 131,385
State and local taxes, net of U.S. Federal income tax benefit	13,832	6,449	15,185
Amortization of goodwill not deductible for income tax purposes	6,988	5,011	4,178
Other, net	1,441	1,485	(1,148)
Provision for income taxes	$ 157,900	$ 93,400	$ 149,600

Deferred income taxes at December 30, 2001 and December 31, 2000 consist of the following:

(in thousands)	2001	2000
Accrued postretirement benefits	$ 56,955	$ 55,280
Other benefit obligations	73,080	60,676
Accounts receivable	15,949	17,296
State income tax loss carryforwards	17,218	12,013
Other	14,886	20,693
Deferred tax asset	178,088	165,958
Property, plant, and equipment	110,763	84,164
Prepaid pension cost	181,434	152,609
Affiliate operations	(1,195)	18,365
Unrealized gain on available-for-sale securities	15,475	8,476
Goodwill and other intangibles	93,286	18,277
Other	274	1,798
Deferred tax liability	400,037	283,689
Deferred income taxes	$ 221,949	$ 117,731

E DEBT

At December 30, 2001, the Company had $933,078,000 in total debt outstanding, which comprised $533,896,000 of commercial paper borrowings, $398,142,000 of 5.5 percent unsecured notes due February 15, 2009, and $1,040,000 in other debt. At December 30, 2001, the Company has classified $483,896,000 of its commercial paper borrowings as “Long-Term Debt” in its Consolidated Balance Sheets as the Company has the ability and intent to finance such borrowings on a long-term basis under its credit agreements.

Interest on the 5.5 percent unsecured notes is payable semi-annually on February 15 and August 15.

At December 30, 2001 and December 31, 2000, the average interest rate on the Company’s outstanding commercial paper borrowings was 2.0 percent and 6.6 percent, respectively. The Company’s commercial paper borrowings are supported by a five-year $500,000,000 revolving credit facility and a one-year $250,000,000 revolving credit facility, which expire in March 2003 and September 2002, respectively.

Under the terms of the $500,000,000 revolving credit facility, interest on borrowings is at floating rates, and the Company is required to pay an annual facility fee of 0.055 percent and 0.15 percent on the unused and used portions of the facility, respectively. Under the terms of the $250,000,000 revolving credit facility, interest on borrowings is at floating rates, and the Company is required to pay a variable facility fee of 0.05 percent and 0.20 percent per annum on the unused and used portions of the facility, respectively. Both revolving credit facilities contain certain covenants, including a financial covenant that the Company maintain at least $850,000,000 of consolidated shareholders’ equity.

The Company incurred interest costs on its borrowing of $47,473,000 and $53,764,000 during 2001 and 2000, respectively. No interest expense was capitalized in 2001 or 2000.

At December 30, 2001 and December 31, 2000, the fair value of the Company’s 5.5 percent unsecured notes, based on quoted market prices, totaled $387,720,000 and $376,200,000, respectively, compared with the carrying amount of $398,142,000 and $397,881,000, respectively.

The carrying value of the Company’s commercial paper borrowings at December 30, 2001 and December 31, 2000 approximates fair value.

F REDEEMABLE PREFERRED STOCK

In connection with the acquisition of a cable television system in 1996, the Company issued 11,947 shares of its Series A Preferred Stock. On February 23, 2000, the Company issued an additional 1,275 shares related to this transaction. From 1998 to 2001, 90 shares of Series A Preferred Stock were redeemed at the request of a Series A Preferred Stockholder.

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; the first such period began 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 2001, 2000, and 1999, the Company purchased a total of 714, 200, and 744,095, shares, respectively, of its Class B common stock at a cost of approximately $445,000, $96,000, and $425,865,000.

