THE WASHINGTON POST COMPANY

Annual Report 1981

CONTENTS

(In thousands, except per share amounts)	1981	1980	% Change
Operating revenues	$753,447	$659,535	+14%
Income from operations	$ 65,714	$ 65,513	–
Net income	$ 32,710	$ 34,335	– 5%
Earnings per share	$ 2.32	$ 2.44	– 5%
Dividends per share	$ .50	$ .44	+14%
Shareholders' equity per share	$ 15.17	$ 13.40	+13%
Average number of shares outstanding	14,077	14,068	–

Net income for the year was below the 1980 figure although operating income was slightly ahead. With fourth quarter results 17 percent greater than in 1980, net income for 1981 was $32.7 million, or $2.32 per share, compared to $34.3 million, or $2.44 per share, the previous year. Operating income was $65.7 million compared to $65.5 million. Revenues for the year were $753 million, up 14 percent over 1980 revenues of $660 million.

The company's earnings for 1981 were reduced by $2.1 million, or $.15 per share, as a result of the sale of several businesses including two unprofitable publications: Inside Sports, a monthly magazine launched in 1980, and the Trenton Times, a daily newspaper purchased in 1974. The media market served by the Trenton Times had changed significantly since the investment was made. In the case of Inside Sports, the original assumption that newsstand sales could provide the bulk of needed circulation proved erroneous. We concluded that additional investment in these properties was not likely to provide a commensurate return for our shareholders.

The company in 1981 also sold Top Market Television, the broadcast division's national time-sales subsidiary, after determining that a large outside representational firm offered a more effective way to sell national advertising on our four television stations.

The divestiture of these three units enables us to better focus our efforts on development of our newspaper, magazine and television properties, which all set new records for revenue in 1981. We believe the investment that has been made over the past few years in these businesses has put them in an unusually strong position to take advantage of the opportunities that will emerge in the rapidly changing media marketplace of the 1980s.

In formulating our strategic plans for the next decade and beyond, we are committed to the following:

☐ Management systems and policies in our existing businesses will be refined in order to maximize the profit performance of these businesses, while enhancing their fundamental competitive security.

☐ New ventures will be evaluated on the basis of their ability to capitalize on our existing strengths.

☐ Development activities in new and existing businesses will draw on our reputation for quality products and, in all cases, will be expected to preserve and extend that reputation.

Over the next 12 to 18 months, our overriding objective will be to develop increased flexibility across the company so we will be better positioned to serve our readers, viewers and advertisers through whatever medium is most effective. Many of the critical principles that will shape our future plans for the company's newspaper, magazine and television properties are discussed in the body of this year's annual report.

In the newspaper division, revenues for the year were up 18 percent to $368 million from $311 million the previous year.

The Washington Post, following the close of The Washington Star in August, increased its daily circulation by 23 percent and its Sunday circulation by 17 percent, an extraordinary gain in readership which we believe exceeded the number of persons who previously subscribed only to The Star. The Post increased its household penetration to 58 percent daily and 70 percent Sunday—by far the highest of any major U.S. metropolitan daily. The Post, with daily circulation for the three months ending December 31 of 771,000 and Sunday circulation of 984,000, is now the sixth largest daily newspaper and the fifth largest Sunday paper in the country.

This sudden surge in circulation resulted in increased manufacturing and distribution expenses—since each daily paper printed contains an average of 28 cents worth of newsprint—imposing a temporary drain on income, particularly in the third quarter when most of the new subscribers were added.

The additional subscribers and higher household penetration in one of the most prized demographic markets in the country make The Post a more attractive buy for advertisers—which was reflected in the fact that the newspaper in 1981 sold a record 104 million lines of advertising, up 4 percent over 1980. At the start of the fourth quarter, The Post began the process of raising advertising rates to reflect the expanded size of its audience.

The Post also strengthened its ability to serve the community and added 30 reporters and editors to the staff in 1981. We feel The Post again distinguished itself in 1981 in its coverage of local, national and foreign affairs. Mention must be made, however, of the unfortunate incident which saw The Post return a Pulitzer Prize after discovering that the story for which it had been awarded was based on a fictitious figure. Measures have been taken in an effort to prevent a recurrence.

The Herald, the company's daily newspaper in Snohomish County, Washington, launched a new Sunday edition in 1981 which quickly won overwhelming acceptance from Herald readers. The Sunday edition should greatly strengthen the competitive position of The Herald at a time when the two Seattle metropolitan papers—as a result of the joint operating agreement now pending—may soon be able to distribute a combined Sunday edition in The Herald's market. Costs associated with introduction of this new product substantially affected operating results.

In the magazine division, revenues were up 10 percent to $294 million. The domestic edition of Newsweek marked its 14th consecutive year as the leader among weekly newsmagazines in advertising pages, carrying 3,106 pages in 1981—up from the 3,098 advertising pages carried in 1980.

Newsweek's editorial excellence was recognized in 1981 with the receipt of 65 awards—a record for a single year. The magazine's circulation revenue also set a record reflecting the major role newsmagazines continue to play in providing news and information to a broad spectrum of American society.

Newsweek International turned in a strong performance in 1981, raising its circulation rate base for the Atlantic, Pacific and Latin American editions from 517,000 to 544,000. While the number of advertising pages carried in the international editions was off from 2,555 in 1980 to 2,529 in 1981, Newsweek International increased its dollar share of market among international newsmagazines.

Newsweek also expanded its efforts in the video area in 1981. The former Newsweek Broadcasting unit was renamed Newsweek Video to reflect its increased range of activities in news and information programming. We continued to experiment with ways of distributing information gathered for Newsweek through more than one medium. For example, at year's end a half-hour weekly show, "Bureau Report"—a behind-the-scenes look at the week's news featuring the correspondents of Newsweek's Washington Bureau—began appearing on commercial television.

Broadcast division revenues were up 13 percent in 1981 to $91 million. Our Miami station, WPLG, and WFSB in Hartford both turned in strong operating performances. The company's developmental efforts at our Detroit station, WDIV, which was third in its market in local news ratings when we acquired it in 1978, paid major dividends in 1981 as the station moved into second place. We expect continued progress in Detroit in the year ahead. WJXT in Jacksonville remained the dominant station in North Florida and South Georgia in 1981 despite increased competition from two new independent UHF stations and growing cable penetration in Jacksonville.

Post-Newsweek Productions continued to explore program production opportunities in 1981 in anticipation of increased demand for programming in the years ahead. Recently, "Sonya," a daily hour-long discussion show produced by WDIV featuring Detroit psychologist Dr. Sonya Friedman, was sold to the USA Cable Network which is carried by cable television systems around the country.

The company benefited from a substantially improved performance by the Bear Island Paper Company, in which we have a one-third limited partnership interest. Bear Island, which experienced a variety of startup problems after coming on line in late 1979, showed its first operating profit in the fourth quarter of 1981. Largely because of this turnaround, income from affiliates in 1981 was up sharply to $4.4 million compared to $700,000 the previous year.

The Los Angeles Times-Washington Post News Service gained a record 36 clients during the year bringing its worldwide total at the end of 1981 to 448.

The International Herald Tribune, in which the company has a 30 percent interest, expanded its circulation in 1981 to more than 140,000 daily in 143 countries. In May, Philip M. Foisie, former assistant managing editor for foreign news at The Washington Post, was appointed executive editor of the International Herald Tribune.

The Washington Post Writers Group, which syndicates columns and features to newspapers across the country, had its most successful year since it was started in 1973. The Writers Group made a record 514 sales of the 21 features on its list.

On September 1, Richard D. Simmons, who had been vice chairman of The Dun & Bradstreet Corporation, joined the company as president and chief operating officer. Robert S. McNamara, retired president of the World Bank, was elected a director of the company and Alan G. Spoon, formerly a vice president and director of The Boston Consulting Group, was elected a vice president of the company.

Other key executives who joined the company or took on new responsibilities in 1981 included: Mark M. Edmiston, formerly executive vice president of Newsweek, promoted to president of Newsweek, Inc.; S.H. Price, formerly a vice president of General Foods, named executive vice president and general manager of Newsweek; Alan Perris, formerly vice president/general manager of WPLG, named president of Post-Newsweek Productions, Inc.; Amy McCombs, formerly vice president/general manager of WJXT, named vice president/general manager of WDIV; Walter Liss, formerly vice president/general manager of KFSN-TV, Fresno, named vice president/general manager of WPLG.

We were deeply saddened by the death in February 1982 of Dr. Eugene Meyer III. He had been a member of the board of directors of the company since 1946, and his contributions will be greatly missed.

In January of 1982, the company increased the annual dividend on its Class A and Class B common stock to 56 cents per share from the 50 cents paid in 1981. While our optimism for the future must be tempered by concern over the national economy, 1982 should be a very good year for the company.

Finally, we want to express our gratitude to the people who work for our company, to our readers, our viewers, and our advertisers. Their support in our first 10 years as a public company has been crucial to our success. Their continued backing enables us to look to the coming decade with confidence.

Katharine Graham

Katharine Graham
Chairman of the Board and Chief Executive Officer

Richard D. Simmons
President and Chief Operating Officer

March 1, 1982

Newspaper Division

The Washington Post—a morning daily and Sunday newspaper published in Washington, D.C. The Washington metropolitan area with 1.1 million households ranks first in average household income among the nation's ten largest metropolitan areas. At the end of 1981, The Post had a daily circulation of 770,000 and Sunday circulation of 984,000. The Washington Post is printed at three locations in and near Washington, D.C., and maintains news bureaus in five U.S. and 15 foreign cities.

The Herald—a daily afternoon, morning Saturday and Sunday newspaper published in Everett, Washington, 30 miles north of Seattle. The Herald circulates throughout Snohomish and Island Counties and the northern rim of King County. Snohomish County, the Herald's primary circulation area, recorded a 46 percent growth in households to 130,400 between 1970 and 1980. The Herald's 1981 year-end circulation was 58,000.

Robinson Terminal Warehouse Corporation (94 percent ownership)—a newsprint handling and storage facility in Alexandria and Springfield, Virginia, which services The Washington Post and approximately 40 other customers in the Washington-Baltimore area.

The Washington Post Writers Group—a syndicator of columns and features to newspapers throughout the United States.

