The Washington Post Company

1996 Annual Report

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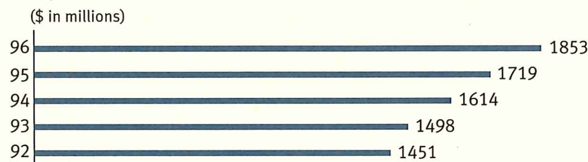
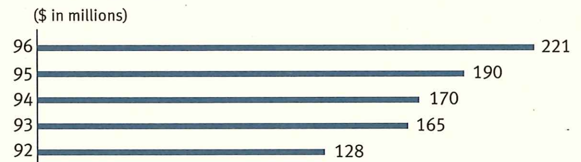
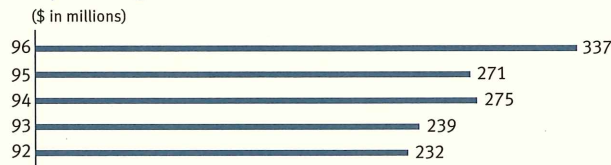
The Washington Post Company is a diversified media organization whose principal operations include newspaper and magazine publishing, broadcasting, and cable television systems. The company also produces electronic information services, provides test preparation, education, and career services, and offers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

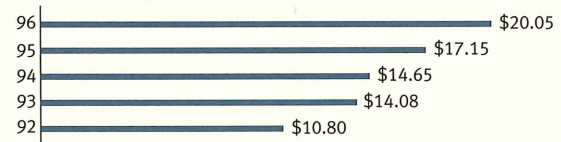
Please note: This year's annual meeting of shareholders will begin at 8:00 a.m. on May 8, 1997, at The Washington Post Company, 1150 15th Street, N.W., Washington, D.C.

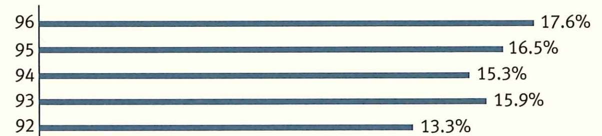
(in thousands, except per share amounts)	1996	1995	% Change
Operating revenues	$1,853,445	$1,719,449	+8%
Income from operations	$ 337,169	$ 271,018	+24%
Net income	$ 220,817	$ 190,096	+16%
Earnings per common share	$ 20.05	$ 17.15	+17%
Dividends per common share	$ 4.60	$ 4.40	+5%
Common shareholders' equity per share	$ 121.24	$ 107.60	+13%
Average number of common shares outstanding	10,980	11,086	-1%











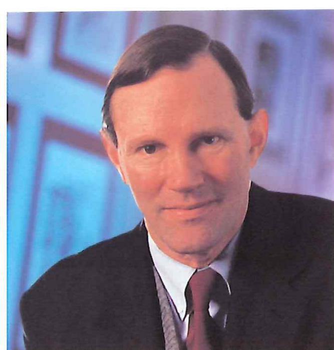
From a financial point of view, The Washington Post Company had a thoroughly satisfactory year in 1996. At the same time, the year hardly resolved the unanswered questions about the future of our businesses. And 1997 may well not be as good a year on the bottom line. Still, we feel confident about the company's overall prospects, thanks to the strength of our franchises and the quality of our people.

The largest contributor to profits was again the broadcast division. Bill Ryan and six outstanding station managers – Sherry Burns, Alan Frank, John Garwood, Jim Joslyn, Chris Rohrs, and Steve Wasserman – have taken operating income from $55 million in 1992, with four stations, to $155 million in 1996, with two additional stations included. Operating margins have gone from 34 percent to 46 percent. Audience ratings at all the stations continued to be gratifying; four stations were number one in their markets from sign-on to sign-off and in overall news programming. WDIV in Detroit continues to battle the ABC affiliate for the number-one position in that market. KPRC in Houston has improved its ratings performance more than we expected when we bought the station in 1994, although the other two leading stations in the market give us extremely strong competition.

While Bill and his team operate our stations about as well as is humanly possible, we note that Post-Newsweek had two revenue enhancers in 1996 that won't be back in 1997. Since two of our largest stations are NBC affiliates (Detroit and Houston), we received substantial revenue from Olympics-related advertising – and considerable revenue from political advertising at all the stations. The combination of the two totaled about $30 million, which won't be matched this year. Nonetheless, we like the future of the local broadcast business and remain firm in our belief that preeminence in local news is the key to success with these stations.

At The Washington Post, advertising revenue rose about 3 percent for the year, a much weaker performance than most major newspapers'. Washington was hit with about everything imaginable in '96: a federal government shutdown and furloughs; the threat of additional large-scale federal layoffs; the de facto bankruptcy of the city government; and snow and ice storms that shut down the entire region for several days during the first three months of the year. (By the way, the lousy weather in early '96 will make profit comparisons look unrealistically good in the first months of '97. Advertisers did not regain their financial footing immediately after the storms.) The local economy strengthened as the year went along, but federal employment will continue to go down, and federal contract spending won't be booming any time soon.

Nonetheless, we remain optimistic about the future of the city of Washington. It has greater inherent strengths than any city on the East Coast: a large, stable employment base; a huge tourism industry; outstanding mass transit; and a highly educated work force. Washington is going through the difficulties New York, Cleveland, Philadelphia, and other cities experienced with their own near-bankruptcies in the past. The District will get through it as they did and has the potential to come back much stronger.



Donald E. Graham

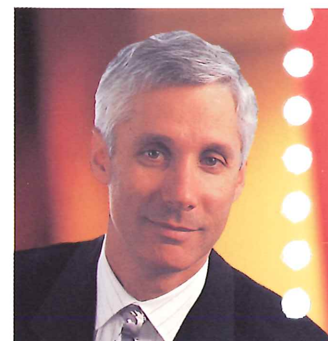
Lower-than-expected newsprint prices aided Post profits dramatically in 1996, but punished results at the two newsprint mills in which we own minority shares. Predicting newsprint pricing will continue to be a daunting task for anyone.

Journalistically, The Post continued to distinguish itself. Herblock celebrated 50 years as The Post's editorial cartoonist and wrapped up the first year of a new half-century in great style. Lucian Perkins and Carol Guzy again dominated major photojournalism prizes; highlights of a remarkable journalistic year are included in The Post section of this report.

Post-Newsweek Cable grew to 594,000 basic subscribers at the end of the year, including acquisitions completed in Texarkana, Texas and Arkansas; Columbus, Mississippi; and Prescott, Arizona. Under Tom Might's leadership, we initiated a program to improve already strong customer service and expand the channel selection we offer our subscribers. Financial performance was good. Cash flow grew 18 percent, with new acquisitions accounting for about half of the gain. Operating income rose even more sharply, up 37 percent. However, the gain in cable operating income – and, indeed, the company's overall earnings per share growth – can be attributed in part to the end of the ten-year period in which we booked depreciation of the cable assets we purchased from Cap Cities in 1986. This factor accounted for over half of the division's growth in operating income.

Cable operators saw competition from satellite broadcasters accelerate in 1996. By year end, the three largest satellite broadcasters claimed 4.3 million customers, many won away from cable companies. At Post-Newsweek, we continued to stress to our customers two major advantages of cable. First, satellite as yet provides no local broadcast signals (and for many of our small-city customers, cable is the only way to bring in local signals at all). A second current weakness of satellite broadcasters may prove equally serious: if several members of a family want to watch different programs on different TV sets, expensive decoders for each set are needed in order to receive the satellite signal. Cable, on the other hand, provides service to the whole house for a single fee. Tom Might and his three division vice presidents – Tom Basinger, Harvey Boyd, and Pete Newell – emphasized that message to all Post-Newsweek customers. It was an important reason subscribers continued to grow in the systems we purchased ten years ago, as well as in more recently acquired systems. We'll be watching for the undoubted technological and programming improvements to come from the satellite broadcasters (including those that have been announced), but we expect to be improving Post-Newsweek Cable's offerings as well.

Alan G. Spoon



Newsweek had one of the best years in its history. Since Rick Smith took over as editor-in-chief in 1984 and president in 1991, the magazine has gone through a steady incremental improvement in editorial and business operations that is now paying off big-time. The staff of outstanding reporters, writers, and columnists put together by editor

Maynard Parker has won Newsweek the most loyal readers in the news magazine field. Advertisers recognized this by buying 234 more pages in Newsweek in 1996 than in the previous year (according to PIB).

Journalism review articles for many years made clucking noises about the future of news magazines. But Rick, Maynard, and publisher Harold Shain developed a strategy for Newsweek based on what our research showed and continues to show about our audience. Newsweek's readers are extremely loyal. They are intelligent and highly educated. And they know precisely what they want from news magazines: out-front reporting, incisive writing, and an efficient format that helps them understand not only the week's news but key issues and trends. That sounds easy, but it's extremely difficult to deliver. While competition in the field is strong, we think Newsweek is more than ready for it.

Katharine Graham

Kaplan Educational Centers' performance continued to be impressive. Jonathan Grayer, the aging president of Kaplan (he's now 32), moved us into the elementary education market with the acquisition of Score, a successful San Francisco-based company that provides enrichment and remediation for children in grades K through 12. New Score@Kaplan centers have opened in the Boston to New York corridor and in California.