Stock Awards. In 1982, the Company adopted a long-term incentive compensation plan, which, among other provisions, authorizes the awarding of Class B common stock to key employees. Stock awards made under this 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 30, 2001, there were 70,775 shares reserved for issuance under the incentive compensation plan. Of this number, 29,895 shares were subject to awards outstanding, and 40,880 shares were available for future awards. Activity related to stock awards under the long-term incentive compensation plan for the years ended December 30, 2001, December 31, 2000, and January 2, 2000 was as follows:

	2001		2000		1999	
	Number of Shares	Average Award Price	Number of Shares	Average Award Price	Number of Shares	Average Award Price
Awards Outstanding						
Beginning of year	30,165	$413.28	31,360	$412.86	30,730	$405.40
Awarded	16,865	608.96	1,155	501.72	2,615	543.02
Vested	(15,200)	364.13	(99)	330.75	(167)	349.00
Forfeited	(1,935)	555.02	(2,251)	456.41	(1,818)	479.90
End of year	29,895	$539.25	30,165	$413.28	31,360	$412.86

In addition to stock awards granted under the long-term incentive compensation plan, the Company also made stock awards of 3,300 shares in 2001, 1,950 shares in 2000, and 1,750 shares in 1999.

For the share awards outstanding at December 30, 2001, the aforementioned restriction will lapse in 2002 for 1,446 shares, in 2003 for 15,799 shares, in 2004 for 2,450 shares, and in 2005 for 18,430 shares. Stock-based compensation costs resulting from stock awards reduced net income by $2.6 million ($0.27 per share, basic and diluted), $2.4 million ($0.25 per share, basic and diluted), and $2.2 million ($0.22 per share, basic and diluted), in 2001, 2000, and 1999, respectively.

Stock Options. The Company's 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 30, 2001, there were 486,700 shares reserved for issuance under the stock option plan, of which 170,575 shares were subject to options outstanding, and 316,125 shares were available for future grants.

Changes in options outstanding for the years ended December 30, 2001, December 31, 2000, and January 2, 2000 were as follows:

	2001		2000		1999	
	Number of Shares	Average Option Price	Number of Shares	Average Option Price	Number of Shares	Average Option Price
Beginning of year	166,450	$465.55	156,497	$470.64	246,072	$404.48
Granted	24,000	522.75	89,500	544.90	3,750	516.36
Exercised	(16,875)	276.79	(20,425)	345.46	(87,825)	288.43
Forfeited	(3,000)	546.04	(59,122)	643.71	(5,500)	450.86
End of year	170,575	$490.86	166,450	$465.55	156,497	$470.64

Of the shares covered by options outstanding at the end of 2001, 89,388 are now exercisable, 30,313 will become exercisable in 2002, 25,562 will become exercisable in 2003, 19,312 will become exercisable in 2004, and 6,000 will become exercisable in 2005. Information related to stock options outstanding at December 30, 2001, is as follows:

Range of Exercise Prices	Number Outstanding at 12/30/01	Weighted Average Remaining Contractual Life (yrs.)	Weighted Average Exercise Price	Number Exercisable at 12/30/01	Weighted Average Exercise Price
$ 222–299	13,500	2.7	251.11	13,500	251.11
344	11,500	5.0	343.94	11,500	343.94
472–484	30,825	6.6	473.93	25,950	472.57
500–596	114,750	8.7	538.34	38,438	535.66

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 for options granted during 2001, 2000, and 1999 was $107.78, $161.15, and $157.77, respectively. The fair value of options at date of grant was estimated using the Black-Scholes method utilizing the following assumptions:

	2001	2000	1999
Expected life (years)	7	7	7
Interest rate	2.30%	5.98%	6.19%
Volatility	19.46%	17.9%	16.0%
Dividend yield	1.1%	1.0%	1.1%

Had the fair values of options granted after 1995 been recognized as compensation expense, net income would have been reduced by $3.6 million ($0.38 per share, basic and diluted), $3.8 million ($0.40 per share, basic and diluted), and $1.9 million ($0.19 per share, basic and diluted) in 2001, 2000, and 1999, respectively.

The Company also maintains a stock option plan at its Kaplan subsidiary that provides for the issuance of stock options representing 10.6 percent of Kaplan, Inc. common stock to certain members of Kaplan's management. Under the provisions of this plan, options are issued with an exercise price equal to the estimated fair value of Kaplan's common stock. Options vest ratably over five years from issuance, and upon exercise, an option holder has the right to require the Company to repurchase the Kaplan stock at the stock's then fair value. The fair value of Kaplan's common stock is determined by the Company's compensation committee. At December 30, 2001, options representing 10.0 percent of Kaplan's common stock were issued and outstanding. For 2001, 2000, and 1999, the Company recorded expense of $25,302,000, $6,000,000, and $7,250,000, respectively, related to this plan. In 2001, payouts from option exercises totaled $2.1 million. At December 30, 2001, the Company's stock-based compensation accrual balance totaled $41.4 million.