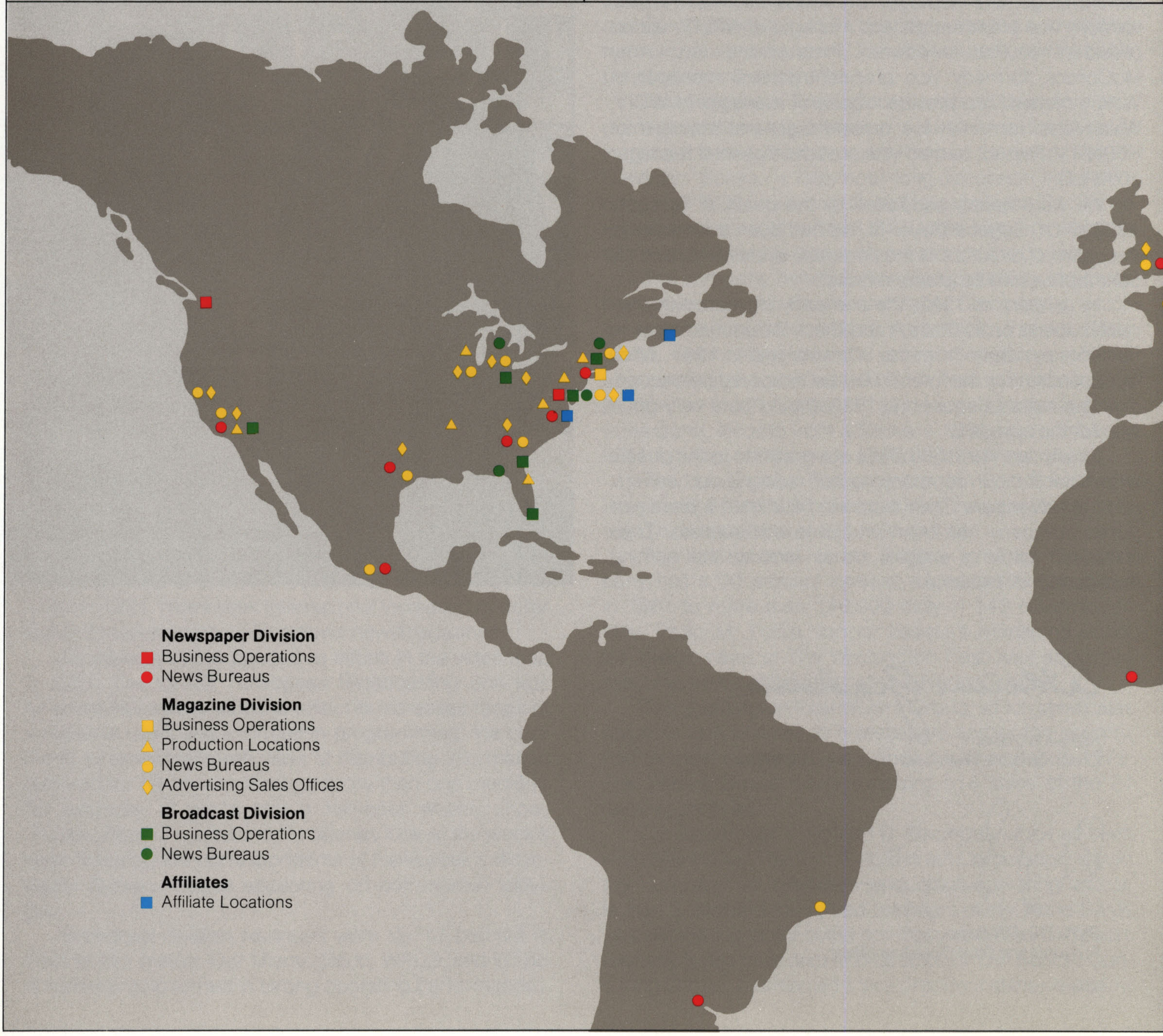
Magazine Division

Newsweek—a weekly newsmagazine published in New York City. Newsweek, with a rate base of 2,950,000, ranks second in circulation among the nation's three leading newsmagazines. Its 64 geographic and demographic editions enable advertisers to direct their messages to city, state and regional markets and selected demographic groups. The magazine is printed at six locations throughout the United States. Newsweek maintains news bureaus in nine U.S. and 15 foreign cities and has advertising sales offices in nine U.S. cities.

Newsweek International—an English-language weekly newsmagazine published in New York City and circulated around the world. For 1982, the Atlantic edition has a rate base of 288,000, the Pacific edition has a rate base of 230,000 and the Latin American edition has a rate base of 48,000. Newsweek International is printed in five countries and maintains sales offices in 10 foreign and three U.S. cities.

Newsweek Video—develops and produces news and information video programming for sale or syndication.

Newsweek Books—develops and produces non-magazine print products, including books, diaries and newsletters.



Broadcast Division

Post-Newsweek Stations, Inc., owns and operates four network-affiliated VHF television stations:

WDIV-4—an NBC affiliate in Detroit, Michigan, the 7th largest broadcasting market in the United States, with 1.6 million households.

WPLG-10—an ABC affiliate in Miami, Florida, the 13th largest broadcasting market in the U.S., with 1.1 million households.

WFSB-3—a CBS affiliate in Hartford, Connecticut, the 24th largest broadcasting market in the U.S., with 785,000 households.

WJXT-4—a CBS affiliate in Jacksonville, Florida, the 62nd largest broadcasting market in the U.S., with 369,100 households.

Post-Newsweek Productions, Inc.—a subsidiary operation that develops, produces and syndicates video programming.

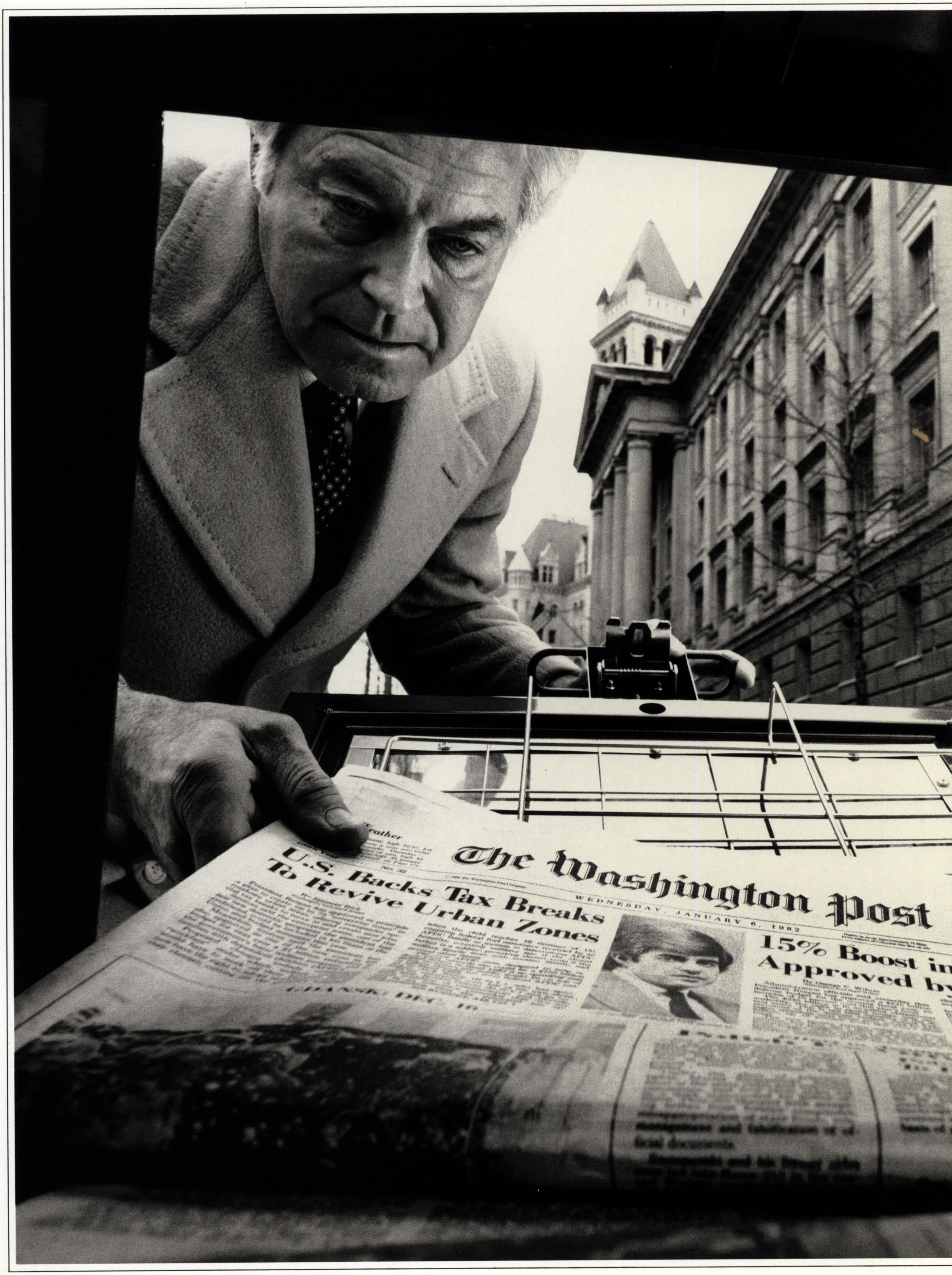
Affiliate Operations

Los Angeles Times-Washington Post News Service, Inc. (50 percent of common stock)—supplies articles and features to 448 newspapers, broadcast stations and magazines worldwide.

Bowater Mersey Paper Company Limited (49 percent of common stock), Liverpool, Nova Scotia—manufactures newsprint. Bowater supplies approximately 35 percent of the newsprint used by The Washington Post. Production in 1981 totalled just under 182,000 tons.

Bear Island Paper Company (one-third limited partnership interest), Doswell, Virginia—manufactures newsprint. Bear Island supplies approximately 16 percent of the newsprint used by The Washington Post. Production has improved steadily since the mill opened in late 1979; 1981 production of 153,000 tons was up 34 percent from the previous year.

International Herald Tribune, S.A. (30 percent of common stock), Paris, France—a daily newspaper circulating more than 140,000 copies in 143 countries around the world. The newspaper is printed simultaneously in Paris, London, Zurich and Hong Kong. An Asian edition begun in 1980 achieved paid circulation of more than 16,000 in 1981.


The Washington Post
WEDNESDAY, JANUARY 6, 1982
U.S. Backs Tax Breaks
To Revive Urban Zones
15% Boost in
Approved by
GDANSK: DEC. 16

NEWSPAPER DIVISION

A decade of investment in editorial product and production facilities paid off in unprecedented circulation gains for The Washington Post following the close of The Star. By the end of 1981, The Post had become the country's sixth largest daily and fifth largest Sunday newspaper.

The Washington Post occupies a singular position among daily newspapers. During a decade when many major newspapers were suffering a decline in household penetration—leaving them vulnerable to challenges by other media—The Post's circulation continued to grow along with the growth of the metropolitan Washington area. The explanation, publisher Donald Graham believes, lies to a great extent in investment in the editorial product. "The last three or four years," says Graham, "have seen an enormous expansion of what you get in the daily Washington Post."

This investment paid off in unprecedented circulation gains for The Post—higher than those forecast by any media analyst—following the close in 1981 of The Washington Star. This increased circulation made The Post, which was already attracting 29 percent of the advertising dollars spent in the Washington market—far above the national average for a newspaper in a competitive market—an even more compelling advertising buy. In an effort to continue building household penetration, The Post added an additional $3.5 million to the annual editorial budget in the fall of 1981 to better meet the information needs of its expanded readership.

The heart of The Post is its local coverage, and the staff assigned to metropolitan news was increased to 104. In addition to daily coverage of the metropolitan region, The Post publishes zoned sections once a week—the District Weekly, the Maryland Weekly, and the Virginia Weekly. These zoned editions not only provide more community information than could be accommodated in the daily paper, but offer advertisers a more efficient way to target audiences in specific areas.

The Post also continued in 1981 to expand its national and foreign coverage—a major source of strength for the paper in the best-educated (median 14.1 years of schooling) major market in the country. Surveys have shown that residents of the Washington area spend less time daily watching television (TV ratings run 20 percent lower) and they read more daily newspapers (the number of papers sold per household is 40 percent higher) than in any of the other top ten markets. One of the major editorial innovations of the year in an area where 349,000 people work directly for the government was the start of the Federal Report, a new daily package designed to provide more information about the activities of federal agencies.

The Post added new Saturday and Sunday opinion

Since it reaches 58 percent of all households in the Washington area daily and 70 percent on Sunday, The Post is an ideal medium for advertisers seeking a mass audience. Its 90 percent penetration of the top demographic households also makes it a very attractive buy for upscale advertisers.

pages following The Star's close, in an effort to take note of the diverse views of its expanded readership. It also added a large number of strips to its comic package.