Kaplan also branched out into several other promising new areas, but the core of its success continues to be the basic test preparation business started by Stanley Kaplan in his basement in 1938. Under Jonathan's leadership, the number of students prepared by Kaplan for tests rose for the best of reasons: the company prepared its students better and better to achieve the results they wanted.

A hallmark of our company is somewhat extreme decentralization, with managers given great autonomy over the businesses they run. This philosophy, to put the loftiest possible term on it, resulted in good performances from some of our smallest, as well as our largest businesses in 1996. Shareholders should note that Chuck Lyons at Gazette Newspapers, Jim Boatner at Robinson Terminal, Larry Hanson and Allen Funk at The Herald, and Alan Frank and Jeff Genthner at PASS Sports all turned in outstanding years in 1996.

On the new media front, we were pleasantly surprised by the growth in audience at washingtonpost.com, the Web site launched by our Digital Ink subsidiary in 1996. Jason Seiken and Mary Lou Fulton have put together an information resource that attracted and kept an audience that grew every week. Some modest investments – including, for example, one in the newspaper industry's employment advertising site, CareerPath.com – also showed promising initial results. But please note: we said two years ago that if investors were looking for a company that understood how the electronic world would evolve and had a strategy for it, they should look for another company. The past two years haven't changed that belief. Vague patterns are starting to emerge, but we can't bank on them. While washingtonpost.com has exceeded our wildest expectations in terms of audience, its future profitability continues to look murky. Still, we ended 1996 feeling slightly better than we did at the beginning of the year about our ability to develop meaningful electronic businesses, both new and complementary to

our print and broadcast franchises. Since annual reports announcing how these businesses will develop tend to leave their writers looking extremely foolish, we'll leave it at that. Our new media efforts have been in good hands under Ralph Terkowitz, the company's vice president-technology. The tradition continues with Digital Ink's talented and capable new president, Marc Teren.

In many of the businesses in which we operate, we've listened somewhat skeptically for many years to conventional wisdom. Observers insisted we needed to grow, or acquire, no matter what price we paid, simply because larger aggregations of businesses would necessarily perform better than smaller ones. We'll continue to review the evidence – and there is some – for the necessity of "consolidating" in the fields in which we do business, but we've been hearing this song for a long, long time. In our oldest business, newspapers, the companies making acquisitions have long insisted that there were virtues in owning many of them. However, the highest margins we know of in the industry continue to be turned in by a single newspaper owned by a company run by one of our directors. Likewise, Newsweek was supposed to be at risk because it was not part of a stable of magazines. Not so far.

We are eager and able to acquire new businesses in any of the areas in which we operate when we think the price is right. Recent years have seen us buy two television stations in 1994, several cable systems in 1995 and 1996, and one education-related business last year, among others. If the price were right, we'd be delighted to buy more newspapers and magazines or acquire economically attractive businesses in new areas. We offer sellers a unique kind of home for their businesses. The businesses in this company – all of them – are run by the quality-oriented managers in charge of them, not by corporate executives or corporate concepts. It makes us a good place for sellers who care about how their businesses are run in the future. But our shareholders can expect to see us looking hard for businesses that meet our definition of good value for the capital invested. Don't be surprised if we stand aside when prices seem feverish. We also will continue to add to our ownership of those businesses we know better than all others by repurchasing our stock.

Last year we observed that our industry is going through a period of dramatic change caused by the convergence of communications infrastructures, the rapid deployment of new technologies, and reduced and shifting barriers to our businesses. We also described the management perspective we would employ to steer our way through this turbulent landscape. This viewpoint insists that our management stay close to customers and markets and, at the same time, stand back to dispassionately think about the broader implications of changing business models.

The changes in our business environments certainly gave life to some of the developments we foresaw. For instance, unexpectedly low prices for direct broadcast satellite services dramatically increased competition in the cable industry. The Internet expanded geometrically for both users and information suppliers for whom the Web lowers barriers to entry. The broadcast industry marched ahead toward ever greater

consolidation. In other words, live bullets were fired from the guns we saw ringing the battlefields in which we operate.

Our response was as you would expect. By staying close to customers and their evolving needs, we're providing better, richer cable services. Under The Washington Post brand, we've created a new dimension of electronic information services for those customers who want our quality and editorial judgment in greater depth or "real time." As for dispassionate perspective, we continue to appraise the trade-off between acquisition premiums being paid for broadcast scale and the annual operating benefits such scale bestows. We think our shareholders enjoy the better side of the bargain with our acquisition discipline.

The company as a whole has averaged 15 percent annual growth in earnings per share over the past five years. We expect 1997 to be different. For one thing, our broadcasting stations won't have that $30 million in revenue from Olympics and election-year advertising. For another, Kaplan intends to invest quite heavily in the rollout of Score and the development of other new businesses. These investments will be greater than even the growing profits of Kaplan's core test preparation business. In addition, we'll make the largest capital investment ever in our cable division, as we improve our systems to compete with satellite services and expand our basic cable programming offerings. All of these investments should pay dividends for Post Company shareholders in future years, and we don't mind at all a short-term penalty for a long-term payoff.

One of our greatest assets is a most remarkable Board of Directors. Warren Buffett rejoined our Board after a ten-year hiatus during which he lent his not inconsiderable judgment to Cap Cities/ABC. We were equally honored and delighted when Dan Burke, former president and CEO of Cap Cities/ABC, became a director at the annual meeting last May.

Sincerely,

Donald E. Graham
Chairman and
Chief Executive Officer

Alan G. Spoon
President and
Chief Operating Officer

Katharine Graham
Chairman of the
Executive Committee

March 5, 1997

P.S. Heaven knows, commercial announcements – especially for products on which the company doesn't make a dime – should never sully these pages. But Messrs. Graham and Spoon cannot refrain from pointing out that their co-author has recently published a memoir, *Personal History*. In keeping with her habit of starting at the top, Mrs. Graham's book became the number-one nonfiction bestseller in the country two weeks after publication. Anyone interested in the history and evolution of The Washington Post Company – or just in reading a good book – will enjoy it.

Bill Ryan, president and CEO, responds to questions about Post-Newsweek Stations.

Q In the past five years, Post-Newsweek Stations' cash flow margins have increased from 35 percent to over 50 percent. How have you done it?

A Sheer brilliance in management, of course! Seriously, we try to focus on the things that really make a difference. I ask our managers (who I think are among the very best in the industry) to look for ways to maximize the audience and revenue potential on a daily basis. In fact, in 1996 all of our stations were number one in revenue in their markets. (KPRC and WDIV were both helped by the Olympics.) Also, our stations are rewarded with exceptional network compensation agreements because of their very strong audience positions. And our managers are very disciplined not to waste money in areas that don't contribute to improved audience or revenue positions.

In addition, we want all of our people to understand our mission, which is to provide quality programming and service to our communities and clients in a challenging and rewarding work environment for our employees and at a maximum return for shareholders.

Q How can you achieve further growth?

A Frankly, I think we have pretty much achieved the maximum margin potential of our stations. To push further might jeopardize the revenue and audience dominance they enjoy.

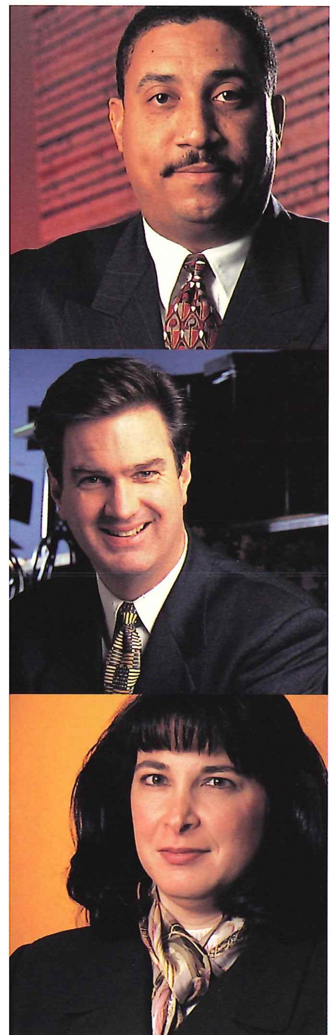
Our six affiliated stations are split evenly among ABC, CBS, and NBC. Though the network-driven aspects of our business may fluctuate from season to season, our performance is pretty consistent because of the broad cross section of networks. While we fully expect further revenue and, therefore, profit growth, it will no doubt reflect the cyclicality of the industry in general.

Q Tell us more about the prospects for growing the top line.

A Revenue growth is really a function of share and the underlying strength of these markets. Because all of our stations are number one in revenue, achieving significant growth is going to be tough. Houston has some additional audience growth potential that would allow for further improved revenues, but overall our stations are pretty much maximizing their revenue share potential right now.

Q Consolidation among broadcast groups has been accelerating. How does this affect PNS?

A There are a few primary areas where a large group can benefit – for instance, in buying syndicated programs that can generate the greatest revenues and provide the most support for our local news programs. This is perhaps the greatest benefit of scale,



Marcus Williams, WDIV chief engineer, assembled a specially mounted, long-lens helicopter camera system and got it on the air before the competition. • Jeff Genthner, PASS Sports general manager, negotiated license fees and restructured the network to an expanded basic cable tier in over 30 systems, positioning the service for significant revenue growth. • Nancy Shafran, KPRC's news director, through her mastery of journalistic substance and TV style and her keen management abilities, has helped move the station's news operation very far very fast.