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 2001, 2000, and 1999 is as follows:

	Basic Weighted Average Shares	Dilutive Effect of Stock Options	Diluted Weighted Average Shares
2001	9,486,386	13,173	9,499,559
2000	9,445,466	14,362	9,459,828
1999	10,060,578	21,206	10,081,784

H PENSIONS AND OTHER POSTRETIREMENT PLANS

The Company maintains various pension and incentive savings plans and contributes to several multi-employer plans on behalf of certain union-represented employee groups. Substantially all of the Company's employees are covered by these plans.

The Company also provides healthcare and life insurance benefits to certain retired employees. These employees become eligible for benefits after meeting age and service requirements.

The following table sets forth obligation, asset, and funding information for the Company's defined benefit pension and postretirement plans at December 30, 2001 and December 31, 2000:

	Pension Plans		Postretirement Plans	
(in thousands)	2001	2000	2001	2000
Change in benefit obligation				
Benefit obligation at beginning of year	$ 391,166	$ 344,611	$ 93,243	$ 86,938
Service cost	15,393	14,566	3,707	3,496
Interest cost	27,526	24,962	6,811	6,338
Amendments	5,182	29,442	—	1,968
Actuarial loss (gain)	22,334	(5,091)	6,519	(1,199)
Benefits paid	(30,584)	(17,324)	(4,888)	(4,298)
Benefit obligation at end of year	$ 431,017	$ 391,166	$ 105,392	$ 93,243
Change in plan assets				
Fair value of assets at beginning of year	$1,314,885	$1,119,916	—	—
Actual return on plan assets	143,253	212,293	—	—
Employer contributions	—	—	$ 4,888	$ 4,298
Benefits paid	(30,584)	(17,324)	(4,888)	(4,298)
Fair value of assets at end of year	$1,427,554	$1,314,885	$ —	$ —
Funded status	$ 996,537	$ 923,719	$(105,392)	$ (93,243)
Unrecognized transition asset	(8,852)	(15,354)	—	—
Unrecognized prior service cost	16,949	17,230	(501)	(663)
Unrecognized actuarial gain	(556,946)	(551,511)	(24,931)	(34,858)
Net prepaid (accrued) cost	$ 447,688	$ 374,084	$(130,824)	$ (128,764)

The total (income) cost arising from the Company's defined benefit pension and postretirement plans for the years ended December 30, 2001, December 31, 2000, and January 2, 2000 consists of the following components:

	Pension Plans			Postretirement Plans		
(in thousands)	2001	2000	1999	2001	2000	1999
Service cost	$ 15,393	$ 14,566	$ 14,756	$ 3,707	$ 3,496	$ 3,585
Interest cost	27,526	24,962	23,584	6,811	6,338	6,039
Expected return on assets	(97,567)	(85,522)	(92,566)	—	—	—
Amortization of transition asset	(6,502)	(7,585)	(7,665)	—	—	—
Amortization of prior service cost	2,122	2,091	2,110	(162)	(162)	(162)
Recognized actuarial gain	(17,917)	(13,824)	(24,635)	(3,408)	(2,870)	(2,886)
Net periodic (benefit) cost for the year	(76,945)	(65,312)	(84,416)	6,948	6,802	6,576
Early retirement programs expense	3,344	29,049	2,733	—	1,968	—
Total (benefit) cost for the year	$ (73,601)	$ (36,263)	$ (81,683)	$ 6,948	$ 8,770	$ 6,576

The costs for the Company's defined benefit pension and postretirement plans are actuarially determined. Key assumptions utilized at December 30, 2001, December 31, 2000, and January 2, 2000 include the following:

	Pension Plans			Postretirement Plans		
	2001	2000	1999	2001	2000	1999
Discount rate	7.0%	7.5%	7.5%	7.0%	7.5%	7.5%
Expected return on plan assets	7.5%	9.0%	9.0%	—	—	—
Rate of compensation increase	4.0%	4.0%	4.0%	—	—	—

The assumed healthcare cost trend rate used in measuring the postretirement benefit obligation at December 30, 2001 was 6.3 percent for pre-age 65 benefits (5.9 percent for post-age 65 benefits), decreasing to 5 percent in the year 2005 and thereafter.