The Post in 1981 began to benefit in a major way from the developmental spending of recent years. A new word processing system came on line in the newsroom of the paper in late 1980, which enabled reporters to write stories and editors to edit them on video display terminals, and then have them typeset by computer. This process made it possible to reduce the size of the composing room work force at The Post by 10 percent, while increasing editorial flexibility. A similar computerized system will be installed in the classified advertising department in 1982. This will lead to additional production savings and will improve the organization of classified ads, thus increasing their value to both readers and advertisers.

The Post also took full advantage in 1981 of the new $68 million satellite printing plant that had been completed in Springfield, Virginia, the previous year. The plant, which had been designed to meet the anticipated circulation growth of the 1980s, was already operating at near capacity by year's end. With the offset presses at the Springfield plant providing a 25 percent improvement in labor efficiency over the letterpresses in the downtown plant, nightly output at Springfield rose from 116,000 copies in early 1981 to over 200,000 in December.

To help meet the unexpected increase in circulation that followed the close of The Star, in late September The Post purchased the former Star plant in downtown Washington and had it in operation as a second satellite printing facility in only five days. "Without the investment in the Springfield plant and the purchase of the Star plant we just couldn't have kept up with the demand," says Thomas Ferguson, president of the newspaper. By printing the paper at three plants, The Post was able to meet its objective of having all copies in the hands of its distributors by 4 a.m. daily for home delivery. "Our overriding aim is to get the paper to the reader on time," says Graham, "and despite the huge circulation buildup this year we actually had fewer late press runs in 1981 than we did in 1980."

The surge in subscriptions that took place in August and September was the result of a decision to attempt to keep the newspaper readership habit of former Star subscribers going by signing them up as quickly as possible. To achieve this, The Post moved up by more than a month a major radio and television promotion campaign that had been planned for fall, and offered its distributors and carriers special incentives for new subscriptions. The results from this effort far exceeded expectations. The Post had to temporarily more than triple the staff of its phone room to process orders which poured in at a rate that hit 7,000 on one day. While it cost The Post an estimated $3 million in total expense to pick up the additional subscribers, the increased circulation enabled The Post to offer advertisers a way to reach substantially more customers.

"Washington is a very unusual market, with the highest median income in the country and the highest education levels. A lot of stores have moved here because they want to operate in a market with so many affluent families," says Ferguson. "Since The Post now reaches more than 90 percent of the top demographic households in this area, we obviously are a very attractive medium for upscale advertisers. But because of our extraordinarily high total penetration, advertisers can reach with us a higher percentage of the *total* residents of the Washington area than is possible in other large cities—so the newspaper is an ideal medium for the supermarkets, the drug stores, the retail chain stores that want to reach a mass audience."


The Herald


The Herald
Lawmakers OK bill that hits ferry workers
Northwest living
DIVORCE MEDIATION
Perspective
Bursting with life
Sports
General news
The Economy
Fashion's number one
SPACE SHUTTLE
Perspective
Easing into the saddle
Calendar
WEDNESDAY
THURSDAY
FRIDAY
VENTURE
Northwest living
You're fired
Northwest living
Perspective
ON THE AIR
Inside

The Herald's dramatic expansion of zoning in 1981 enabled it to provide more comprehensive community coverage than nearby metropolitan dailies. At the same time, the increased zoning gave small merchants a new way to reach their customers.

The past year also saw a dramatic change in the market position of The Herald, the company's suburban daily newspaper in Snohomish County north of Seattle. "This was a paper that was long overdue for an attack on the market," says publisher Christopher Little. As a result of a major program to computerize the newspaper that was initiated in 1980, The Herald was ready to launch that marketing effort in the early months of 1981.

The most important move was the start of a new Sunday newspaper in April to compete in Snohomish County with the Sunday editions of the two Seattle dailies. "Before we started the Sunday paper, the two Seattle papers together had a Sunday circulation of about 55,000 in our territory, and we had nothing," Little says. By year's end, the new Sunday Herald had a circulation of 58,000—and the Sunday circulation of the Seattle papers in Snohomish County had declined markedly.

The Herald in 1981 also used its new computer capacity to dramatically expand its zoning, producing four regional editions daily to provide more local news tailored to the interests of readers in different parts of the county. "We are working to greatly strengthen our local news coverage," says Little. "We want as much zoning as makes economic sense. Our coverage is more localized than what the metropolitan dailies can do, but it's of a higher quality than what weekly papers can do—and it reaches people every day so it's much more current."

The Herald in 1981 also began zoning advertising for the first time, and plans to expand this capability rapidly. "It's something hardly any medium other than a suburban daily can do for the advertiser," says Little. "It gives small merchants, who have never placed ads in daily newspapers, a chance to try us. And it gives advertisers, who are located in one part of our circulation area and find they cannot afford to buy an ad for the full press run, a way to address the customers in their locality."

The Herald inaugurated another service to advertisers in 1981 when it began publishing The Calendar—a new weekly supplement, distributed by the newspaper's regular carriers to both subscribers and non-subscribers along their routes, that contains lists of everything happening each week throughout the area. The idea behind The Calendar was to offer advertisers whose objective was to achieve total market coverage a better alternative to direct mail. "The Calendar provides more than 90 percent penetration in most high density areas," says Little, "and it has been a major success."

The design of The Herald, which is also new, won the 1981 silver medal from the American Society of Newspaper Designers. Even the name, The Herald, is new. The paper started the year as The Everett Herald in northern Snohomish County and The Western Sun in the south. The name change made it easier to promote the paper, and was accompanied by the first major promotional campaign in the newspaper's history.

Investment in sophisticated electronic, computer and laser technologies has given Newsweek far more immediacy, sharply reducing the period that elapses from the point the editors complete preparation of an issue to the moment it reaches the reader.

In the changing media world of the 1980s, Newsweek is finding immediacy in covering news events of increasing importance. "Even though people have seen the videotape eight times on television, they need the printed newsmagazine," says Newsweek president Mark Edmiston. "They say: 'I want to go through this thing in its entirety. I want a close look at the pictures. I want to understand what is going on.' But," adds Edmiston, "we could see several years ago that to keep our competitive advantage, we were going to have to be more immediate. People want what we give them, but they also want it in their hands faster."

As a result, a major effort was launched at Newsweek to speed up the manufacturing and distribution process. The objective was to use sophisticated electronic, computer and laser technologies to sharply reduce the period that elapsed from the point editors completed preparation of an issue to the moment it reached the readers. "Five years ago, when the magazine closed on Saturday night, your first copy was delivered on Tuesday morning at the earliest," recalls Edmiston. "Now, a large percentage of our readers get their copies on Monday morning, and everyone has it—all across the country—by Wednesday."

At the same time, Newsweek focused on getting later news, information and photos from all over the world into the magazine. The development of sophisticated equipment to transmit four-color photographs was part of this. "Up until a year-and-a-half ago, we had to select our four-color photographs much earlier to permit film delivery by commercial airlines to our six printing plants across the country. Now, we can select our photographs as late as Saturday afternoon and transmit them within six hours," says Edmiston. "What we are starting to do now is the same kind of thing with the whole reporting and editing process." In 1981, new video display terminals began appearing in the offices of editors at Newsweek. "All this will give us more flexibility," says Edmiston. "It means we will be more responsive—we will be able to do a lot more reporting on stories that unfold late in the week."

But while coverage of complex developing stories is one of the strengths of a newsmagazine, Newsweek also again demonstrated in 1981 its unique ability to address overriding issues in a way that is beyond the capabilities of daily media. A 20,000-word special report, "What Vietnam Did to Us: A Combat Company Relives the War and the

New manufacturing and distribution processes have enabled Newsweek to segment its markets much more precisely, and thus meet the needs of advertisers eager to deliver their messages on a more targeted geographic and demographic basis.

Decade Since," became the longest story on a single subject ever to appear in Newsweek. The magazine devoted half of the December 14th issue to the report, which told the story of America's 1.6 million Vietnam veterans through the eyes of a single combat unit. The project took six months, and a Newsweek reporting and photographic team traveled more than 65,000 miles tracking down Charlie Company veterans from Alaska to Germany.

This type of extraordinary journalistic effort, which enhances the value of the magazine to its readers, clearly is important to Newsweek's advertisers. But the magazine, in its developmental program, also has focused on the specific marketing needs of advertisers in this complex economic environment. The same technological advances that have made it possible to get later news into the magazine have also increased Newsweek's ability to accept "late-breaking" advertisements. This has become tremendously important, because in recent years advertisers increasingly have responded to the turbulent economic conditions by holding off until the last minute on ad buys. "Last year, nearly 50 percent of the advertising pages we ran came in after what used to be the normal closing," Edmiston said. About eight percent of the pages took advantage of Newsweek's fast-close four-color capability, which allows advertisers to deliver the copy to the magazine only 24 hours before it goes to press.

The trend toward demographic editions, which saw Newsweek introduce Newsweek Executive in 1974 and successfully add Newsweek Woman in 1980, also was extended in late 1981 with announcement of a new demographic edition—Newsweek Executive Plus, aimed at top business executives. These three editions together will account for nearly half Newsweek's total circulation in 1982. "Advertisers are expressing an increasing desire to deliver their messages on a much more targeted basis," says Edmiston. "The new processes we have introduced are enabling us to segment our markets much more precisely, and we intend to continue to expand this capacity."

As a result of this increased flexibility, Edmiston believes the printed weekly newsmagazine is in a position to be even more important to readers—and advertisers—in 1990 than it is today. Says Edmiston: "People just cannot get the information we deliver any other way."

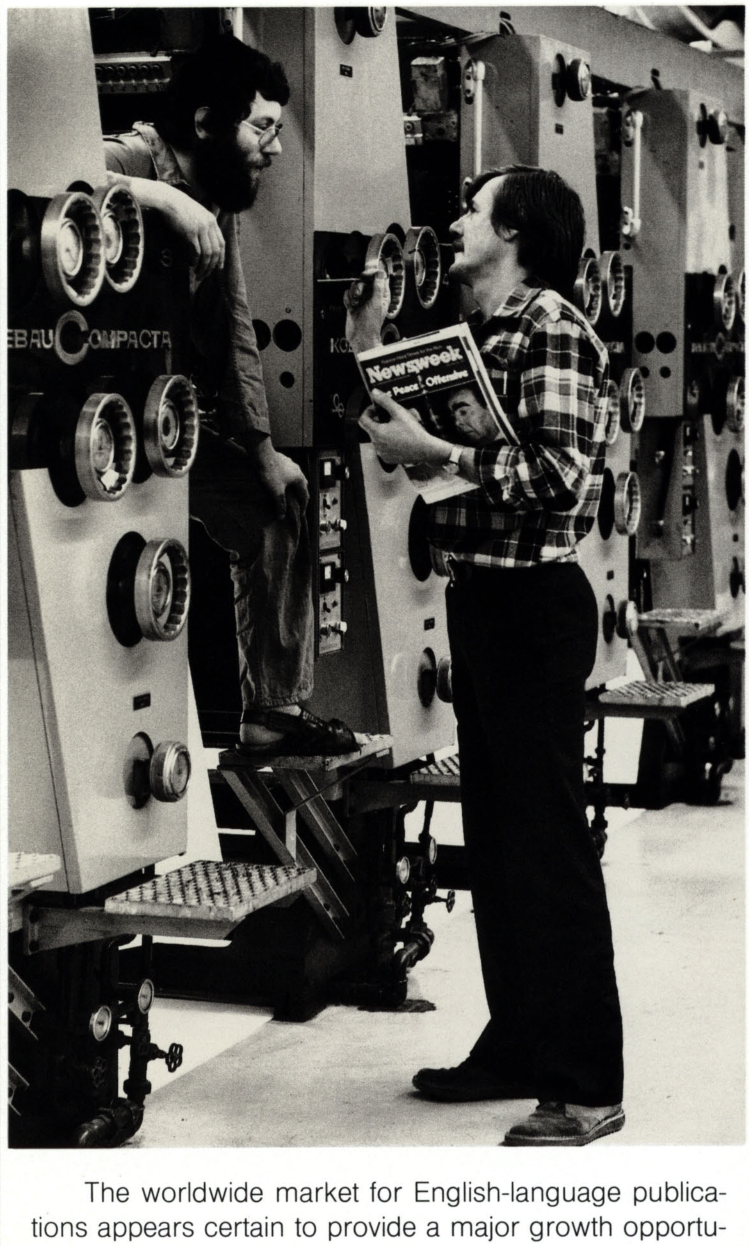

The day the flag had

The worldwide market for English-language publications, already huge and growing, provides a major growth opportunity for Newsweek International in the coming decade.