The broadcast division had another outstanding year. Operating income rose 17 percent to $155 million, from $132.4 million in 1995. Division revenue increased 9 percent to $335.2 million, from $306.1 million the previous year. However, most of the revenue increase resulted from $30 million in Olympics-related and election-year advertising that will not be available in 1997.

WDIV-Detroit continued to out-deliver its network and is the number-one NBC affiliate in primetime, late news, and sign-on to sign-off among all top-ten markets. Leading the November ratings race in most key dayparts, WDIV was number one in morning, access, prime, late fringe – and in the noon, 6 p.m., and 11 p.m. newscasts.

For WDIV, 1996 was a year of local specials. Nine of the station's locally produced specials were number one in their time periods.

PASS Sports, the company's regional cable sports network serving Michigan and northwest Ohio, successfully negotiated its repositioning from a pay service in the inner market of Detroit to a 24-hour, seven-day-a-week expanded basic service. While the conversion is not yet complete, the number of PASS subscribers already has increased from 865,000 in 1995 to 1.1 million in 1996.

KPRC-Houston enjoyed another year of significant growth. In the hotly contested late evening news race, the station scored major gains in the November ratings sweeps, especially among the audience segments most sought by advertisers. KPRC was either number one or tied for number one in those demographics for the first time.

KPRC unveiled its new, state-of-the-art news gathering facility in the fall. With the addition of a 4 p.m. weekday newscast last August, KPRC now produces more live, local news per week than any other network affiliate in Houston.

WPLG-Miami-Ft. Lauderdale continued its dominance of the South Florida television market for the 12th consecutive year. WPLG won all major newscasts and was the number-one television station in South Florida, sign-on to sign-off. During the year WPLG initiated an aggressive news marketing and promotion campaign designed to create an even stronger position for the station as the market leader in news.

WPLG continued its high level of community service with several live "Town Meetings" from sites throughout its coverage area.

WFSB-Hartford held on to its top ranking in all three major Nielsen surveys during 1996, despite the challenges associated with being a CBS affiliate. The station's core strategy continued to rest on news leadership and community-based programming. WFSB programs more local news each week than its competitors.

During 1996 the station launched an exceptional series, called "Straight Talk," to stimulate dialogue on racial issues in Connecticut.

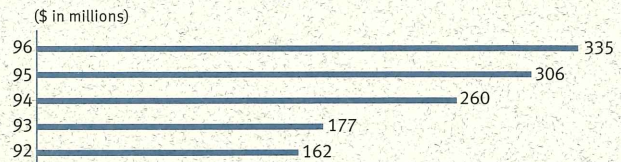
KSAT-San Antonio is the most-watched station in South Texas and continues to dominate the market in local news and local programming. The station also achieved a number-one rating and share, sign-on to sign-off, in the November ratings. The positioning of the station among key demographic groups continues to be strong.

WJXT-Jacksonville enjoyed continued dominance in its local news, actually increasing ratings in its early evening newscasts and finishing in first place locally, as well as nationally with the CBS Evening News. The morning news was expanded, and the newly launched local/national blend attracted new viewers to this increasingly important time period.

The hottest story of the year remained the Jaguars, and WJXT owned the story – from the team's preseason summer camp through the triumphant postseason return from Denver.

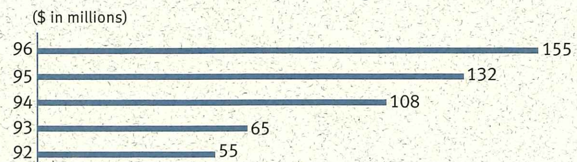
Broadcast Division Operating Revenues

($ in millions)



Broadcast Division Operating Income

($ in millions)



though some others come to mind, such as leverage for network compensation, contracting for national sales representation, and buying equipment.

As far as network compensation goes, the larger the group and its circulation, the greater its negotiating leverage with the network. Like station groups, the national sales reps have consolidated as well, and many are selling two or three stations in the same market. We have tried to avoid this in our contracts with the reps, but it is becoming increasingly difficult. In purchasing equipment, many suppliers offer discounts based on size. Fortunately, routine capital spending is not a huge element of station expense. In all of these areas we negotiate aggressively, calling on our special market advantages as we seek to gain favorable terms with our suppliers. These are just some of the economic benefits to larger groups, and we have already begun to feel the impact in a few of our markets.

Q Cable continues to chip away at the network affiliates. How do you compete against cable's niche offerings — and the strengthening independents?

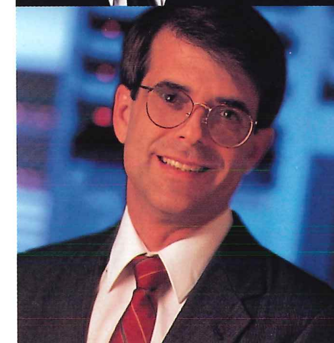
A The PNS stations have always emphasized the strength of our news programming, and in most of our markets our stations pretty much dominate. We also have expanded our news commitment over the past few years so that we are less reliant on the strength of syndicated programming and our networks. In fact, regardless of network affiliation, each of our stations is generally number one in news, although Houston still has room for improvement. Our strategy is to remain diligent in providing the best local television news in each of our communities. We feel this is the best way for us to compete against cable's offerings and those of the independents.

Q How will digital technology and HDTV affect Post-Newsweek?

A There are still many unknowns as to the impact of HDTV on the industry in general. Without question, the picture quality will be better, but we have scarcely any idea as to whether the public will embrace it or how quickly. We do believe, however, that over-the-air television must be prepared to transition to digital in order to compete with satellite, cable, home video, etc. We also know that the transition will be very expensive, perhaps $7-to-$10 million per station, or even more.

Q What's your view of the V-chip and the content ratings system?

A I think both are well-intentioned safeguards, but I don't think you can rely on technology or the coding of television programs to substitute in any way for close parental supervision. I think cable and broadcasting are trying to be responsive to social and political pressures, and the advocacy groups and politicians should give the system an opportunity to work.



Anita Coles, WFSB executive producer/programming, led the team that launched "Straight Talk," an on-going series that examines race issues in Connecticut. • Jim Hart, KSAT creative services director, reengineered the operational and creative departments by instituting hands-on management, encouraging communication, and cross-training staff in various departmental jobs. • Walt Schuller, WJXT engineering supervisor, managed the upgrade of virtually every computer at the station. • Dan Collins, WPLG assistant chief engineer, saved the station thousands of dollars by finding creative solutions to complex technological challenges.

Bo Jones, president, and Len Downie, executive editor, respond to questions about The Washington Post.

Q **The Post's circulation has declined slightly. How do you view this trend?**

A Circulation declines – though minimal and partially explainable by demographic and economic changes – are inconsistent with The Post's long-term business plan. Our circulation, advertising, and news departments are each pursuing initiatives to restore the record of growth that has occurred over each of the last four decades. Their efforts will be greatly aided by our new production facilities.

Q **In the past five years, some of The Post's biggest advertisers have gone out of business. What's the retail outlook now?**

A The retail outlook is improving, despite the sluggish local economy. Several national retailers have recently entered the Washington market as major Post advertisers.

Q **The U.S. Postal Service continues to be The Post's major competitor for advertising through low rates for junk mailers. What's the rationale behind the Postal Service's support for them, and what can newspapers do about it?**

A The Postal Service views third-class bulk advertising as high-volume, low-cost, profitable business. It exploits its letter-mail monopoly by shifting an increasing share of its costs onto the first-class mailer and off its advertising business, at the expense of private-sector competitors. The newspaper industry is working to keep the Postal Service focused on its mission of universal mail service rather than on further subsidizing bulk advertising mail. The Post will remain competitive because of its high household penetration and its increasingly efficient systems for targeting delivery of preprinted circulars.

Q **What will be the major benefits from The Post's new production facilities, which will begin coming on line this year?**

A The new production and prepress equipment will allow more consistent arrangement of sections for readers and more flexibility to meet the positioning needs of advertisers. The new systems will provide the ability to zone more editorial and advertising content by geographical area. They will also provide much improved printing quality and expanded color capacity, including color in the late news sections. The new presses will produce papers that are slightly narrower and shorter. As the presses come into operation over a 14-month period in late 1997 and throughout 1998, The Post will keep readers and advertisers well informed about the changes we are making and why we are making them.

Mary Hadar, Post assistant managing editor for features, after editing the Style section for 12 award-winning years, has changed The Post's front page by adding more human-interest feature stories. • Elaine Brady, publisher of Gazette Newspapers' new military publications division, skillfully managed the transition of this operation to Gazette ownership and achieved a year of record profits. • Steve Reed, Post director of home delivery, and his staff moved several hundred thousand Sunday home deliveries to later editions so readers could get later news and sports scores.

Newspaper division operating income in 1996 rose 6 percent to $116.8 million, from $109.7 million in 1995. Division revenue totaled $763.9 million, an increase of 5 percent over revenue of $729.2 million in 1995.

The Washington Post reported improved results, although they were not as good as many other major newspapers'. The severe winter at the beginning of the year, federal employment cutbacks, the government shutdown, and a weak local economy in the District of Columbia all took their toll on The Post's performance. However, results strengthened as the year progressed.

Advertising revenue increased 3 percent to $558.9 million, from $541.4 million in 1995. Total advertising volume at The Post fell 4 percent to 3,070,200 inches, from 3,212,100 inches in 1995. Retail inches declined 9 percent, while classified and general advertising were essentially flat. One bright spot was recruitment advertising, which was a $113 million business for The Post in 1996.