Assumed healthcare cost trend rates have a significant effect on the amounts reported for the healthcare plans. A change of 1 percentage point in the assumed healthcare cost trend rates would have the following effects:

(in thousands)	1% Increase	1% Decrease
Benefit obligation at end of year	$ 15,751	$ (14,713)
Service cost plus interest cost	1,654	(1,604)

Contributions to multi-employer pension plans, which are generally based on hours worked, amounted to $1,800,000 in 2001, $1,100,000 in 2000, and $2,300,000 in 1999.

The Company recorded expense associated with retirement benefits provided under incentive savings plans (primarily 401(k) plans) of approximately $14,500,000 in 2001 and $13,300,000 in 2000 and 1999.

I LEASE AND OTHER COMMITMENTS

The Company leases 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 30, 2001, future minimum rental payments under noncancelable operating leases approximate the following:

(in thousands)	
2002	$ 51,770
2003	46,780
2004	41,030
2005	35,253
2006	30,417
Thereafter	72,389
	$ 277,639

Minimum payments have not been reduced by minimum sublease rentals of $4,500,000 due in the future under noncancelable subleases.

Rent expense under operating leases included in operating costs and expenses was approximately $58,300,000, $49,700,000, and $33,600,000 in 2001, 2000, and 1999, respectively. Sublease income was approximately $1,500,000, $1,150,000, and $433,000 in 2001, 2000, and 1999, 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 30, 2001, such commitments amounted to approximately $59,550,000. If such programs are not produced, the Company's commitment would expire without obligation.

J ACQUISITIONS, EXCHANGES, AND DISPOSITIONS

The Company completed business acquisitions and exchanges, having spent approximately $104,400,000 in 2001, $212,300,000 in 2000 (including assumed debt and related acquisition costs), and $90,500,000 in 1999. All of these acquisitions 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 purchase price allocations for these acquisitions mostly comprised goodwill and other intangibles.

The Company's acquisitions in 2001 principally included the purchase of Southern Maryland Newspapers, a division of Chesapeake Publishing Corporation, and amounts paid as part of a cable system exchange with AT&T Broadband. During 2001, the Company also acquired a provider of CFA exam preparation services and a company that provides pre-certification training for real estate, insurance, and securities professionals.

Southern Maryland Newspapers publishes the Maryland Independent in Charles County, Maryland; The Lexington Park Enterprise in St. Mary's County, Maryland; and The Calvert Recorder in Calvert County, Maryland, with a combined total paid circulation of approximately 50,000.

The cable system exchange with AT&T Broadband was completed on March 1, 2001 and consisted of the exchange by the Company of its cable systems in Modesto and Santa Rosa, California, and approximately $42.0 million to AT&T Broadband for cable systems serving approximately 155,000 subscribers principally located in Idaho. In a related transaction on January 11, 2001, the Company completed the sale of a cable system serving about 15,000 subscribers in Greenwood, Indiana, for $61.9 million. The gain resulting from the cable system sale and exchange transactions increased net income by $196.5 million, or $20.69 per share. For income tax purposes, substantial components of the cable system sale and exchange transactions qualify as like-kind exchanges, and therefore, a large portion of these transactions does not result in a current tax liability.

On August 2, 2000, the Company acquired Quest Education Corporation (Quest) for approximately $177,700,000, including assumed debt. The acquisition of Quest was completed through an all cash tender offer in which the Company purchased substantially all of the outstanding stock of Quest for $18.35 per share. The acquisition was financed through the issuance of additional borrowings. Quest is a provider of post-secondary education offering Bachelor's degrees, Associate's degrees, and diploma programs primarily in the fields of healthcare, business, and information technology.

In addition, the Company acquired two cable systems serving approximately 8,500 subscribers in Nebraska (in June 2000) and Mississippi (in August 2000) for approximately $16,200,000, as well as various other smaller businesses throughout 2000 for $18,400,000 (principally consisting of educational services companies).