If the immediacy factor is of growing importance to Newsweek, it is crucial to the competitive position of Newsweek International. "A far higher percentage of our sales—50 percent—comes from newsstands around the world," explains Howard Smith, president of Newsweek International. "So we have been investing with two considerations in mind: getting the magazine to newsstands before the competition, and trying to guarantee that it is there at the same time every week." This twin effort in 1981 focused on ensuring that Newsweek International was on sale at newsstands around the world as early in the week as possible.

"We now have Newsweek International on sale in London, at kiosks on the Champs Elysee, and in Hong Kong at 9 o'clock on Monday morning," says Smith. "That, in turn, helped us increase total worldwide sales four percent in what you would not call a really terrific year from the standpoint of the world economy." The investment in transmitting the pages of Newsweek International via satellite to printing plants at Zurich and Hong Kong has meant that the magazine goes on sale up to 24 hours earlier than before and it also has greatly increased delivery reliability. "Since we are so dependent on newsstand sales, it's crucial to stabilize the buying habit," explains Smith. "It is important that the reader know he can go to the newsstand at the same day and hour each week and Newsweek will be there. With the old system of physically delivering film to our printing plants by airplane, we had much greater inconsistency of delivery."

Newsweek International also has oriented its editorial product more toward "hard news" than the domestic magazine, because it serves as a primary news source for readers in many countries. It accordingly has invested in the ability to get more important late-breaking news into the magazine—a capability that gives Newsweek International an edge over many foreign publications. "We are unique in many countries by coming out as a Monday magazine," says Smith. "We were the first magazine to go on sale in France with a cover story on the election of President Mitterand—even though we were competing with local French publications—because we were able to come out with it the day after the Sunday election."



The worldwide market for English-language publications appears certain to provide a major growth opportunity through the 1980s. "The market out there is already huge and growing," says Smith. "The middle-management layer—the younger reader—is acquiring the English-language capability that traditionally was limited to the upper echelon. The appetite for English-language publications is growing all the time."

To help local advertisers understand how their customers watch television, Post-Newsweek Stations has been providing increased research and marketing assistance to aid them in their media buys.

Television stations will operate in a far more complex media environment in the 1980s. Viewers will have an expanding array of program choices that will include movie channels, sports channels, and other specialized services in addition to network-affiliated and independent television stations. The challenge for Post-Newsweek Stations—which operates the company's four VHF television stations in Detroit, Miami, Jacksonville and Hartford—will be to offer viewers some types of programming not available from these other sources. This has led, according to PNS president Joel Chaseman, to an effort to turn the Post-Newsweek stations into "the reference point for local news and regional programming in their viewing areas."

"This will be terribly important in an era when all the other programming is packaged, or mailed in, or comes from satellites," says Chaseman. "Our concept going in—and it is a concept we have invested in—is providing the most comprehensive local news and local programming." This type of coverage is embodied in reports like "Crime Without Punishment," the five-part series produced by WPLG in Miami, which won a 1981 UPI National Broadcast award for its examination of Dade County's criminal justice system. "We focus on matters that are of enormous concern and interest to the people of Miami . . . Hartford . . . Jacksonville . . . and Detroit," Chaseman says. "And it works. We have three number one stations, and a very strong number two in Detroit where WDIV has made the biggest audience gains of any NBC affiliate in the country."

Developing this kind of local identity—designed to keep the Post-Newsweek stations dominant in their markets through the 1980s and beyond—has involved a major investment in recent years in people, resources and equipment, and it is already paying off in share of market and advertising revenues. "What we must be able to do at our stations, as part of this concept, is produce local programs," says Chaseman. "Not just news programs, but local programs like Mort Crim's 'Free 4 All' produced by WDIV in Detroit." This is a panel show—similar to "Agronsky & Co.," the Washington-based weekly show syndicated by Post-Newsweek Productions—but it focuses on issues affecting Detroit. "It gets a lot of attention," says Chaseman, "and good ratings."


3
NEWS


LENNIE

Through investment in people, equipment and resources, the four Post-Newsweek television stations have become the reference point for local news and regional programming in their areas.

All four Post-Newsweek stations produce regular evening public affairs programs that draw them closer to their communities. In addition, WJXT in Jacksonville in 1981 joined WFSB in Hartford in carrying "PM Magazine," a syndicated program that is a joint project of local stations across the country. "This is a program in which local hosts oversee a daily mixture of national, regional and local stories—with local tips about what's going on in the community," says Chaseman. "It is a program which capitalizes on regional identity."

WFSB in Hartford offers a dramatic illustration of how a station is repositioned to meet the challenges of the 1980s. "When we first came to Hartford in 1974, WFSB produced half an hour of news in the early evening," says Chaseman. "We went quickly to an hour and now present 90 minutes. WFSB also has a half hour of news at noon, and newsbreaks during the day. WFSB has certainly become the reference point for its region."

The amount of time devoted to news, however, is only part of the effort. More important is increasing the capability of the news staffs, and giving the news staffs the tools they need to communicate. WFSB, for example, now has regional bureaus in New Haven, Connecticut, and Springfield, Massachusetts, connected by permanent microwave hook-ups to the station in Hartford. "WFSB thus has a capability that very few stations in the U.S. have," says Chaseman. "We can go live in our newscasts from Hartford, Springfield, and New Haven—or we can put two or three of them on the screen at the same time. And we'll be adding Waterbury, Connecticut this spring. It's tough to do that not only live, but in a sophisticated, highly professional way. But people want to see things *now*—they don't want to see tape any more than necessary—and we have that live capability. It's instantly relevant when something happens."

Post-Newsweek Stations has taken the lead in bringing viewers news of special local interest from Washington. Reports are transmitted via satellite from the Washington Bureau to the four TV stations for use on the early evening news.

The same type of commitment is also paying dividends for the other Post-Newsweek stations. WDIV opened a bureau this past year in Lansing, to better cover the decisions affecting Detroit that are being made in the state capital, and it also has a news bureau based in Oakland County which covers Detroit's populous suburbs. "There again," says Chaseman, "WDIV has the live capability. And to be able to do the kind of live round-robin they do on complex stories—it isn't just packaging. It facilitates understanding, because television is a conveyor of mood as well as fact—and you can see the mood in these places, the emotion. We think that makes a big difference and it is reflected in the ratings."

Post-Newsweek Stations also has taken the lead in bringing the viewers of the four stations news of special interest from Washington. PNS was the first to experiment with transmitting reports from its Washington Bureau to its local stations via satellite, rather than shipping tape by courier and airplane. "The Washington Bureau covers the representatives from these four areas in Congress. Reports are sent down to the stations around 4 o'clock every afternoon so they will have the events from Capitol Hill that affect their region on the early news," says Chaseman. "That's important."

Positioning the Post-Newsweek stations to fill a unique need in their markets will ensure that they remain an effective buy for advertisers through the 1980s. PNS also is making a major effort to encourage more advertisers to use local television to reach their customers. At WJXT in Jacksonville and WFSB in Hartford, commercial production units have been set up to help local retailers produce quality commercials. "We are trying to show retailers who have not been using television—perhaps because they thought it would be too complicated to get into TV production—what TV can do for them," says Chaseman. In all four markets, the stations have been providing advertisers with increased research and marketing assistance. "We are trying to help them with their own marketing—help them focus on how their customers watch television, and where to find them—to make the media-buying job easier," Chaseman says.

In the ever more complex media world of the 1980s, advertisers searching for sizeable audiences will increasingly find them on the four Post-Newsweek stations. "What we are doing has already made our local television stations the dominant news medium and it will keep us an important advertising medium," says Chaseman. "What we look for are market needs not being adequately served by others—then we try to fill them."


Scientific
Atlanta

Results of Operations

In each of the last three years sales of newspaper, magazine and television advertising have accounted for about 73% of the company's operating revenues, with another 25% derived from newspaper and magazine circulation. In both 1980 and 1981, however, several events took place which affect comparisons of each of those years' operating results with the preceding year. Inside Sports commenced publication in March 1980, adversely affecting operating income in 1980 as compared to 1979; the closing of The Washington Star in early August 1981 resulted in substantially greater Washington Post circulation, increasing revenues and expenses in 1981 as compared to 1980; and the sale of several business operations at a net loss in 1981 adversely affected income for that year as compared to 1980. These and other factors noted below should be borne in mind in comparing revenues, expenses and income from operations during the last three years.

Total operating revenues increased by $66.3 million (11%) in 1980 and by $93.9 million (14%) in 1981. Advertising revenues rose by $44.5 million (10%) in 1980, mainly due to higher rates as newspaper linage remained about even with 1979 and the number of magazine advertising pages declined by about 9 percent. In 1981 advertising revenues rose by $76.6 million (16%); the increase reflects higher rates, a 4 percent rise in newspaper advertising linage at The Washington Post and a small increase in magazine advertising pages for Newsweek's domestic edition. Circulation revenues increased by $20.4 million (14%) in 1980, mainly due to higher prices and the contribution of ten months of Inside Sports' circulation revenues; in 1981 circulation revenues rose by $16.2 million (9%) reflecting higher prices and increased Washington Post circulation. Revenues in 1982, particularly from advertising, are expected to continue to be responsive to local and national economic conditions and will not include any revenues of either the Trenton Times or Inside Sports. These two publications contributed $23.5 million to revenues in 1981.

Operating costs and expenses increased by $81.2 million (16%) in 1980, outpacing that year's gain in revenues, and by $93.7 million (16%) in 1981 which approximated the increased revenues for the year. The increase in costs in 1980 primarily reflects higher costs of materials, wages and services, about $20 million of costs of Inside Sports in its first ten months of publication, and $5 million of depreciation and other operating expenses associated with a new Washington Post satellite printing plant placed in service in the fourth quarter of the year. In 1981 operating costs increased due to continuing inflation in the costs of materials, wages and services, higher production and delivery costs attributable to increased volume (particularly Washington Post circulation), an additional $7 million of depreciation and other operating expenses associated with the first full year of operation of The Post's satellite plant, and an additional $2.3 million of expenses for the first full year of operations of a television production unit established in 1980.

The company's share in the earnings of its affiliates declined by $2.3 million in 1980 but rose by $3.7 million in 1981. In each year these results reflect the operations of Bear Island Paper Company, in which the company has a one-third limited partnership interest, and which constructed and operates a newsprint mill which began production in late 1979. The company's share of Bear Island's losses rose from $2.2 million in 1979 to $4.7 million in 1980 (the mill's first full year of production), but declined to $1.1 million in 1981.

To finance a number of capital and other expenditures (see "Financial Condition" below), the company utilized previously accumulated funds during 1980 and made substantial borrowings in 1980 and 1981. As a result, interest income declined by $2.5 million in 1980 and remained constant in 1981, while interest costs rose by $2.0 million in 1980 and $1.9 million in 1981. Such costs include $2.3 million in 1980 and $.3 million in 1981 representing interest on construction borrowings that was capitalized in accordance with Statement of Financial Accounting Standards No. 34.