Both daily and Sunday circulation at The Post declined 1 percent during 1996, reflecting slow household growth in the market and competition from print and electronic media. For the 12-month period ending September 30, 1996, daily circulation was 809,340, and Sunday circulation was 1,129,519. However, over the past ten-year period, The Post is up in circulation, unlike most major-market papers.

The Post's $250 million project to completely recapitalize its production operations continued on schedule and on budget. As part of the project, all of The Post's 14 existing presses are being replaced by eight new offset presses; a new plant is being built in Maryland; and The Post's Virginia plant is being drastically modified. The first new press will be brought on line around October this year, with a new press going into production every two months thereafter until the project is complete at the end of 1998.

The Post had another excellent year journalistically. The paper's coverage of the financial problems of the District of Columbia government raised many issues that helped set the agenda for District government and control board action. The Post's election-year coverage was strong, including its reporting on campaign finance. And The Post's coverage of the Summer Olympics was outstanding.

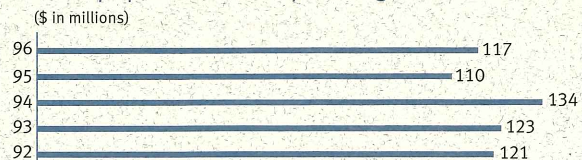
The National Weekly Edition of The Post experienced a slight decline in circulation, to approximately 101,000. Advertising revenue decreased as a result of a drop in special section supplements.

The Washington Post Writers Group, which represents many of the best columnists and cartoonists in syndication, continued to build a new business that markets photos and text reprints. Both functions formerly were handled by The Post newsroom. Beginning this year, The Writers Group will represent Newsweek in worldwide syndication for the first time.

The Herald reported circulation gains of 5 percent daily and 3 percent on Sunday, a result of new subscription sales methods and restructured service operations. However, advertising revenue declined 3 percent because of a soft retail advertising environment.

As part of its strategy to expand its weekly newspaper business, The Herald acquired four weekly newspapers in South Snohomish County and combined their operations with its existing weekly in North King County. Total weekly distribution reached 67,000 copies.

Gazette Newspapers experienced an extraordinary year in growth. The company started six community editions that added 100,000 to circulation in Montgomery County and Frederick County, Maryland. The new monthly Montgomery Business Gazette successfully completed its first year. Gazette Newspapers also acquired Comprint Military Publications, which serves 13 military bases in the Washington area, and Comprint, Inc., a commercial printer.



Q **About 85 percent of The Post's readers live outside the District of Columbia. How is The Post addressing the needs of these readers?**

A We have for years been steadily expanding our local coverage outside the District of Columbia and even beyond the first ring of suburban Maryland and Virginia counties encircling the District. We now have ten suburban bureaus covering more than a dozen counties. We also publish weekly zoned local news supplements in most of those counties, and we are experimenting with a three-times-a-week zoned section, called Prince William Extra, in a rapidly growing county in Virginia.

Q **In view of the problems in the District, can The Post thrive there?**

A Circulation has suffered some losses in the District but remains strong there. Counterbalancing the problems, downtown development, shopping, and nightlife are on the upswing, and many neighborhoods are flourishing. We believe the District – the nation's capital and region's center – will rebound. And the metropolitan area is increasingly listed as one of the nation's top places to live and do business.

Q **The Post's Web site has been very successful. How does the growth of online news affect The Post?**

A washingtonpost.com is a very attractive way to present our journalism to a wider circle of readers. It also enables us to present its users with additional information that cannot fit on the printed page. And it gives readers of the printed newspaper a robust way to interact with us. Online services present a threat to classifieds, but also an opportunity for us to take advantage of our content, relationship with customers, and name recognition. Whether the online world develops more as a separate business or as a supplement to the newspaper, we intend to remain the basic source of information about, and for, the Washington metropolitan area.

Q **What were The Post's major journalistic accomplishments in 1996?**

A Our in-depth coverage of the crisis in the District of Columbia, which has frequently revealed problems that set the agenda of city officials and the congressionally created control board. Our frequently trend-setting coverage of the 1996 election campaign and the political fundraising and spending abuses for which the campaign may best be remembered. Our extraordinary story and photo coverage of the Atlanta Summer Olympics. Michael Dobbs' discoveries of a Cold War hero, cryptographer Meredith Knox Gardner, who broke Soviet codes for the United States and now lives in retirement in Washington, and a Cold War spy, scientist Theodore Alvin Hall, who gave secrets about the atomic bomb to the Soviets and now lives in retirement in England.

Joe Elbert, Post assistant managing editor for photography, has led Post photographers to win two Pulitzer Prizes and 14 national Photographer of the Year awards during the '90s. • Kate Humphries, Post ad sales manager, helped create a special product for the Northern Virginia Association of Realtors. • Michel duCille, Post picture editor, winner of two Pulitzer Prizes before coming to The Post, helped make the photography department the best among American newspapers. • Sandra Hollenbeck, Herald circulation director, changed subscription sales methods and restructured service, boosting circulation 5 percent daily and 3 percent Sunday.

Tom Might, president and CEO, responds to questions about Post-Newsweek Cable.

Q **Post-Newsweek has concentrated on cable systems in non-urban areas. Why?**

A Non-urban markets are what we know best. They are the heritage of PNC, so we are simply sticking to our knitting. We realized three years ago, when we began our acquisition efforts, that these markets will not be subject to wired competitive threats any time soon. This allows us to manage our capital and marketing programs in a much more orderly fashion than metropolitan MSOs and deliver a higher and more secure return on our investment.

Q **Many cable analysts say a successful cable operator today needs at least 2 million subscribers. How can Post-Newsweek do well with only 600,000?**

A I have never believed this. Sure, we pay slightly higher costs for programming and equipment, but the differences are not strategic. Telephony was another reason you had to be big, but almost all the big MSOs are now renouncing their telephony plans. We have never forecast getting into telephony in our markets. Access to financial markets is another common excuse for size, but that only applies to a stand-alone MSO. The Washington Post Company has better access to capital than any of the large MSOs today.

Q **How does cable compete against direct broadcast satellite (DBS)? What about fiber and digital boxes?**

A DBS today has several weaknesses that are easy to exploit: the lack of local broadcast signals, the lack of whole-house service, the lack of free and fast local service support, and an abundance of hidden costs. We will have fiber deployed throughout PNC by the end of 1997, delivering quality and reliability rivaling DBS. Digital boxes, in our case, will be deployed more sparingly to those high-end customers who want more than 60 to 65 channels of analog service. We don't believe our typical cable customer today wants the cost or complexity of digital boxes throughout the home. But we'll be ready if they do.

Q **In view of increasing competition from DBS, what will be your ability to raise prices in the near future?**

A With the addition of new channels, improvements in reliability and picture quality, and enhanced customer service that we have planned, we can continue to raise rates moderately without price-sensitive customers turning to DBS. Today nobody is switching to DBS because it's cheaper, even with their heavily discounted set-top box prices.

Stewart Utech, technician, Sioux City, Iowa, eagerly trains less experienced employees and has not missed a day of work during his 17 years with the system. • Butch Dixon, installer, Odessa, Texas, pays attention to every detail to ensure customer satisfaction. • Earnestine Jones, lead customer service rep, Columbus, Mississippi, a 19-year system veteran, works directly with the plant manager to ensure customer needs are met.

Cable division cash flow surged 18 percent in 1996 to $100.9 million, from $85.2 million in 1995. The acquisition of three systems during the year and a relaxation of cable rate regulations contributed to the increase. Cash flow from existing systems grew more than 9 percent, up $8 million, the biggest gain in five years. Revenue rose by 18 percent to $229.7 million, from $194.1 million the previous year. Existing systems accounted for one-half of the increase, or $18.4 million. Operating income jumped 37 percent due to internal growth, acquisitions, and the lapse of depreciation charges from the original cable acquisition in 1986.

After four years of punishing Federal Communications Commission regulations – which had an unfair impact on all cable operators regardless of past performance and customer satisfaction – business returned to a less regulated, more normal pace. Congress also passed the Telecommunications Act of 1996, which largely deregulates the cable industry again in 1999.

Basic subscribers increased 15 percent, up 76,000 to 594,000 at year end. The internal growth rate was 2 percent, up 10,000 subscribers. The remaining growth came from acquisitions. Pay unit growth at existing systems continued its strong trend, up 11 percent or 32,000 units. This success reflects Post-Newsweek's expanded emphasis on marketing, which began in 1994 to counteract the impact of the 1992 Cable Act.

Three acquisitions closed in 1996: a 24,000-subscriber system in Texarkana, Texas and Arkansas; a 16,000-subscriber system in Columbus, Mississippi; and a 26,000-subscriber system in Prescott, Arizona.

The trade of three urban Post-Newsweek systems in San Francisco and Chicago to TCI, negotiated in 1995, is finally scheduled to close this spring. Post-Newsweek will be receiving cable systems serving 63,000 subscribers in three states. The new systems are adjacent to existing Post-Newsweek systems.

Our acquisitions and trades flow from Post-Newsweek's strategy to operate primarily in mid-sized, non-urban markets and to expand the business in concentrated geographic areas. Additional acquisitions are being pursued.