During 1999, the Company acquired cable systems serving 10,300 subscribers in North Dakota, Oklahoma, and Arizona (April and August 1999 for $18,300,000); two Certified Financial Analyst test preparation companies (November and December 1999 for $16,000,000), and a travel guide magazine (in December 1999 for $10,200,000). In addition, the Company acquired various other smaller businesses throughout 1999 for $46,000,000 (principally consisting of educational services companies).

The results of operations for each of the businesses acquired are included in the Consolidated Statements of Income from their respective dates of acquisition. Pro forma results of operations for 2001, 2000, and 1999, assuming the acquisitions occurred at the beginning of 1999, are not materially different from reported results of operations.

In June 1999, the Company sold the assets of Legi-Slate, Inc., its online services subsidiary that covered Federal legislation and regulation. No significant gain or loss was realized as a result of the sale.

K 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, and also to an antitrust lawsuit related to the acquisition by a subsidiary of a group of community newspapers in 2001. Management does not believe that any litigation pending against the Company will have a material adverse effect on its business or financial condition.

The Company's education division derives a portion of its net revenues from financial aid received by its students under Title IV programs ("Title IV Programs") administered by the United States Department of Education pursuant to the Federal Higher Education Act of 1965 ("HEA"), as amended. In order to participate in Title IV Programs, the Company must comply with complex standards set forth in the HEA and the regulations promulgated thereunder (the "Regulations"). The failure to comply with the requirements of HEA or the Regulations could result in the restriction or loss of the ability to participate in Title IV Programs and subject the Company to financial penalties. For the years ended December 30, 2001 and December 31, 2000, approximately $101,500,000 and $35,000,000, respectively, of the Company's education division revenues were derived from financial aid received by students under Title IV Programs. These revenues were earned and recognized by Quest following the Company's acquisition of Quest in August 2000. Management believes that the Company's education division schools that participate in Title IV Programs are in material compliance with the standards set forth in the HEA and the Regulations.

L BUSINESS SEGMENTS

The Company operates principally in four areas of the media business: newspaper publishing, television broadcasting, magazine publishing, and cable television. Through its subsidiary Kaplan, Inc., the Company also provides educational services for individuals, schools, and businesses.

Newspaper operations involve the publication of newspapers in the Washington, D.C., area and Everett, Washington; newsprint warehousing and recycling facilities; and the Company's electronic media publishing business (primarily washingtonpost.com).

Magazine operations consist principally of the publication of a weekly news magazine, Newsweek, which has one domestic and three international editions, the publication of a travel magazine, and the publication of 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.

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

Cable television operations consist of cable systems offering basic cable and pay television services to approximately 752,700 subscribers in 19 midwestern, western, and southern states. The principal source of revenues is monthly subscription fees charged for services.

Educational products and services are provided through the Company's wholly-owned subsidiary Kaplan, Inc. Kaplan's major lines of businesses include Test Preparation and Admissions, providing test preparation services for college and graduate school entrance exams; Kaplan Professional, providing educational services to business people and other professionals; Score!, offering multimedia learning and private tutoring to children and educational resources to parents; and Kaplan's higher education division, which includes Quest, a provider of post-secondary education offering Bachelor's degrees, Associate's degrees, and diploma programs primarily in the fields of healthcare, business, and information technology, and The Kaplan Colleges, Kaplan's distance-learning businesses, including kaplancollege.com. In early 2002, Kaplan put all of its post-secondary schools (Quest and The Kaplan Colleges) under a single higher education division.

Other businesses and corporate office includes the Company's corporate office. Through the first half of 1999, the other businesses and corporate office segment also includes the results of Legi-Slate, Inc., the assets of which were sold in June 1999.

Income from operations is the excess of operating revenues over operating expenses. In computing income from operations by segment, the effects of equity in earnings of affiliates, interest income, interest expense, other non-operating 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 marketable equity securities and investments in affiliates are discussed in Note C.