Other expense increased in 1981 reflecting a net pre-tax loss of about $3.4 million on the sale of several businesses including the Trenton Times, Inside Sports and a television sales company.

The company's effective income tax rate declined in 1980 and rose slightly in 1981. The rate declined in 1980 because of a rise in the proportion of income derived from foreign affiliates; the increase in the effective rate for 1981 reflects the application of the capital gains tax rate to the net loss on the sales of the business operations noted above.

In 1980 net income declined by $8.7 million (20%) compared to the previous year's net income (calculated before a special 1979 charge of $13.5 million, which reflects the cumulative effect on prior years of a change made in 1979 in the company's method of accounting for the cost of obtaining magazine subscriptions). In 1981 net income further declined by $1.6 million (5%) reflecting a $2.1 million net after-tax loss on the sale of the several business operations noted above.

Having repurchased 1,688,000 shares of its Class B common stock late in 1979, the company purchased an additional 334,000 shares in the first quarter of 1980 when its repurchase program was concluded. These repurchases significantly reduced the weighted average number of shares outstanding in 1980 as compared to 1979 and, after allowing for estimated opportunity costs, increased 1980 earnings per share by about 5 percent.

In 1982 the company expects to continue to experience inflationary pressures on operating costs and expenses, particularly for newsprint and magazine paper and employee wages and benefits. However, income from operations for 1982 is expected to improve as a result of planned increases in advertising and circulation rates and the divestiture in 1981 of the unprofitable operations of Inside Sports and the Trenton Times, which together reduced income from operations by $15 million in 1980 and $13 million in 1981.

Financial Condition: Liquidity and Capital Resources

During the period 1979 through 1981 the company expended about $204 million on a number of programs, including construction or purchase of additional plant and equipment, investment in the Bear Island newsprint mill and the repurchase of 2,022,000 shares of Class B common stock. The company expects to expend approximately $45 million in 1982 and a substantially lower amount in 1983, principally to modernize The Washington Post's production facilities in downtown Washington, D.C., to construct or expand physical plant and purchase new equipment at the company's television stations, and to improve operating facilities at Newsweek's offices in New York City.

Of the funds required to finance the $204 million of capital expenditures and stock repurchases made during the past three years, about $180 million was provided by cash flow from operations and working capital. The remainder of the funds was provided by short-term borrowings under the company's $75 million revolving credit agreement with a group of banks and from the sale of commercial paper supported by that agreement; at the end of 1981 the company had outstanding $24 million of commercial paper, compared to $5 million of bank borrowings and $23 million of commercial paper at the end of 1980. The company expects to finance the capital expenditures to be made in 1982 and 1983 from cash flow from operations; the funding of these expenditures is not expected to have any significant effect on the company's working capital or its ability to finance its current operations.

The company also expects its cash flow from operations to provide sufficient funds to retire its commercial paper, and to repay any short-term borrowings it may make under its revolving credit agreement, before the end of 1983. However, should any such commercial paper or borrowings be outstanding on January 1, 1985, the company may at that time, if it does not seek and obtain a new revolving credit agreement, retire such indebtedness (and obtain such additional funds as it may then require) by exercising its right under its present revolving credit agreement to borrow up to $75 million for a four-year term.

(In thousands, except per share amounts)	Fiscal Year Ended January 3, 1982	December 28, 1980	December 30, 1979
Operating Revenues			
Advertising	$551,985	$475,391	$430,909
Circulation	187,465	171,301	150,887
Other	13,997	12,843	11,466
	753,447	659,535	593,262
Operating Costs and Expenses			
Operating	509,005	445,718	391,503
Selling, general and administrative	160,509	136,972	112,123
Depreciation and amortization of property, plant and equipment	16,704	9,780	7,684
Amortization of goodwill and other intangibles	1,515	1,552	1,531
	687,733	594,022	512,841
Income from Operations	65,714	65,513	80,421
Equity in earnings of affiliates	4,406	727	2,980
Interest income	1,067	1,063	3,609
Interest expense, net of capitalized interest of $349 in 1981 and $2,252 in 1980	(5,360)	(1,581)	(1,796)
Other income (expense), net	(3,359)	(847)	(306)
Income before Income Taxes and Cumulative Effect of Change in Method of Accounting	62,468	64,875	84,908
Provision for Income Taxes			
Current	25,733	20,229	35,863
Deferred	4,025	10,311	6,046
	29,758	30,540	41,909
Income before Cumulative Effect of Change in Method of Accounting	32,710	34,335	42,999
Cumulative Effect on Years Prior to 1979 of Change in Method of Accounting for Magazine Subscription Procurement Costs	—	—	13,531
Net Income	$ 32,710	$ 34,335	$ 29,468
Earnings per Share			
Income before cumulative effect of change in method of accounting	$2.32	$2.44	$2.75
Cumulative effect on years prior to 1979 of change in method of accounting for magazine subscription procurement costs	—	—	.86
Net income	$2.32	$2.44	$1.89

The information on pages 34 through 45 is an integral part of the financial statements.

(In thousands, except share amounts)	January 3, 1982	December 28, 1980
ASSETS		
Current Assets		
Cash and temporary investments	$ 11,129	$ 9,958
Accounts receivable, less estimated returns, doubtful accounts and allowances of $11,693 and $9,681	85,281	81,746
Inventories at lower of cost or market	22,500	20,672
Prepaid film expense	7,977	7,396
Other current assets	8,115	6,298
	135,002	126,070
Investments in Affiliates	39,695	32,177
Property, Plant and Equipment		
Buildings	78,097	72,399
Machinery, equipment and fixtures	131,483	122,210
Leasehold improvements	7,709	5,931
	217,289	200,540
Less accumulated depreciation and amortization	(71,314)	(66,906)
	145,975	133,634
Land	14,172	11,059
Construction in progress	11,154	7,416
	171,301	152,109
Goodwill and Other Intangibles, less accumulated amortization of $7,138 and $7,952	78,804	91,409
Deferred Charges and Other Assets	33,395	27,338
	$458,197	$429,103

The information on pages 34 through 45 is an integral part of the financial statements.

(In thousands, except share amounts)	January 3, 1982	December 28, 1980
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued expenses	$ 70,616	$ 72,854
Federal and state income taxes	6,200	1,428
Contributions due to employee benefit trust funds	7,831	7,776
Current portion of long-term debt	16,325	2,397
	100,972	84,455
Other Liabilities	25,605	23,184
Long-Term Debt	23,000	43,586
Deferred Subscription Revenue	66,355	65,275
Deferred Income Taxes	28,272	24,643
Minority Interest in Subsidiary Company	600	690
Shareholders' Equity		
Preferred stock, $1 par value, authorized 1,000,000 shares	—	—
Common stock		
Class A common stock, $1 par value, authorized 7,000,000 shares; 2,748,382 shares issued and outstanding	2,748	2,748
Class B common stock, $1 par value, authorized 40,000,000 shares; 17,251,618 shares issued; 11,316,895 and 11,229,922 shares outstanding	17,252	17,252
Capital in excess of par value	1,998	1,679
Retained earnings	270,324	244,629
Cumulative foreign currency translation adjustment	(1,001)	—
Cost of 5,934,723 and 6,021,696 shares of Class B common stock held in Treasury	(77,928)	(79,038)
	213,393	187,270
	$458,197	$429,103

The information on pages 34 through 45 is an integral part of the financial statements.

(In thousands)	Fiscal Year Ended January 3, 1982	December 28, 1980	December 30, 1979
Sources of Working Capital			
Net income	$32,710	$34,335	$29,468
Add cumulative effect on years prior to 1979 of change in method of accounting for magazine subscription procurement costs not requiring working capital	—	—	13,531
Income before cumulative effect of change in method of accounting	32,710	34,335	42,999
Add (deduct) charges (credits) to income not requiring working capital			
Depreciation and amortization of property, plant and equipment	16,704	9,780	7,684
Income tax timing differences	4,025	10,311	6,046
Amortization of television film costs	10,067	9,245	5,484
Equity in earnings of affiliates	(4,406)	(727)	(2,980)
Amortization of goodwill and other intangibles	1,515	1,552	1,531
Other	2,339	2,039	2,028
Total provided by operations	62,954	66,535	62,792
Increase from sale of businesses	7,731	—	—
Increase (decrease) in contracted television film rights payable	1,426	(1,212)	6,635
Dividends received from affiliates	87	8,493	2,319
Increase in deferred subscription income	1,080	941	7,839
Other	11,165	7,620	9,855
Total sources	84,443	82,377	89,440
Uses of Working Capital			
Purchases of plant assets	41,229	69,036	35,484
Decrease (increase) in long-term debt	20,505	(26,036)	2,380
Purchases of television film rights	12,162	9,283	16,484
Investment in newsprint mill	4,200	7,740	2,700
Repurchases of Class B common stock	—	6,454	36,996
Dividends on common stock	7,015	6,164	5,592
Other	6,917	4,736	7,002
Total uses	92,028	77,377	106,638
Net Increase (Decrease) in Working Capital	$(7,585)	$ 5,000	$(17,198)
Changes in Composition of Working Capital			
Cash and temporary investments	$ 1,171	$ (3,869)	$(33,826)
Accounts receivable	3,535	8,006	18,393
Inventories	1,828	6,382	4,414
Prepaid film expense	581	665	3,664
Other current assets	1,817	2,718	55
Increase (decrease) in current assets	8,932	13,902	(7,300)
Accounts payable and accrued expenses	2,238	(8,058)	(20,897)
Federal and state income taxes	(4,772)	495	12,366
Contributions due to employee benefit trust funds	(55)	(1,322)	(1,487)
Current portion of long-term debt	(13,928)	(17)	120
(Increase) in current liabilities	(16,517)	(8,902)	(9,898)
Net increase (decrease) in working capital	$ (7,585)	$ 5,000	$(17,198)

The information on pages 34 through 45 is an integral part of the financial statements.

(In thousands, except share amounts)	Class A Common Stock	Class B Common Stock	Capital in Excess of Par Value	Retained Earnings	Cumulative Foreign Currency Translation Adjustment	Treasury Stock
Balance December 31, 1978	$3,054	$16,946	$1,542	$192,582	$ —	$(36,710)
Net income for the year				29,468		
Dividends—$.36 per share				(5,592)		
Issuance of 31,300 shares of Class B common stock upon exercise of options			(129)			328
Repurchase of 1,688,280 shares of Class B common stock						(36,996)
Other			289			
Balance December 30, 1979	3,054	16,946	1,702	216,458	—	(73,378)
Net income for the year				34,335		
Dividends—$.44 per share				(6,164)		
Conversion of 305,378 shares of Class A common stock to Class B common stock	(306)	306				
Issuance of 60,550 shares of Class B common stock upon exercise of options			(375)			794
Repurchase of 333,720 shares of Class B common stock						(6,454)
Other			352			
Balance December 28, 1980	2,748	17,252	1,679	244,629	—	(79,038)
Cumulative effect on years prior to 1981 of adoption of Statement of Financial Accounting Standards No. 52					(844)	
Net income for the year				32,710		
Dividends—$.50 per share				(7,015)		
Issuance of 86,973 shares of Class B common stock upon exercise of options			(527)			1,110
Change in foreign currency translation adjustment					(157)	
Other			846			
Balance January 3, 1982	$2,748	$17,252	$1,998	$270,324	$(1,001)	$(77,928)

The information on pages 34 through 45 is an integral part of the financial statements.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fiscal Year. The company reports on a 52-53 week fiscal year ending on the Sunday nearest December 31. The fiscal year 1981, which ended on January 3, 1982, includes 53 weeks while 1980 and 1979 each include 52 weeks.