Competition became a more serious fact of life as prices for direct broadcast satellite (DBS) hardware fell

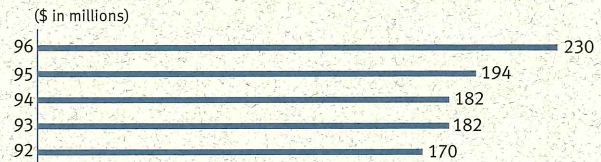
substantially and several multi-point multi-channel distribution services (MMDS) began operation in Post-Newsweek markets. Through research and marketing, Post-Newsweek was successful in limiting their impact. Post-Newsweek is preparing to make further investments in product, people, and customers that will help sustain growth rates in a more competitive environment. However, these investments will significantly slow cash flow growth in existing systems for one year, 1997.

System rebuilds are well underway, as capital spending reached $37 million in 1996 and will be even higher in 1997. All but the smallest systems are planned for 550 Mhz of bandwidth and two-way plant, allowing 80 analog channels. Post-Newsweek anticipates a gradual rollout of digital set tops and cable modems starting in 1998, once a majority of the system rebuilds are completed, industry standards are established, and the functionality has increased.

1997 will also usher in a new name for the division – CableOne, a brand that will unite disparate system names under one uniformly promoted, customer-friendly banner. Its introduction will accompany the launch of several new and valuable customer services.

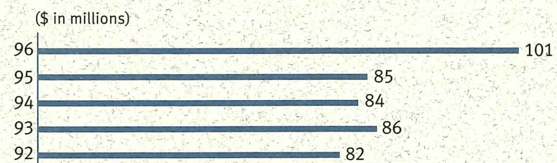
Post-Newsweek Cable Operating Revenues

($ in millions)



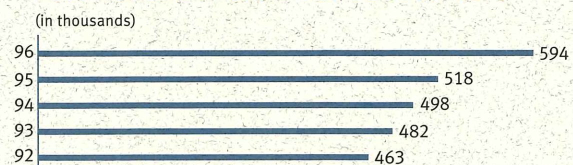
Post-Newsweek Cable Cash Flow

($ in millions)



Post-Newsweek Cable Basic Subscribers

(in thousands)



Q What's the outlook for cable advertising?

A Cash flow from cable advertising at the system level should continue to grow at low double-digit rates. We are becoming a more professional sales operation, which is the most important step. We are expanding the number of insertable channels, which adds inventory to sell. We are investing in digital insertion equipment and digital production equipment, which increases the quality of each spot sold. We are increasing audience reach as cable network shares grow, which allows us to increase our price.

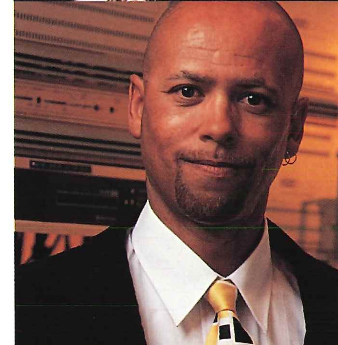
Q The government has played a big role in cable operations over the years. What's in store now?

A Cable regulation is starting to slow down, but it will never go away. The 1996 Telecommunications Act eliminates tier rate regulation in 1999. However, the vast majority of our communities never chose to regulate our rates in the first place. Broadcast station must-carry regulation is before the Supreme Court and may be overturned this year. Broadcast station retransmission regulation, on the other hand, won't go away, but proved to be much more manageable last fall than the initial three-year cycle in 1993. All in all today, compared to three years ago, we are much better able to focus on our customers rather than on regulatory compliance.

Q Some cable operators have a terrible reputation among consumers. What is Post-Newsweek doing to ensure good customer relations and service?

A Most importantly, we have empowered our customer contact associates to make customers happy when they have a problem. But we have also taken numerous steps to eliminate problems. Capital spending has increased, training has increased, customer research has increased, customer service standards have increased, and channel capacity has increased. We have always enjoyed a good reputation in our communities, but we have just raised our own bar several notches.

In February 1997 the National Cable Television Association announced the results of a comparative customer-satisfaction survey of 12 large MSOs. Post-Newsweek virtually tied for first place nationally in overall customer satisfaction and took first place in service-call satisfaction.



Corine Williams, customer service rep, Clarksdale, Mississippi, goes out of her way to help colleagues assist customers and has been top sales person for two consecutive years. • Ralph Garcia, property accountant, PNC corporate, developed and instructed a two-day inventory workshop for 20 PNC cable systems. • Jody Mayo, plant maintenance, Roswell, New Mexico, has a personnel file filled with subscriber letters praising his excellent work and pleasant attitude. • Pansy Oliver, inside salesperson, Greenwood, Indiana, is an outstanding sales performer and develops and maintains excellent rapport with customers and co-workers.

Rick Smith, editor-in-chief and president, responds to questions about Newsweek.

Q Newsweeklies were once called dinosaurs, but they turn out to be more like cats, with at least nine lives. What's the role of Newsweek in today's media environment?

A I still have a copy in my office of one famous "dinosaur" cover from a journalism review back in the 1980s. Fortunately, I can look at it these days and smile. What the pundits missed – but thank God the readers didn't – is that we have kept up with the changing needs of our audience. Today, people are bombarded by a blizzard of headlines, sound-bites, video clips, and data streams. Newsweek's readers see us as an efficient guide to help them through that blizzard, to provide a sense of what's important and what's not, and offer a fair-minded perspective on what lies ahead.

As I see it, we have a contract with our readers to help them understand – and keep up with – change in all the areas we cover. We take that contract very seriously, and as a result, the readers keep coming back.

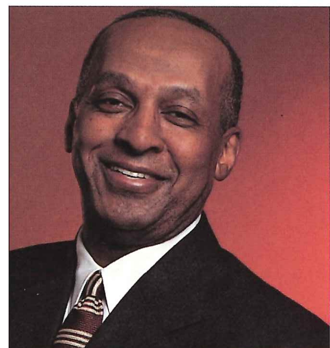
Q Most magazines are part of larger magazine groups. How does Newsweek compete in a world of media bundling? We also hear a lot about "adding value" for advertisers. What does this term actually mean?

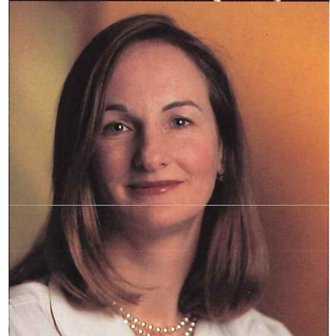
A Sometimes it does feel like we're a band of guerrillas up against the Panzer divisions, but that's always been a part of our editorial and business culture. We like that challenge. The powerful Newsweek brand gives us plenty of weapons – from demographic and regional editions to special issues, an online version, and even international and local-language magazines. But to be truly competitive with the advertising package deals and the deep discounting of some groups, we simply have to out-think them and out-work them in helping our customers meet their marketing objectives.

The overworked buzzword is "added-value." That covers everything from our sponsorship of technology tours across the country for high-tech advertisers, to high-profile sports marketing packages, to a hundred other programs. But the common denominator is that in each case we have understood enough about our customers' businesses to actively help them solve their problems. If we can do that, price becomes a whole lot less important.

Q Newsweek has been active in electronic publishing. How do you view the relationship between Newsweek in print and Newsweek online?

A Newsweek Interactive on America Online is designed to showcase our ability to deliver lively editorial features and innovative advertising messages in an electronic environment.





Bert Ferguson, circulation and marketing production director, continued to keep costs low and quality high for promotional materials and mailings for both circulation and ad sales. • Carol Wilk, Newsweek International's special projects new media director, was named Employee of the Year for her World Wide Web-based marketing programs for clients. • Jane Keiffer, assistant circulation director, oversaw a targeted, creative, and cost-effective domestic strategy that has boosted both circulation revenues and demographics.

Newsweek's operating income rose 52 percent to $22.8 million, from $15.0 million in 1995. Revenue totaled $377.1 million, an increase of 7 percent from $352.6 million in 1995. Strong growth in advertising sales made 1996 one of the magazine's best years ever.

Newsweek captured market share for domestic advertising among the three newsweeklies, posting substantial gains in both the number of ad pages and the average rate per page. Advertising Age named Newsweek one of the five Best Magazines of 1996, praising both "the continued strength of Newsweek's editorial product – and the business-side payoff."

Domestic ad pages gained 10 percent from 1995 levels, and advertising revenues rose 16 percent (according to PIB). Categories with the largest growth were computers, software, and office equipment, and drugs and remedies. Newsweek continued to establish strong marketing links with advertisers, offering successful programs such as the Technology Tour, a traveling hands-on display of clients' latest computer and electronic products, and sports-marketing programs such as the Newsweek Champions Cup Tennis Tournament and other high-profile events.

Editor-in-chief and president Rick Smith was named chairman of the Magazine Publishers of America in October 1996.

Editorial performance remained first rate, with nimble, in-depth coverage of major events. The magazine's election reporting culminated with a special issue featuring a definitive, 60,000-word campaign narrative that appeared on newsstands just 36 hours after polls closed. Reported by a special team of four, and written by assistant managing editor Evan Thomas, the narrative was expanded and published as a book, *Back from the Dead: How Clinton Survived the Republican Revolution,* by Atlantic Monthly Press in time for the President's 1997 inauguration.