(in thousands)	Newspaper Publishing	Television Broadcasting	Magazine Publishing	Cable Television	Education	Other Businesses and Corporate Office	Consolidated
2001							
Operating revenues	$842,721	$314,010	$380,224	$386,037	$493,681	$ —	$2,416,673
Income (loss) from operations	$84,744	$131,847	$25,306	$32,237	$(28,337)	$(25,865)	$219,932
Equity in losses of affiliates							(68,659)
Interest expense, net							(47,473)
Other income, net							283,739
Income before income taxes							$387,539
Identifiable assets	$703,947	$419,246	$486,804	$1,117,426	$472,988	$42,346	$3,242,757
Investments in marketable equity securities							235,405
Investments in affiliates							80,936
Total assets							$3,559,098
Depreciation of property, plant, and equipment	$37,862	$11,932	$4,654	$64,505	$19,347	$ —	$138,300
Amortization of goodwill	$3,864	$14,135	$6,669	$38,553	$15,712	$ —	$78,933
Pension credit (expense)	$25,197	$6,263	$44,989	$(638)	$(847)	$(1,363)	$73,601
Kaplan stock-based incentive compensation					$25,302		$25,302
Capital expenditures	$32,551	$11,032	$1,737	$166,887	$12,020	$ —	$224,227
2000							
Operating revenues	$918,234	$364,758	$416,421	$358,916	$353,821	$ —	$2,412,150
Income (loss) from operations	$114,435	$177,396	$49,119	$65,967	$(41,846)	$(25,189)	$339,882
Equity in losses of affiliates							(36,466)
Interest expense, net							(53,764)
Other expense, net							(19,782)
Income before income taxes							$229,870
Identifiable assets	$684,908	$430,444	$452,453	$757,083	$482,014	$41,075	$2,847,977
Investments in marketable equity securities							221,137
Investments in affiliates							131,629
Total assets							$3,200,743
Depreciation of property, plant, and equipment	$38,579	$12,991	$5,059	$47,670	$13,649	$ —	$117,948
Amortization of goodwill	$1,588	$14,135	$6,758	$30,069	$10,084	$ —	$62,634
Pension credit (expense)	$(5,579)	$5,767	$37,341	$(599)	$(667)	$ —	$36,263
Kaplan stock-based incentive compensation					$6,000		$6,000
Capital expenditures	$33,117	$11,672	$1,858	$96,167	$29,569	$ —	$172,383
1999							
Operating revenues	$875,109	$341,761	$401,096	$336,259	$257,503	$3,843	$2,215,571
Income (loss) from operations	$156,731	$167,639	$62,057	$67,145	$(37,998)	$(27,121)	$388,453
Equity in losses of affiliates							(8,814)
Interest expense, net							(25,689)
Other income, net							21,435
Income before income taxes							$375,385
Identifiable assets	$672,609	$444,372	$409,404	$718,230	$265,960	$132,688	$2,643,263
Investments in marketable equity securities							203,012
Investments in affiliates							140,669
Total assets							$2,986,944
Depreciation of property, plant, and equipment	$35,363	$11,719	$4,972	$43,092	$8,850	$239	$104,235
Amortization of goodwill	$1,535	$14,248	$5,912	$30,007	$6,861	$ —	$58,563
Pension credit (expense)	$26,440	$8,191	$48,309	$(597)	$(603)	$(57)	$81,683
Kaplan stock-based incentive compensation					$7,250		$7,250
Capital expenditures	$19,279	$17,839	$3,364	$62,586	$26,977	$ —	$130,045

M SUMMARY OF QUARTERLY OPERATING RESULTS AND COMPREHENSIVE INCOME (UNAUDITED)

Quarterly results of operations and comprehensive income for the years ended December 30, 2001 and December 31, 2000 are as follows:

(in thousands, except per share amounts)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2001 Quarterly Operating Results				
Operating revenues				
Advertising	$297,974	$312,881	$277,425	$321,047
Circulation and subscriber	148,536	156,149	177,925	176,010
Education	121,341	119,442	127,159	125,329
Other	19,125	16,063	13,007	7,260
	586,976	604,535	595,516	629,646
Operating costs and expenses				
Operating	343,993	340,740	348,776	359,241
Selling, general, and administrative	147,915	151,409	144,954	142,480
Depreciation of property, plant, and equipment	34,632	35,867	34,765	33,036
Amortization of goodwill and other intangibles	17,192	19,926	20,068	21,748
	543,732	547,942	548,563	556,505
Income from operations	43,244	56,593	46,953	73,141
Equity in losses of affiliates	(12,461)	(6,641)	(26,535)	(23,023)
Interest income	325	1,047	226	570
Interest expense	(14,624)	(13,240)	(11,861)	(9,914)
Other income (expense), net	308,769	(10,717)	(4,365)	(9,949)
Income before income taxes	325,253	27,042	4,418	30,825
Provision for income taxes	126,200	12,550	2,850	16,300
Net income	199,053	14,492	1,568	14,525
Redeemable preferred stock dividends	(526)	(263)	(263)	—
Net income available for common shares	$198,527	$ 14,229	$ 1,305	$ 14,525
Basic earnings per common share	$ 20.94	$ 1.50	$ 0.14	$ 1.53
Diluted earnings per common share	$ 20.90	$ 1.50	$ 0.14	$ 1.53
Basic average number of common shares outstanding	9,479	9,485	9,489	9,492
Diluted average number of common shares outstanding	9,499	9,502	9,502	9,501
2001 Quarterly Comprehensive Income (loss)	$187,049	$ 25,860	$ (937)	$ 25,342

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.

A third quarter reclassification of $21 million between other income (expense), net and equity in losses of affiliates is reflected above related to the Company's investment in BrassRing.

(in thousands, except per share amounts)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2000 Quarterly Operating Results				
Operating revenues				
Advertising	$318,865	$353,514	$338,428	$385,776
Circulation and subscriber	147,589	148,905	151,144	153,619
Education	71,450	68,803	99,428	113,072
Other	8,867	20,318	13,452	18,919
	546,771	591,540	602,452	671,386
Operating costs and expenses				
Operating	296,072	316,252	340,733	355,006
Selling, general, and administrative	135,421	138,704	131,206	178,291
Depreciation of property, plant, and equipment	28,386	28,638	30,019	30,905
Amortization of goodwill and other intangibles	14,738	14,755	15,937	17,204
	474,617	498,349	517,895	581,406
Income from operations	72,154	93,191	84,557	89,980
Equity in losses of affiliates	(11,304)	(9,471)	(8,890)	(6,800)
Interest income	224	275	228	241
Interest expense	(12,567)	(12,573)	(14,617)	(14,974)
Other (expense) income, net	(6,938)	1,556	238	(14,639)
Income before income taxes	41,569	72,978	61,516	53,808
Provision for income taxes	17,500	31,800	28,000	16,100
Net income	24,069	41,178	33,516	37,708
Redeemable preferred stock dividends	(500)	(263)	(263)	—
Net income available for common shares	$ 23,569	$ 40,915	$ 33,253	$ 37,708
Basic earnings per common share	$ 2.50	$ 4.33	$ 3.52	$ 3.99
Diluted earnings per common share	$ 2.49	$ 4.33	$ 3.51	$ 3.98
Basic average number of common shares outstanding	9,440	9,443	9,448	9,452
Diluted average number of common shares outstanding	9,458	9,458	9,463	9,470
2000 Quarterly Comprehensive Income	$ 21,152	$ 25,492	$ 49,789	$ 46,586

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.

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 37 through 54 of this report present fairly, in all material respects, the financial position of The Washington Post Company and its subsidiaries at December 30, 2001 and December 31, 2000, and the results of their operations and their cash flows for each of the three fiscal years in the period ended December 30, 2001, in conformity with accounting principles generally accepted in the United States of America. 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 auditing standards generally accepted in the United States of America 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 our opinion.

PricewaterhouseCoopers LLP

Washington, D.C.

January 25, 2002

See Notes to Consolidated Financial Statements for the summary of significant accounting policies and additional information relative to the years 1999–2001.