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

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 average cost method.

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

Property, Plant and Equipment. Property, plant and equipment is recorded at cost which since 1980, in accordance with Statement of Financial Accounting Standards No. 34, includes interest capitalized in connection with major long-term construction projects. Replacements and major improvements are capitalized; maintenance and repairs are charged to expense as incurred. Upon sale or retirement of property, plant and equipment, the costs and related accumulated depreciation are eliminated from the accounts. Any resulting gains or losses are included in the determination of net income.

Depreciation is calculated using the straight-line method over the estimated useful lives of the property, plant and equipment: 3 to 11 years for machinery and equipment, 20 to 50 years for buildings and 5 to 20 years for land improvements. The costs of leasehold improvements are amortized over the lesser of the useful lives or the terms of the respective leases.

Goodwill and Other Intangibles. Goodwill and other intangibles represents the unamortized excess of the cost of acquiring subsidiary and affiliated companies over the fair values of such companies' net tangible assets at the dates of acquisition. Goodwill and other intangibles acquired prior to October 30, 1970, the effective date of Accounting Principles Board Opinion No. 17, are not being amortized because in the opinion of the company there has been no diminution of the value of such assets. Goodwill and other intangibles acquired subsequently are being amortized by use of the straight-line method generally over 40 years in accordance with Opinion No. 17, although in the opinion of the company there has been no diminution of the value of such assets.

Deferred Film Costs. The broadcasting subsidiaries are parties to agreements which entitle them to show motion pictures and syndicated programs on television. The costs of these rights and the liabilities for future payments under these agreements are reflected in the Consolidated Balance Sheets and are charged to expense using accelerated amortization rates for motion pictures and accelerated or straight-line rates for syndicated programs.

Deferred Subscription Revenue and Magazine Subscription Procurement Costs. Deferred subscription revenue, which represents amounts received from subscribers in advance of magazine and newspaper deliveries, is reflected in operating revenues over the subscription term. Since 1979 magazine subscription procurement costs have been charged to expense as incurred.

Income Taxes. Deferred income taxes result from timing differences in the recognition of certain expenses, principally depreciation, for tax and financial reporting purposes, in the recognition of income tax to be withheld at the source of distribution of earnings of foreign affiliates, and in the recognition of investment tax credits which for financial reporting purposes are applied as a reduction of income taxes over the depreciable lives of the related assets.

Foreign Currency Translation. In 1981 the company adopted the provisions of Statement of Financial Accounting Standards No. 52, "Foreign Currency Translation" as further discussed in Note B. Gains and losses on foreign currency transactions and translation of accounts of the company's foreign operations are recognized currently in the Consolidated Statements of Income. Gains and losses on translation of the company's equity interests in its foreign affiliates are not included in the Consolidated Statement of Income for 1981 but are reported separately and accumulated in the "Cumulative Foreign Currency Translation Adjustment" in the Consolidated Balance Sheet at January 3, 1982.

B. ACCOUNTING CHANGES

In 1979 the company adopted a change in its method of accounting for the costs of procuring magazine subscriptions. Under the deferred method previously used, such costs were amortized over the lives of the related subscriptions; under the currently used method, such costs are charged to expense as incurred. The cumulative effect of the accounting change on years prior to 1979, net of related taxes of $15,474,000, was $13,531,000 ($.86 per share) which was included as a special charge to 1979 earnings.

In 1981 the company adopted the provisions of Statement of Financial Accounting Standards No. 52, "Foreign Currency Translation," and as a result changed its method of calculating and recognizing gains and losses on the translation of its equity interests in foreign affiliates. Translation gains and losses, which previously were recognized in the Consolidated Statements of Income, are now reported separately and accumulated in the "Cumulative Foreign Currency Translation Adjustment" in the Consolidated Balance Sheet. The effect of translating the company's equity interests in its foreign affiliates at current exchange rates as of the beginning of 1981 was $844,000, which is reported as the beginning balance in the "Cumulative Foreign Currency Translation Adjustment." The effect of the adoption of Statement No. 52 on operations for 1981 was to increase earnings by $399,000; had Statement No. 52 been in effect during 1980 and 1979, earnings for those years would have been $280,000 higher and $166,000 lower, respectively.

C. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses at January 3, 1982 and December 28, 1980 consist of the following (in thousands):

	1981	1980
Trade payables	$28,485	$31,370
Accrued expenses	17,827	16,755
Accrued payroll and related benefits	12,294	12,614
Film contracts payable	8,287	7,813
Due to affiliates (newsprint)	3,723	4,302
	$70,616	$72,854

D. INVESTMENTS IN AFFILIATES

The company's investments in affiliates consist principally of a 49% interest in the common stock of Bowater Mersey Paper Company Limited, which owns and operates a newsprint mill in Nova Scotia, and a one-third limited partnership interest in Bear Island Paper Company, which constructed a newsprint mill near Richmond, Virginia, which started production in late December 1979. Condensed financial statements of these companies are set forth below; Bowater Mersey Paper Company balance sheet data have been translated at the current rate of exchange for Canadian dollars as of the respective year ends, $.84 at December 31, 1981 and 1980, and statement of income data have been translated at the average rate of exchange for Canadian dollars during the years, $.83 for 1981 and $.85 for 1980 and 1979.

Bowater Mersey Paper Company Limited

Condensed Statements of Financial Position
(In thousands)

	December 31	
	1981	1980
Current assets	$25,866	$24,241
Less current liabilities	(10,173)	(19,017)
Working capital	15,693	5,224
Property, plant and equipment, net	34,674	30,178
Other assets	66	75
Other liabilities	(9,479)	(5,962)
Stockholders' equity	$40,954	$29,515

Condensed Statements of Income
(In thousands)

	Year Ended December 31		
	1981	1980	1979
Sales	$81,384	$71,126	$62,811
Costs and expenses	(62,454)	(52,109)	(48,424)
Income before income taxes	18,930	19,017	14,387
Income taxes	(7,808)	(7,843)	(5,353)
Income before effect of change in accounting on prior years	11,122	11,174	9,034
Effect of change in accounting for investment tax credits on prior years	—	1,021	—
Net income	11,122	12,195	9,034
Preferred dividend requirements	—	(44)	(77)
Net income applicable to common shares	$11,122	$12,151	$ 8,957

Bear Island Paper Company

Condensed Statements of Financial Position
(In thousands)

	December 31	
	1981	1980
Current assets	$ 15,694	$ 11,958
Less current liabilities	(14,966)	(22,971)
Working capital	728	(11,013)
Property, plant and equipment, net	122,388	122,874
Other assets	619	169
Long-term debt	(66,067)	(60,614)
Partners' capital	$ 57,668	$ 51,416

Condensed Statements of Operations
(In thousands)

	Year Ended December 31		
	1981	1980	1979
Sales	$63,540	$41,672	$ 10
Costs and expenses	(58,407)	(48,724)	(1,609)
Operating income (loss)	5,133	(7,052)	(1,599)
Interest	(8,881)	(8,475)	(5,725)
Net (loss)	$ (3,748)	$(15,527)	$(7,324)

Operating costs and expenses of the company include $47,397,000 in 1981, $36,426,000 in 1980 and $30,228,000 in 1979 of cost of newsprint supplied by Bowater Mersey Paper Company and Bear Island Paper Company.

Other investments include a 30% interest in a French corporation which publishes the International Herald Tribune in Paris, a 50% interest in the Los Angeles Times-Washington Post News Service, Inc., and a 24% interest in Publishers Phototype, Inc., an electronic photocomposition company.

The investments described above are reflected in the Consolidated Balance Sheets at January 3, 1982 and December 28, 1980 as follows (in thousands):

	1981	1980
Cost of investment	$36,637	$32,437
Less amount included in consolidated goodwill	(2,373)	(2,373)
Equity in net assets at date of investment	34,264	30,064
Net increase in equity since date of investment	5,431	2,113
	$39,695	$32,177

The increase in equity since date of investment represents the company's share of undistributed earnings of its affiliates which is included in retained earnings at year end. At January 3, 1982 there were no significant restrictions on the payment of dividends by the company's affiliates.

The following table summarizes the status and results of the company's investments for 1981, 1980 and 1979 (in thousands):

	Bowater Mersey	Bear Island	Other	Total
Investment December 31, 1978	$15,501	$11,157	$2,159	$28,817
Equity in earnings (losses)	4,619	(2,197)	558	2,980
Dividends received	(2,091)	—	(228)	(2,319)
Additional investment	—	2,700	—	2,700
Other	16	—	1	17
Investment December 30, 1979	18,045	11,660	2,490	32,195
Equity in earnings (losses)	5,356	(4,658)	29	727
Dividends received	(8,248)	—	(245)	(8,493)
Additional investment	—	7,740	—	7,740
Other	8	—	—	8
Investment December 28, 1980	15,161	14,742	2,274	32,177
Equity in earnings (losses)	5,068	(1,115)	453	4,406
Dividends received	—	—	(87)	(87)
Additional investment	—	4,200	—	4,200
Other	(519)	—	(482)	(1,001)
Investment January 3, 1982	$19,710	$17,827	$2,158	$39,695

E. INCOME TAXES

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

	Current	Deferred
1981		
U.S. Federal	$19,800	$ 3,045
Foreign	673	770
State and local	5,260	210
	$25,733	$ 4,025
1980		
U.S. Federal	$12,890	$10,267
Foreign	2,287	(452)
State and local	5,052	496
	$20,229	$10,311
1979		
U.S. Federal	$28,289	$ 5,569
Foreign	718	390
State and local	6,856	87
	$35,863	$ 6,046

Deferred taxes are attributable to the following (in thousands):

	1981	1980	1979
Tax depreciation in excess of depreciation for financial reporting purposes	$ 4,724	$ 5,059	$ 3,438
Deferral of investment tax credits for financial reporting purposes	(294)	6,146	1,803
Other	(405)	(894)	805
	$ 4,025	$10,311	$ 6,046

The provision for income taxes exceeds the amount of taxes determined by applying the U.S. Federal statutory rate of 46% to income before taxes as a result of the following (in thousands):

	1981	1980	1979
U.S. Federal income taxes at 46% of income before taxes	$28,735	$29,843	$39,057
State and local taxes net of Federal income tax benefit	2,953	2,996	3,750
Amortization of goodwill not deductible for tax purposes	697	712	703
Foreign income taxes netted in equity in earnings of affiliates	(1,654)	(1,611)	(1,610)
Other	(973)	(1,400)	9
Provision for income taxes	$29,758	$30,540	$41,909

F. LONG-TERM DEBT

Long-term debt of the company as of January 3, 1982 and December 28, 1980 is summarized as follows (in thousands):

	1981	1980
6.95% unsecured promissory notes due 1981-1987	$15,250	$17,500
Notes payable to banks under revolving credit agreement	—	5,000
Commercial paper supported by revolving credit agreement with banks	24,075	23,215
Other indebtedness, interest at 5-8.75%	—	268
Less amount included in current liabilities	(16,325)	(2,397)
	$23,000	$43,586

The agreement relating to the 6.95% promissory notes and the revolving credit agreement include restrictive provisions which pertain principally to the payment of dividends and the redemption or purchase of the company's capital stock. At the end of 1981 and 1980, retained earnings unrestricted by these provisions were $79,572,000 and $65,652,000.

The company has a revolving credit agreement with a group of banks which permits borrowings of up to $75,000,000 until January 1, 1985, at which time any outstanding borrowings may be converted into four-year notes, payable in equal semi-annual installments. Interest on borrowings under the revolving credit agreement is at a maximum average of 103.5% of the floating prime rate. Additionally, during the revolving credit period of the agreement a commitment fee ranging from .25% to .50% (.375% effective January 1, 1982) is payable on the unused portion of the line.