With regular features such as "Focus on Technology" and award-winning columns by Steven Levy, Newsweek continued its momentum in covering the high-tech world. Among the magazine's top newsstand sellers were well-crafted feature stories such as senior writer Ken Woodward's "Rethinking the Resurrection" and senior editor Sharon Begley's "Your Child's Brain," which generated thousands of requests for reprints from educators and parents. Once again the magazine was a finalist for a National Magazine Award for general excellence,

and it won an Overseas Press Club Award for best business reporting from abroad.

Both circulation and readership remained strong. Domestic paid circulation was steady at more than 3.2 million, and overall U.S. readership continued above 20 million. Newsweek has the highest percentage of long-term subscribers among the three newsweeklies, as well as the lowest percentage of subscriptions sold with premiums.

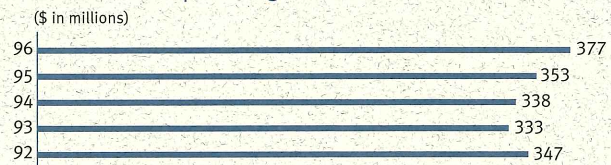
Newsweek's circulation strategy continues to deliver high-caliber, committed readers to the magazine's advertisers. For the past five years, Newsweek has continued to be the audience growth leader in the newsweekly field, with more readers in the key groups that advertisers most want to reach.

Newsweek's overseas editions reached record circulation levels and total revenues in 1996. A stronger dollar benefited operating performance, and growth in advertising in the robust Asia market offset a decline in Europe. The 1997 circulation rate base guaranteed to advertisers for the Asia-Pacific editions is increased 7 percent to 240,000. The rate bases for the Atlantic and Latin America editions remain steady at 340,000 and 77,000 respectively.

Expansion into local-language editions continued with the spring 1996 launches of Newsweek en Español (Latin America circulation of 54,000) and Itogi, a Russian-language newsweekly modeled after Newsweek. Itogi's circulation is expected to double in 1997 to 100,000. The only news magazine with foreign-language editions, Newsweek has been available in Japanese since 1986 (circulation 140,000) and in Korean since 1991 (circulation 150,000).

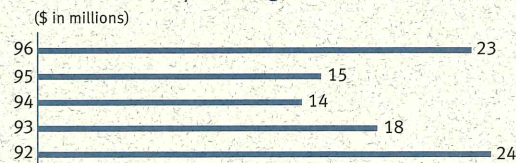
Newsweek Operating Revenues

($ in millions)



Newsweek Operating Income

($ in millions)



Beyond that, we want to push the new media envelope as much as possible – without going broke in the process. As the founding chairman of the Magazine Publishers of America new media committee, I'm an advocate, but a cautious one. I've seen a lot of publishers spill a lot of money in cyberspace with very little to show for it. We've been very active explorers, but until we come up with a business model that makes sense, we're going to move very carefully.

Q **Newsweek, by most yardsticks, is clearly the leader in the news magazine field, yet its circulation continues to be less than Time's. Any interest in going after the number-one circulation spot?**

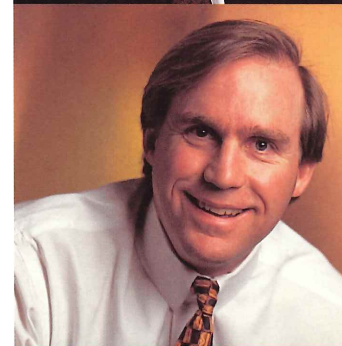
A Circulation numbers can be manipulated by pricing, premiums, and promotion. We've focused consistently on the quality and profitability of our audience. Newsweek uses the fewest gadgets, gizmos, and giveaways to attract readers and has the longest-term subscribers in our field. In other words, I like our circulation just fine.

Q **Newsweek has been able to reduce costs continually over the years while preserving quality. Where are you looking for savings now?**

A We've always kept expenses under a high-powered microscope. New technology will undoubtedly offer some new opportunities for cost reductions, but we'll also continue investing in new talent, expanded sections, and other features for our readers. As Kay Graham taught me a long time ago, you can't cut your way to quality.

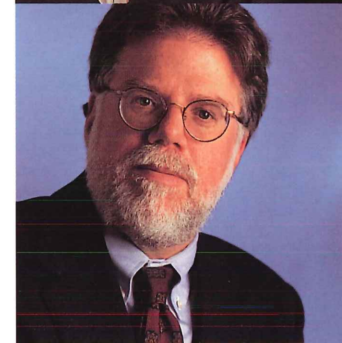
Q **Newsweek International has successfully launched several local-language editions. What's the growth potential in this area?**

A Our international joint ventures are part of a quiet but very important revolution. We now have four foreign-language editions, and they are all growing. I'd expect one or two more in 1997. After that, who knows? But Peter Luffman and his team continue prospecting, and Newsweek's reputation continues to attract other potential partners.



Q **What were Newsweek's major journalistic achievements in 1996?**

A We had a strong year, particularly in our coverage of the presidential campaign and the Olympics, but I'm especially proud of the breakthrough we made in covering the rapidly changing worlds of technology, science, and health. No subjects seem to fascinate – or bewilder – readers more. Soon we'll be adding "Focus on Your Health" to our popular bonus sections on technology and personal finance. They've been a real hit with readers, and I'm sure "Health" will be, too.



Jon Meacham, national affairs editor, presided over Newsweek's out-front coverage of Campaign '96 by an all-star team of political writers and reporters. • Greg Osberg, associate publisher, and his U.S. sales and marketing team produced the best results — both pages and revenues — in seven years. • Rebecca Pratt, closing desk director, helped manage a successful transition to a state-of-the-art, customized, PC-based editorial computer system. • Mark Starr, national sports correspondent, spearheaded outstanding coverage of the Atlanta Summer Olympics.

Jonathan Grayer, president and CEO, responds to questions about Kaplan Educational Centers.

Q **What have you done to strengthen your test preparation business?**

A In the past year we invested heavily in additional training for our teachers and staff, extending our quality lead in test preparation and admissions services. We've continued to make major strides in the use of technology to personalize feedback for students – so we can now provide detailed study plans tailored for each student's very specific strengths and weaknesses. On the business side we implemented a new MIS system that enables us to learn more about our students and provide them with better service and access to more programs.

Q **We hear a lot about computer adaptive testing (CAT). What's your view of the future of CAT and its impact on Kaplan?**

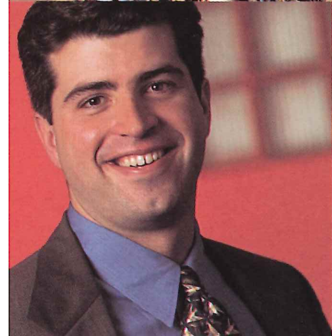
A Computerized testing will soon become the operating standard, as it provides a number of advantages for administrators, admissions officers, and students. Kaplan has assumed leadership in providing the most advanced CAT preparation available. We're making significant investments in technology and research so that students at our centers have access to the best resources and expertise. Students will be able to use computers at our centers throughout North America. In addition to expanding our menu of CAT services, Kaplan has helped shape the public dialogue about computerized testing, making important information available to students, educators, and the public.

Q **Your operations now go far beyond test preparation. What's the strategy behind Kaplan's expansion?**

A We've developed numerous capabilities in our test preparation business that can be applied to many new markets. One of our core competencies is our ability to thoroughly assess the skills of thousands of students, provide each of them with a highly customized plan for improving their skills, and deliver the quality instruction and study tools they need to meet their goals.

There are a number of other groups that can greatly benefit from such services: the fast-growing population of students in K-12 whose parents want them to receive supplemental education; universities struggling to accommodate students who need remedial or specialized education; and companies that hire and train large numbers of employees.

In addition, we have a trusted brand name and unmatched access to high school and college students. We believe our investments in quality have created a marketplace that will readily accept additional Kaplan educational products and services.



Seppy Basili, Kaplan director of pre-college programs, spearheaded major growth in the pre-college test prep business and individualized tutoring services. • Jessie Woolley, president of Crimson & Brown Associates, led the diversity recruiting firm to significant revenue growth and established it as one of the country's leading collegiate career publishers. • Glenn Tripp, national director for Score@Kaplan, added five new regions to the academic enrichment and remediation service for children in grades K through 12.

Kaplan Educational Centers, one of the nation's premier education companies, sustained its record of strong growth and expansion in 1996. Kaplan's core test preparation business continued its strong earnings growth, and Kaplan increased its dominant market share among graduate school-bound students. Pre-college business grew 20 percent, while recently expanded tutoring services grew more than 300 percent. Revenue in English-language training programs increased over 50 percent.

Kaplan acquired Score Learning Corporation, an academic enrichment and remediation services company, and created its Score@Kaplan subsidiary to serve children in grades K through 12. Score@Kaplan more than doubled the number of students served during the year.

Crimson & Brown Associates, the nation's leading diversity recruiting firm, increased yearly revenue by almost 70 percent. This Kaplan unit also acquired three leading career magazines, becoming one of the country's largest collegiate career publishers.

Kaplan and Newsweek launched the highly successful "How to Get Into College" guide. Kaplan's new book imprint, a co-publishing arrangement with Simon & Schuster, has produced 20 titles and will publish 75 titles in 1997 on test preparation, admissions, academic enrichment, and career and life skills.