(in thousands, except per share amounts)	2001	2000	1999
Results of Operations			
Operating revenues	$ 2,416,673	$ 2,412,150	$ 2,215,571
Income from operations	$ 219,932	$ 339,882	$ 388,453
Income before cumulative effect of change in accounting principle	$ 229,639	$ 136,470	$ 225,785
Cumulative effect of change in method of accounting for income taxes	—	—	—
Net income	$ 229,639	$ 136,470	$ 225,785
Per Share Amounts			
Basic earnings per common share			
Income before cumulative effect of change in accounting principle	$ 24.10	$ 14.34	$ 22.35
Cumulative effect of change in accounting principle	—	—	—
Net income	$ 24.10	$ 14.34	$ 22.35
Basic average shares outstanding	9,486	9,445	10,061
Diluted earnings per share			
Income before cumulative effect of change in accounting principle	$ 24.06	$ 14.32	$ 22.30
Cumulative effect of change in accounting principle	—	—	—
Net income	$ 24.06	$ 14.32	$ 22.30
Diluted average shares outstanding	9,500	9,460	10,082
Cash dividends	$ 5.60	$ 5.40	$ 5.20
Common shareholders' equity	$ 177.30	$ 156.55	$ 144.90
Financial Position			
Current assets	$ 396,857	$ 405,067	$ 476,159
Working capital (deficit)	(37,233)	(3,730)	(346,389)
Property, plant, and equipment	1,098,211	927,061	854,906
Total assets	3,559,098	3,200,743	2,986,944
Long-term debt	883,078	873,267	397,620
Common shareholders' equity	1,683,485	1,481,007	1,367,790

1998	1997	1996	1995	1994	1993	1992
$ 2,110,360	$ 1,956,253	$ 1,853,445	$ 1,719,449	$ 1,613,978	$ 1,498,191	$ 1,450,867
$ 378,897	$ 381,351	$ 337,169	$ 271,018	$ 274,875	$ 238,980	$ 232,112
$ 417,259	$ 281,574	$ 220,817	$ 190,096	$ 169,672	$ 153,817	$ 127,796
—	—	—	—	—	11,600	—
$ 417,259	$ 281,574	$ 220,817	$ 190,096	$ 169,672	$ 165,417	$ 127,796
$ 41.27	$ 26.23	$ 20.08	$ 17.16	$ 14.66	$ 13.10	$ 10.81
—	—	—	—	—	0.98	—
$ 41.27	$ 26.23	$ 20.08	$ 17.16	$ 14.66	$ 14.08	$ 10.81
10,087	10,700	10,964	11,075	11,577	11,746	11,827
$ 41.10	$ 26.15	$ 20.05	$ 17.15	$ 14.65	$ 13.10	$ 10.80
—	—	—	—	—	0.98	—
$ 41.10	$ 26.15	$ 20.05	$ 17.15	$ 14.65	$ 14.08	10.80
10,129	10,733	10,980	11,086	11,582	11,750	11,830
$ 5.00	$ 4.80	$ 4.60	$ 4.40	$ 4.20	$ 4.20	$ 4.20
$ 157.34	$ 117.36	$ 121.24	$ 107.60	$ 99.32	$ 92.84	$ 84.17
$ 404,878	$ 308,492	$ 382,631	$ 406,570	$ 375,879	$ 625,574	$ 524,975
15,799	(300,264)	100,995	98,393	102,806	367,041	242,627
841,062	653,750	511,363	457,359	411,396	363,718	390,804
2,729,661	2,077,317	1,870,411	1,732,893	1,696,868	1,622,504	1,568,121
395,000	—	—	—	50,297	51,768	51,842
1,588,103	1,184,074	1,322,803	1,184,204	1,126,933	1,087,419	993,005

BOARD OF DIRECTORS

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Chairman, The Washington Post

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Former President and Chief Executive Officer,
Capital Cities/ABC, Inc.

Barry Diller
Chairman and Chief Executive Officer, USA Networks, Inc.

John L. Dotson Jr. (2)
Former President and Publisher, Akron Beacon-Journal

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

Richard D. Simmons (1, 3)
Former President and Chief Operating Officer,
The Washington Post Company

George W. Wilson (2)
President, Concord (NH) Monitor

Committees of the Board of Directors
(1) Audit Committee
(2) Compensation Committee
(3) Finance Committee
(4) Executive Committee

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Vice President, General Counsel, and Secretary

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Vice President

Guyon Knight
Vice President – Corporate Communications

Christopher Ma
Vice President

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Vice President – Human Resources

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Vice President – Finance, Chief Financial Officer

Gerald M. Rosberg
Vice President – Planning and Development

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Assistant Secretary