In addition to borrowings under the revolving credit agreement, the company issues commercial paper at prevailing market rates in the form of unsecured notes supported by the company's revolving credit agreement and, from time to time, issues to various banks unsecured notes also supported by the revolving credit agreement. The daily average borrowings under the above-described instruments were $24,600,000 at a weighted average cost of 17.8% during 1981 and $17,900,000 at a weighted average cost of 14.7% during 1980; there were no similar borrowings during 1979. The maximum borrowings outstanding at the end of any period during 1981 were $43,300,000.

At January 3, 1982 the company's commercial paper borrowings outstanding were classified as currently payable to the extent that the company anticipates repayment during 1982 and as long-term to the extent that the company expects to refinance these obligations for at least a year through the use of similar instruments or long-term financing.

Approximate annual maturities of long-term debt, based on existing loan repayment schedules and management's estimation of repayment of borrowings under or supported by its revolving credit agreement, are as follows:

1982	$16,325,000
1983	12,250,000
1984	2,250,000
1985	2,250,000
1986	2,250,000
1987	4,000,000

G. CAPITAL STOCK AND STOCK OPTIONS

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

In 1971 the company adopted a Stock Option Plan and reserved 1,400,000 shares of Class B common stock for options to be granted under the plan. The purchase price of the shares covered by an option must be equal to their fair market value on the granting date. At January 3, 1982 there were 243,200 shares reserved for issuance under the Stock Option Plan. Of this number 77,500 shares were subject to options outstanding and 165,700 shares were available for future grants. Changes in the options outstanding for the years ended January 3, 1982 and December 28, 1980 are as follows:

	1981		1980	
	Number of Shares	Average Option Price	Number of Shares	Average Option Price
Beginning of year	195,574	$10.05	298,124	$ 9.55
Options				
Granted	18,500	28.25	15,000	20.25
Exercised	(89,574)	7.24	(60,550)	6.92
Cancelled	(47,000)	16.44	(57,000)	13.47
End of year	77,500	13.76	195,574	10.05

Of the shares covered by options outstanding at the end of 1981, 47,750 were then exercisable, 8,375 will become exercisable in each of the years 1982 through 1984 and 4,625 will become exercisable in 1985.

Earnings per share are based on the weighted average number of shares of common stock outstanding during each year, adjusted for the dilutive effect of shares issuable under outstanding stock options. The average number of shares considered outstanding was 14,077,000 for 1981, 14,068,000 for 1980 and 15,609,000 for 1979.

H. RETIREMENT PLANS

The company and its subsidiaries have various pension and incentive savings plans and in addition contribute to several multi-employer plans on behalf of certain union-represented employee groups. Substantially all of the company's employees including those located in foreign countries are covered by these plans. Total expense for these plans was $10,946,000 for 1981, $10,065,000 for 1980 and $9,256,000 for 1979.

The costs for the company's defined benefit plans are actuarially determined and include amortization of prior service costs over various periods, generally not exceeding 20 years. The accumulated plan benefits and plan net assets for the company's domestic defined benefit plans as of January 1, 1981 and 1980, the most recent valuation dates, were as follows (in thousands):

	1981	1980
Actuarial present value of accumulated plan benefits		
Vested	$22,129	$20,697
Nonvested	5,099	5,451
	$27,228	$26,148
Net assets available for benefits	$60,474	$50,370

The assumed rate of return used in determining the actuarial present value of accumulated plan benefits is 8.0%.

The costs of unfunded pension plans are charged to expense when accrued. The company's liability for such plans, which is included in "Other Liabilities" in the Consolidated Balance Sheets, was $9,517,000 at January 3, 1982 and $9,090,000 at December 28, 1980.

I. CONTINGENCIES

The company is a party to various civil lawsuits, including libel actions, arising in the ordinary course of business. In the opinion of management the company carries adequate liability insurance against such libel actions, and the company is not presently a party to any other material litigation.

J. LEASES

Total rental expense included in operating costs and expenses was approximately $7,856,000 for 1981, $7,135,000 for 1980 and $6,021,000 for 1979. As of January 3, 1982 future minimum rental commitments under non-cancelable operating leases, substantially all for real estate, were $6,454,000 for 1982, $6,321,000 for 1983, $6,151,000 for 1984, $5,929,000 for 1985, $5,624,000 for 1986, $24,375,000 for the five-year period 1987-1991 and $9,129,000 for the five-year period 1992-1996. Included in the commitments above is $3,200,000 per year related to a real estate lease which expires in 1994 but may be renewed for an additional fifteen-year period at the option of the company at an amount to be negotiated.

K. DISPOSITIONS

On October 30, 1981 the company sold all of the outstanding stock of its newspaper subsidiary in Trenton, New Jersey. During 1981 the company also sold its national television sales subsidiary and entered into an agreement which has resulted in the sale of the company's magazine, Inside Sports, on January 29, 1982. The effect of these transactions before giving effect to a tax benefit of $1,331,000 was a loss of $3,438,000 which amount is included in "Other Income (Expense), Net" in the Consolidated Statement of Income for 1981; the net effect on 1981 earnings was to decrease earnings per share by $.15.

L. BUSINESS SEGMENTS

The company operates in three areas of the communications industry: newspaper publishing, magazine publishing and broadcasting.

Newspaper operations primarily involve the publication of newspapers in Washington, D.C., and Everett, Washington and, until October 30, 1981, Trenton, New Jersey; they also include a newsprint warehousing facility. Magazine publishing operations consist primarily of the publication of a weekly newsmagazine, Newsweek, which has one domestic and three international editions. Inside Sports, a magazine which began publication in March 1980, is included in operations of the magazine publishing segment through 1981; the magazine has since been sold. Sales of books are also included in the magazine publishing segment. Revenues from both newspaper and magazine publishing operations are derived from advertising and, to a lesser extent, from circulation.

Broadcasting operations are conducted primarily through four VHF television stations. All stations are network affiliated with revenues derived primarily from sales of advertising time. Broadcasting operations also include a television production subsidiary.

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

Identifiable assets by segment are those assets used in the company's operations in each business segment. Corporate assets are principally cash and temporary investments.

Investments in affiliates are discussed in Note D.

Business Segments (In thousands)

	Newspaper Publishing	Magazine Publishing	Broadcasting	Consolidated
1981				
Operating revenues	$368,413	$294,272	$ 90,762	$753,447
Income from operations	$ 30,809	$ 13,881	$ 21,024	$ 65,714
Equity in earnings of affiliates				4,406
Interest expense				(5,360)
Other expense, net				(2,292)
Income before income taxes				$ 62,468
Identifiable assets	$217,034	$ 69,821	$111,634	$398,489
Investments in affiliates				39,695
Corporate assets				20,013
Total assets				$458,197
Depreciation and amortization of property, plant and equipment	$ 10,652	$ 2,316	$ 3,736	$ 16,704
Amortization of goodwill and other intangibles	$ 851	$ —	$ 664	$ 1,515
Capital expenditures	$ 25,515	$ 5,755	$ 9,959	$ 41,229
1980				
Operating revenues	$311,260	$267,809	$ 80,466	$659,535
Income from operations	$ 31,936	$ 11,486	$ 22,091	$ 65,513
Equity in earnings of affiliates				727
Interest expense				(1,581)
Other income, net				216
Income before income taxes				$ 64,875
Identifiable assets	$211,333	$ 73,472	$101,495	$386,300
Investments in affiliates				32,177
Corporate assets				10,626
Total assets				$429,103
Depreciation and amortization of property, plant and equipment	$ 5,574	$ 1,397	$ 2,809	$ 9,780
Amortization of goodwill and other intangibles	$ 888	$ —	$ 664	$ 1,552
Capital expenditures	$ 56,651	$ 3,481	$ 8,904	$ 69,036

Business Segments (In thousands)

	Newspaper Publishing	Magazine Publishing	Broadcasting	Consolidated
1979				
Operating revenues	$272,616	$248,011	$ 72,635	$593,262
Income from operations	$ 35,426	$ 22,563	$ 22,432	$ 80,421
Equity in earnings of affiliates				2,980
Interest expense				(1,796)
Other income, net				3,303
Income before income taxes				$ 84,908
Identifiable assets	$152,454	$ 64,912	$ 95,831	$313,197
Investments in affiliates				32,195
Corporate assets				12,557
Total assets				$357,949
Depreciation and amortization of property, plant and equipment	$ 3,865	$ 1,334	$ 2,485	$ 7,684
Amortization of goodwill and other intangibles	$ 864	$ —	$ 667	$ 1,531
Capital expenditures	$ 29,100	$ 2,166	$ 4,218	$ 35,484

M. SUMMARY OF QUARTERLY OPERATING RESULTS (Unaudited)

Quarterly results of operations for the years ended January 3, 1982 and December 28, 1980 are as follows (In thousands, except per share amounts):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
1981				
Operating revenues	$165,802	$194,280	$175,289	$218,076
Income from operations	$ 4,717	$ 25,855	$ 5,412	$ 29,730
Net income (loss)	$ 1,816	$ 13,247	$ (405)	$ 18,052
Earnings per share	$ .13	$ .94	$(.03)	$1.28
Average number of shares outstanding	14,047	14,073	14,094	14,093

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
1980				
Operating revenues	$151,225	$170,477	$152,510	$185,323
Income from operations	$ 8,686	$ 24,512	$ 4,091	$ 28,224
Net income	$ 3,855	$ 12,574	$ 2,509	$ 15,397
Earnings per share	$ .27	$ .90	$ .18	$1.10
Average number of shares outstanding	14,172	14,018	14,043	14,038

Reported net income for each of the first three quarters of 1981 has been restated to reflect the adoption of Statement of Financial Accounting Standards No. 52 as of the beginning of 1981 as explained in Note B. The change resulted in an increase in earnings per share of $.02 for the second quarter; there was no effect on earnings per share for the first and third quarters.

The sum of the earnings per share for the four quarters may differ from the annual earnings per share as a result of computing the quarterly and annual amounts on the weighted number of shares outstanding in the respective periods in accordance with Accounting Principles Board Opinion No. 15.

N. INFORMATION ON INFLATION AND CHANGING PRICES (Unaudited)

In accordance with the requirements of Statement of Financial Accounting Standards No. 33, "Financial Reporting and Changing Prices," the company has prepared supplementary information which provides calculations illustrating the effects of inflation and changing prices on certain phases of the company's operations. Although changing price calculations and related disclosures are in the experimental stage, it is the company's opinion that the information has been reasonably prepared within the guidelines set forth in Statement No. 33. The information presented is necessarily based on numerous assumptions and estimates which required subjective judgments, and therefore should not be viewed as precise data. The difference between these data and historical data do not represent increases or decreases in the company's book value.