Kaplan InterActive introduced award-winning multimedia CD-ROMs in test preparation, admissions, and academic success. Kaplan's Internet and America Online sites are among the most popular destinations for high school and college students.

Kaplan Supplemental Education was created to provide assessment and educational tools for universities and businesses.

Digital Ink produced and published four World Wide Web sites in 1996, meeting the challenge of developing electronic products to sustain and expand the company's franchises, both locally and nationally.

washingtonpost.com successfully migrated from a proprietary system to the Internet and achieved immediate critical and popular success. Its loyal audience continues to grow weekly, making it one of the most widely viewed newspaper Web sites.

Digital Ink also produced and published the Newsweek "Parent's Guide to Children's Software '97," an updated, Web-based version of the critically acclaimed CD-ROM published by Digital Ink in 1995. It provides reliable information and reviews of the best software for children ages 2 to 12.

Digital Ink also launched PhotoStore, a commerce Web site published with District Photo Inc. This venture sells popularly priced prints of photographs from The Washington Post, Newsweek, and other collections. Photographs can be previewed and purchased on the Web site, as well as through traditional outlets.

PoliticsNow, the political news and information site produced with ABC News and National Journal, was a dominant force on the political Web scene during the election of 1996.

LEGI-SLATE had a difficult year because of the downsizing or outsourcing of corporate and federal agency government affairs functions, among other factors. The development of new products, including proprietary news content, is a priority in 1997, along with continued focus on expense management.

LEGI-SLATE launched State Capital Strategies (SCS), a wholly owned subsidiary, in September. SCS provides services covering legislative activity in all 50 states.

TechNews, Inc., was acquired by The Washington Post Company in September 1996. It publishes business periodicals, including Washington Technology newspaper, for the computer services industry and other technology-related fields. The company also provides electronic information services and industry seminars. The acquisition demonstrates The Post Company's strong commitment to serving the technology community in the Washington region.

Polly Povejsil Heath, general manager, responds to questions about Digital Ink.

Q **What needs to happen before our Web activities become profitable?**

A First and foremost, our sites have to build a large audience that returns regularly. Once consumer habit is in place, I think that our Web sites will be able to charge reasonable advertising fees and become profitable.

Q **Classified advertising seems a natural application for the Web. How do we protect our classified print franchise?**

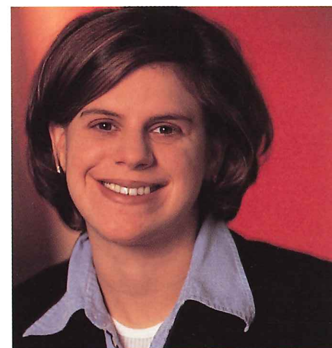
A In the long run, classified advertising is likely to become appealing on the Web. The interaction and computation capabilities inherent in this medium are well suited to classified. There is a lot of promise, but so far our print products are still more efficient for most people. Nevertheless, we will protect our print franchise by building the strongest Web-based products that we can. Our employment product, CareerPost, is an example of what we're doing right now. We believe that our assets, such as brand and knowledge of consumer and advertiser needs, are critical to success in this marketplace. If classifieds become an electronic marketplace, it will be in our electronic product: washingtonpost.com.

Q **Online display advertising seems to be progressing very slowly. What can we offer advertisers to grow this business?**

A Advertisers must believe that our products improve the relationship between them and their customers, and they demand measurable results. We need to drive customers to their stores or sell their products online. The Web audience is not yet very large, and the creative issues that determine advertising effectiveness haven't been worked out completely. Some progress will be the result of things that we can do, and some will be the results of what advertisers learn as they get more experienced in the use of this medium.

Q **There are a number of large and successful companies attempting to compete in the local electronic marketplace. How will washingtonpost.com compete with these offerings?**

A Some are likely to be formidable competitors. So is The Washington Post. We have tremendous brand strength and knowledge about what happens in Washington. So far our customers really like the local information and depth we provide. I think that it's going to be very difficult for other companies to match us in these areas that are important to our audience. We need to be cognizant of the power of their brands and what they will do with their national economies of scale. We will look for the right kinds of alliances with groups such as New Century Network to provide a rich and deep national backdrop.



Adriana Bourgoin, manager of Post-Haste at Digital Ink, started the year marketing ElectionLine, helped launch PoliticsNow, and then took over managing the Post-Haste business. • Lisa McAvoy, Legi-Slate account manager for the Northeast region, Distinguished Employee of 1996, excelled in three major assignments as a consummate team player. • Kira Marchenese, Digital Ink content developer, designed the system through which washingtonpost.com publishes on the Internet and guided the creation of CollegePost.

Report of Independent Accountants

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

In our opinion, the consolidated financial statements appearing on pages 23 through 37 of this report present fairly, in all material respects, the financial position of The Washington Post Company and its subsidiaries at December 29, 1996 and December 31, 1995, and the results of their operations and their cash flows for each of the three fiscal years in the period ended December 29, 1996, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

Price Waterhouse LLP

Washington, D.C.
January 28, 1997

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

Results of Operations – 1996 Compared to 1995

Net income in 1996 was $220.8 million, an increase of 16 percent over net income of $190.1 million in 1995. Earnings per share rose 17 percent to $20.05, from $17.15 in 1995. The company's 1995 net income included $8.4 million ($0.75 per share) from the sale of the company's investment in American PCS, L.P. (APC), as well as an after-tax charge of $5.6 million ($0.51 per share) relating to the write-off of the company's interest in Mammoth Micro Productions. Excluding these items, net income and earnings per share increased 18 percent and 19 percent, respectively, in 1996.

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

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

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

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

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

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

Broadcast Division. Revenues at the broadcast division rose 9 percent to $335.2 million over last year, with both national and local advertising revenues increasing by 10 percent. The improvement for 1996 is attributable almost entirely to political and Olympics-related advertising as other categories generally remained unchanged. Network revenues rose 12 percent in 1996.

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

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

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

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

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

Operating margin at the cable division was 24 percent, compared to 21 percent in 1995. Cable cash flow increased 18 percent to $100.9 million, from $85.2 million in 1995. About half of the improvement in cash flow is attributable to the results of cable systems acquired in 1996.

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

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

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

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

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

Results of Operations – 1995 Compared to 1994

Net income in 1995 was $190.1 million, an increase of 12 percent over net income of $169.7 million in 1994. Earnings per share rose 17 percent to $17.15, from $14.65 in 1994. The company's 1995 net income included $8.4 million ($0.75 per share) from the sale of the company's investment in APC, as well as an after-tax charge of $5.6 million ($0.51 per share) relating to the write-off of the company's interest in Mammoth Micro Productions. Earnings in 1994 included an after-tax gain of $8.1 million ($0.70 per share) from the sale of land at one of the company's newsprint affiliates. Excluding these items, net income and earnings per share increased 16 percent and 21 percent, respectively, in 1995.

Revenues for 1995 totaled $1.719 billion, an increase of 7 percent from $1.614 billion in 1994. Advertising revenues increased 7 percent in 1995, and circulation and subscriber revenues increased 3 percent. Other revenues increased 15 percent. Advertising revenues in the broadcast division, which included two additional television stations in Houston and San Antonio acquired in April of 1994, rose 18 percent in 1995. Newsweek also contributed to the improvement in advertising revenues with a 7 percent increase over 1994. The increase in circulation and subscriber revenues was principally due to growth at the cable division. Other revenues rose in 1995 due to growth in fees for engineering services at MLJ and higher tuition revenues at Kaplan.

Costs and expenses for the year increased 8 percent to $1.448 billion, from $1.339 billion in 1994. Approximately one-third of the increase was attributable to the higher cost of newsprint and magazine paper, while the remainder of the increase reflected normal increases in the costs of operations as well as the write-off of Mammoth Micro Productions mentioned previously.

Operating income declined 1 percent to $271.0 million, from $274.9 million in 1994.

Newspaper Division. Newspaper division revenues for 1995 increased 2 percent to $729.2 million, from $717.3 million in 1994. Advertising revenues at the newspaper division rose 1 percent over 1994. At The Washington Post, advertising revenues increased 1 percent as higher rates offset a decline in volume. Retail revenues at The Washington Post declined 5 percent from 1994 as a result of a 10 percent decline in inches. Classified revenues rose 7 percent, primarily as a result of improved recruitment-related volume in the year. Other advertising revenues were flat; general advertising inches declined 3 percent and preprint volume at The Washington Post increased 7 percent versus 1994. Circulation revenues for the newspaper division rose 2 percent in 1995 due to a home delivery price increase. For the 12-month period ended September 30, 1995, daily and Sunday circulation at The Washington Post declined 2 and 1 percent, respectively. The Washington Post's share of the market was 49.5 percent penetration in its daily editions and 65.1 percent penetration in its Sunday editions.

Newspaper division operating margin in 1995 was 15 percent, down from 19 percent in 1994. The previously mentioned increases in advertising and circulation revenues were offset by higher newsprint expense, which increased 29 percent.

Broadcast Division. Revenues at the broadcast division increased 18 percent over 1994. National and local advertising revenues increased 5 percent and 18 percent, respectively. Increased revenues for 1995 in a broad range of categories, including auto and truck advertising, more than offset a $12 million decline in political advertising versus 1994.

Approximately two-fifths of these increases were attributable to the inclusion of a full twelve months of revenue for KSAT and KPRC in 1995 versus only eight and one-half months' revenue in 1994. Network revenues rose 88 percent in

1995 as a result of the renegotiation of network affiliation contracts in 1995 and the second half of 1994.