Consolidated Statement of Income Adjusted for the Effects of Inflation and Changing Prices for the Year Ended January 3, 1982
(In thousands, except per share amounts)

	As Reported In Financial Statements (Historical Cost)	Adjusted for General Inflation (Constant Dollars)	Adjusted for Changes in Specific Prices (Current Cost Dollars)
Operating revenues	$753,447	$753,447	$753,447
Costs and expenses			
Operating	509,005	510,424	510,609
Selling, general and administrative	160,509	160,509	160,509
Depreciation and amortization of property, plant and equipment	16,704	21,895	21,865
Amortization of goodwill and other intangibles	1,515	1,515	1,515
	687,733	694,343	694,498
Income from operations	65,714	59,104	58,949
Other expense, net	(3,246)	(3,246)	(3,246)
Income before taxes	62,468	55,858	55,703
Provision for income taxes	29,758	29,758	29,758
Net income	$ 32,710	$ 26,100	$ 25,945
Earnings per share	$2.32	$1.85	$1.84
Increase in general price level of inventories and property, plant and equipment			$ 22,868
Less effect of increase in specific prices			20,229
Excess of increase in general price level over increase in specific prices			$ 2,639

Five-Year Comparison of Selected Financial Data Adjusted for Effects of Inflation (Constant Dollars) and Changing Prices (Current Cost)
(In thousands, except per share amounts)

	1981	1980	1979	1978	1977
Operating revenues					
As reported	$753,447	$659,535	$593,262	$520,398	$436,102
In constant 1981 dollars	753,447	727,947	743,351	725,468	654,513
Net income					
As reported	$ 32,710	$ 34,335	$ 29,468		
In constant 1981 dollars	26,100	29,281	29,943		
In current cost 1981 dollars	25,945	30,739	31,017		
Earnings per share					
As reported	$2.32	$2.44	$1.89		
In constant 1981 dollars	1.85	2.09	1.92		
In current cost 1981 dollars	1.84	2.19	2.00		
Gain (loss) from change in purchasing power of net monetary position	$ 2,560	$ 1,789	$ (1,996)		
Excess of increase in general price level over increase in specific prices of inventories and property, plant and equipment	$ 2,639	$ 11,140	$ 6,791		
Cash dividends per share					
As reported	$.50	$.44	$.36	$.30	$.18
In constant 1981 dollars	.50	.49	.45	.42	.27
Market price per common share at year end					
Historical amount	$31.38	$22.75	$21.00	$23.25	$17.88
In constant 1981 dollars	30.36	23.98	24.88	31.21	26.17
Average consumer price index	272.4	246.8	217.4	195.4	181.5

The information on inflation and changing prices is based upon the historical financial statements adjusted for general inflation relating to inventories and property, plant and equipment and for the changes in specific prices relating to these items.

The cost of newsprint and magazine paper included in operating costs and expenses was calculated using the same methods used in the historical financial statements. Depreciation and amortization of property, plant and equipment were calculated generally using the same methods and rates of depreciation used in the financial statements. In accordance with the requirements of Statement No. 33, income taxes were not adjusted for the effects of the resulting changes in operating costs and expenses and depreciation and amortization of property, plant and equipment. Operating revenues, all other operating costs and expenses and other expense, net, were assumed to reflect the average price levels for the year as allowed under Statement No. 33, and accordingly have not been adjusted.

The information adjusted for general inflation is expressed in constant 1981 average dollars which represent historical costs stated in terms of dollars of equal purchasing power as measured by the Consumer Price Index for all Urban Consumers. The constant dollar amounts do not purport to represent appraised values or any other measure of current value.

The information adjusted for changes in specific prices attempts to estimate what the cost of the company's existing inventories and property, plant and equipment, and related costs and expenses, would be at the respective year ends. Indexation using specific industry indices and specific pricing using current prices and appraisals were used in estimating these amounts. The current cost amounts do not consider technological improvements and efficiencies associated with the normal replacement of productive capacity.

The gain or loss from change in purchasing power of the net monetary position was determined by calculating the difference between the company's net monetary positions at the beginning and end of the year, both amounts stated in average 1981 dollars. The calculation attempts to represent the effect of holding net monetary assets which lose purchasing power or net monetary liabilities which gain purchasing power during an inflationary period.

The increase in general price level of inventories and property, plant and equipment over the increase in specific prices of those items is determined by calculating the change in the balance of inventories and property, plant and equipment, stated at current cost, between years and removing that aspect of the change which is related to general inflation as measured by the Consumer Price Index for all Urban Consumers.

The constant dollar and current cost amounts of net monetary items, inventories and property, plant and equipment net of accumulated depreciation, stated in average 1981 dollars, and other net items, and corresponding historical cost amounts were as follows (in thousands):

	January 3, 1982*			December 28, 1980		
	Historical Cost	Constant Dollars	Current Cost	Historical Cost	Constant Dollars	Current Cost
Net monetary items	$ (24,054)	$ (23,227)	$ (23,227)	$ (31,992)	$ (33,725)	$ (33,725)
Inventories	22,500	21,551	22,628	20,672	22,049	22,117
Property, plant and equipment, net	171,301	233,588	249,542	152,109	224,977	241,023
Other net items	43,646	43,646	43,646	46,481	46,481	46,481
Net assets	$213,393	$275,558	$292,589	$187,270	$259,782	$275,896

*At January 3, 1982 the current cost of inventories was $23,385,000 and the current cost of property, plant and equipment net of accumulated depreciation was $257,878,000.

REPORT OF INDEPENDENT ACCOUNTANTS

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

In our opinion, based upon our examinations and the reports mentioned below of other independent accountants, the consolidated financial statements appearing on pages 29 through 33 present fairly the financial position of The Washington Post Company and its subsidiaries at January 3, 1982 and December 28, 1980, and the results of their operations and the changes in their financial position for each of the three fiscal years in the period ended January 3, 1982, in conformity with generally accepted accounting principles consistently applied during the period subsequent to the change, with which we concur, in the method of accounting for magazine subscription procurement costs made as of January 1, 1979, as described in Note B. Our examinations of these statements were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of the company's two newsprint manufacturing affiliates which are summarized in Note D. These statements were examined by other independent accountants whose reports thereon have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for these affiliates, is based solely upon the reports of the other independent accountants.

Price Waterhouse

Washington, D.C.
February 2, 1982

(In thousands, except per share amounts)	1981	1980	1979
Results of Operations			
Operating revenues	$753,447	$659,535	$593,262
Income from operations	$ 65,714	$ 65,513	$ 80,421
Income before cumulative effect of change in method of accounting	$ 32,710	$ 34,335	$ 42,999
Cumulative effect on years prior to 1979 of change in method of accounting for magazine subscription procurement costs	—	—	13,531
Net income	$ 32,710	$ 34,335	$ 29,468
Per Share Amounts			
Earnings per share			
Income before cumulative effect of change in method of accounting	$ 2.32	$ 2.44	$ 2.75
Cumulative effect on years prior to 1979 of change in method of accounting for magazine subscription procurement costs	—	—	.86
Net income	$ 2.32	$ 2.44	$ 1.89
Cash dividends	$ .50	$ .44	$ .36
Shareholders' equity	$15.17	$13.40	$11.56
Average Number of Shares Outstanding	14,077	14,068	15,609
Financial Position			
Current assets	$135,002	$126,070	$112,168
Working capital	34,030	41,615	36,615
Property, plant and equipment	171,301	152,109	93,734
Total assets	458,197	429,103	357,949
Long-term debt	23,000	43,586	17,550
Shareholders' equity	213,393	187,270	164,782
Pro Forma Amounts			
Net income	$ 32,710	$ 34,335	$ 42,999
Earnings per share	$ 2.32	$ 2.44	$ 2.75

Notes:

See Notes to Consolidated Financial Statements for the summary of significant accounting policies and additional information relative to the years 1979-1981.

In 1978 and 1976 the company realized non-recurring gains, mostly from the sales of two radio stations. The effect of these gains was to increase net income and earnings per share by $4,300,000 and $.27 for 1978 and by $1,800,000 and $.10 for 1976.

Share and per share data have been restated to give effect to two-for-one stock splits on December 29, 1978 and December 15, 1976.

In 1979 the company changed its method of accounting for magazine subscription procurement costs as discussed in Note B to the Consolidated Financial Statements. Pro forma amounts shown for the years 1972-1978 show what net income and earnings per share would have been if the current method for magazine subscription procurement costs had been in effect during those years.

1978	1977	1976	1975	1974	1973	1972
$520,398	$436,102	$375,729	$309,335	$287,579	$246,949	$217,844
$ 89,190	$ 71,074	$ 49,045	$ 26,824	$ 28,140	$ 25,692	$ 21,806
$ 49,720	$ 35,469	$ 24,490	$ 12,042	$ 14,441	$ 13,334	$ 9,732
—	—	—	—	—	—	—
$ 49,720	$ 35,469	$ 24,490	$ 12,042	$ 14,441	$ 13,334	$ 9,732
$ 3.06	$ 2.09	$ 1.36	$ .64	$ .76	$ .70	$ .51
—	—	—	—	—	—	—
$ 3.06	$ 2.09	$ 1.36	$ .64	$ .76	$ .70	$ .51
$ .30	$ .18	$ .125	$ .125	$ .125	$ .10	$ .05
$11.15	$ 8.59	$ 7.02	$ 5.91	$ 5.41	$ 4.77	$ 4.16
16,232	16,952	18,038	18,900	19,002	19,018	19,228
$119,468	$114,489	$100,919	$ 72,819	$ 70,009	$ 78,283	$ 61,754
53,813	58,114	44,828	35,129	31,108	47,740	36,125
67,674	63,476	58,753	58,594	57,125	48,898	46,171
328,517	278,574	259,000	230,599	266,397	184,704	161,031
19,930	22,300	29,550	39,934	47,318	33,702	35,436
177,414	140,377	123,392	110,154	102,745	90,605	79,031
$ 49,013	$ 33,394	$ 22,533	$ 9,042	$ 14,894	$ 12,821	$ 9,033
$ 3.02	$ 1.97	$ 1.25	$ .48	$ .78	$ .67	$ .47

BOARD OF DIRECTORS

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Director and Chairman of the Board
Chief Executive Officer (3, 4)

Richard D. Simmons
Director and President
Chief Operating Officer (3)

Warren E. Buffett
Director
Chairman, Berkshire Hathaway, Inc.
(textiles, insurance) (3,4)

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

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

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Graduate School of Business (1, 2)

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(management consultants) (1, 2)

John W. Sweeterman
Director
Retired; Former Vice Chairman of the Board
and Publisher of The Washington Post (4)

Committees of the Board of Directors
(1) Member of Audit Committee
(2) Member of Compensation Committee
(3) Member of Finance Committee
(4) Member of Stock Option Committee

*Deceased February 24, 1982

OTHER COMPANY OFFICERS

Martin Cohen
Vice President-Finance and Treasurer

Mark M. Edmiston
Vice President

Alan R. Finberg
Vice President, General Counsel and Secretary

Alan G. Spoon
Vice President

Earl Chism
Controller

Stock Trading
The Washington Post Company Class B common shares are traded on the American Stock Exchange with the symbol WPOB.

Stock Transfer Agents and Registrars
Morgan Guaranty Trust Company
Stock Transfer Department
30 West Broadway
New York, New York 10015

The Riggs National Bank of Washington, D.C.
Corporate Trust Division
Post Office Box 2651
Washington, D.C. 20013

Shareholder Inquiries
Communications concerning transfer requirements, lost certificates, dividends and changes of address should be directed to either transfer agent.

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

Annual Meeting
The annual meeting of stockholders will be held on Friday, May 14, 1982, at 9 a.m. at The Washington Post Company, 1150 15th Street, N.W., Washington, D.C. 20071

Common Stock Prices and Dividends

The Class A common stock of the company is not publicly traded. The Class B common stock is listed on the American Stock Exchange, where the high and low sales prices during the last two years were as follows:

	1981		1980	
Quarter	High	Low	High	Low
January-March	\$26½	\$19⅜	\$20⅞	\$15⅞
April-June	28½	24½	18⅛	15⅞
July-September	30⅝	24	24⅝	16⅝
October-December	33	27¾	24¾	22

Both classes of common stock participate equally as to dividends. Quarterly dividends were paid at the rate of 12.5 cents per share in 1981 and 11 cents per share in 1980.

At February 26, 1982 there were 11 Class A and 1,962 Class B shareholders of record.

The Washington Post Company
1150 15th Street, N.W.
Washington, DC 20071

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