Viewership remained strong for the original four television stations. Three stations were ranked number one in the latest ratings period, sign-on to sign-off, in their markets; one station was ranked number two. With respect to the stations acquired in 1994, San Antonio was ranked number two, sign-on to sign-off, while Houston was ranked number three.

Operating margin at the broadcast division increased to 43 percent, from 41 percent in 1994. Excluding amortization of goodwill and intangibles, operating margins for 1995 and 1994 were 47 percent and 44 percent, respectively. Increases in advertising and network compensation accounted for most of the improvement in margins as expenses remained stable.

Magazine Division. Newsweek revenues in 1995 increased 4 percent due primarily to increased advertising revenues at both the domestic and international editions. Advertising revenues rose 7 percent overall, 6 percent at the domestic edition, and 11 percent at the international editions. These improvements were due to better page volume at slightly higher rates. Circulation revenues for 1995 were essentially even with 1994. In 1995 the domestic and international editions published 51 weekly issues versus 52 issues in 1994.

At Newsweek the operating margin remained at 4 percent. The higher cost of magazine paper, distribution, and subscription acquisition offset much of the revenue increase.

Cable Division. Revenues at the cable division increased 7 percent in 1995 over 1994. The number of basic subscribers increased 4 percent to 518,000, all of which were from internal growth. All revenue categories – basic, tier, pay, pay-per-view, advertising, and other – showed improvement from 1994.

Operating margin at the cable division was 21 percent, compared to 23 percent in 1994. However, cable cash flow increased 2 percent to $85.2 million, from $83.6 million in 1994. Programming costs continued to increase due to the increased number of subscribers and license fee increases by programming suppliers.

Other Businesses. In 1995 revenues from other businesses, including Kaplan, MLJ, PASS Sports, LEGI-SLATE, and Digital Ink, increased 18 percent to $137.4 million, from $116.7 million in 1994. Half of the increase related to MLJ, where fees for engineering services almost tripled in 1995. Most of the remainder was due to Kaplan, which experienced an 11 percent increase in revenues, mostly graduate school courses and new products.

Other businesses recorded an operating loss in 1995 of $27.1 million, compared with a loss of $22.8 million in 1994. The 1995 results included the write-off of Mammoth Micro Productions as previously mentioned. The 1994 results included operating expenses of APC, which was disposed of in January 1995. If all costs associated with these units are excluded from both years, other businesses operating losses amounted to $4.8 million and $7.3 million in 1995 and 1994, respectively.

Equity in Earnings of Affiliates. The company's equity in earnings of affiliates for 1995 was $24.5 million, compared with $7.3 million in 1994. The improved results were derived from the company's newsprint mills, which benefited from higher newsprint prices. The 1994 results included an $8.1 million after-tax gain from the sale of land at one of the company's newsprint affiliates.

Non-Operating Items. Interest income, net of interest expense, was $2.4 million, compared with $3.6 million in 1994. The decrease was a result of lower average invested cash balances. Other income in 1995 was $13.5 million, compared with income of $1.1 million in 1994. The gain from the sale of the company's investment in APC was included in the 1995 amount.

Income Taxes. The effective tax rate in 1995 decreased to 39.0 percent, from 40.9 percent in 1994.

Financial Condition: Capital Resources and Liquidity

During the period 1994 through 1996 the company spent approximately $916.0 million on purchases of additional plant, property, and equipment, investments in new businesses, and the repurchase of Class B common stock. The company also retired $51.6 million of long-term debt.

In April 1994 the company acquired substantially all of the assets comprising the businesses of television stations KPRC-TV, the NBC affiliate in Houston, Texas, and KSAT-TV, the ABC affiliate in San Antonio, Texas, for approximately $253 million in cash. Additionally, the company acquired an 80 percent interest in Mammoth Micro Productions, a producer and publisher of multimedia CD-ROM titles, for approximately $23 million in cash. (As previously mentioned, this investment was written off in 1995.) In January 1995 the company divested substantially all of its 70 percent limited partnership interest in APC for a sales price of approximately $33 million. During 1996 the company purchased cable systems serving about 66,000 subscribers, in four states, for about $129 million, including $11.9 million of the company's redeemable Series A Preferred Stock. The company also acquired various other new businesses in 1996 for an aggregate purchase price of about $18.5 million. These acquisitions include, among others, Comprint, Inc., a commercial printer in the Maryland suburbs of Washington, D.C., Score Learning Corp., which provides educational services to students in grades K through 12, and TechNews, Inc., a producer of business publications for the computer services industry and the Washington-area technology community.

During 1996, 1995, and 1994 the company repurchased 103,642, 361,106, and 366,500 shares, respectively, of its Class B common stock at a cost of $32.3 million, $89.6 million, and $86.7 million, respectively. Sixty-three thousand of these shares were purchased from The Washington Post Company Profit Sharing Plan in 1994. The annual dividend rate for 1997 was

increased to $4.80 per share, from $4.60 per share in 1996, $4.40 per share in 1995, and $4.20 per share in 1994.

The company estimates that in 1997 it will spend approximately $200 million for plant and equipment, principally for various projects at the newspaper and cable divisions. This estimate includes about $75 million to be expended as part of a $250 million project to provide new production facilities for The Washington Post newspaper. In 1995 and 1996 approximately $50 million was expended in conjunction with this project, which is expected to be completed in late 1998.

In early 1997 the company purchased a cable system serving about 15,000 subscribers for approximately $22 million. The company has also reached an agreement in principle with Tele-Communications, Inc. (TCI) to exchange the assets of certain cable systems. According to the terms of the TCI agreement, the exchange will result in an aggregate increase of about 23,000 subscribers for the company. The exchange is expected to be completed in the first half of 1997.

At December 29, 1996, the company had $102 million in cash and cash equivalents. The company expects to fund the majority of its estimated capital expenditures and business acquisitions through internally generated funds. In early 1996 the company established a five-year, $300 million revolving credit facility with a group of banks to provide for general corporate purposes and support the issuance of short-term promissory notes. In management's opinion, the company will have ample liquidity to meet its various cash needs in 1997 as outlined above.

Consolidated Statements of Income

(in thousands, except share amounts)	Fiscal year ended December 29, 1996	Fiscal year ended December 31, 1995	Fiscal year ended January 1, 1995
Operating revenues			
Advertising	$1,172,706	$1,094,620	$1,026,672
Circulation and subscriber	490,973	453,330	438,500
Other	189,766	171,499	148,806
	1,853,445	1,719,449	1,613,978
Operating costs and expenses			
Operating	1,007,057	948,088	861,464
Selling, general, and administrative	414,280	403,064	390,296
Depreciation and amortization of property, plant, and equipment	65,103	65,850	61,950
Amortization of goodwill and other intangibles	29,836	31,429	25,393
	1,516,276	1,448,431	1,339,103
Income from operations	337,169	271,018	274,875
Equity in earnings of affiliates	19,702	24,512	7,325
Interest income	5,359	7,974	9,196
Interest expense	(1,514)	(5,600)	(5,590)
Other income (expense), net	(499)	13,492	1,116
Income before income taxes	360,217	311,396	286,922
Provision for income taxes	139,400	121,300	117,250
Net income	220,817	190,096	169,672
Redeemable preferred stock dividends	(680)	—	—
Net income available for common shares	$ 220,137	$ 190,096	$ 169,672
Earnings per common share	$ 20.05	$ 17.15	$ 14.65

The information on pages 28 through 37 is an integral part of the financial statements.

Consolidated Balance Sheets

(in thousands, except share amounts)	December 29, 1996	December 31, 1995
Assets		
Current assets		
Cash and cash equivalents	$ 102,278	$ 146,901
Investments in marketable debt securities	—	12,756
Accounts receivable, net	233,063	200,698
Inventories	24,427	26,766
Other current assets	22,863	19,449
	382,631	406,570
Investments in affiliates	199,278	189,053
Property, plant, and equipment		
Buildings	188,527	190,543
Machinery, equipment, and fixtures	768,509	664,403
Leasehold improvements	28,883	33,805
	985,919	888,751
Less accumulated depreciation and amortization	(594,195)	(535,691)
	391,724	353,060
Land	34,332	32,513
Construction in progress	85,307	71,786
	511,363	457,359
Goodwill and other intangibles, less accumulated amortization of $207,768 and $177,932	544,349	472,291
Deferred charges and other assets	232,790	207,620
	$1,870,411	$1,732,893

The information on pages 28 through 37 is an integral part of the financial statements.

(in thousands, except share amounts)	December 29, 1996	December 31, 1995
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable and accrued liabilities	$ 194,186	$ 172,004
Federal and state income taxes	5,381	3,494
Deferred subscription revenue	82,069	82,457
Current portion of long-term debt	—	50,222
	281,636	308,177
Other liabilities	223,878	205,869
Deferred income taxes	30,147	34,643
	535,661	548,689
Commitments and contingencies		
Redeemable preferred stock, Series A, $1 par value, with a redemption and liquidation value of $1,000 per share; 23,000 shares authorized; 11,947 shares issued and outstanding	11,947	—
Preferred stock, $1 par value; 977,000 shares authorized	—	—
Common shareholders' equity		
Common stock		
Class A common stock, $1 par value; 7,000,000 shares authorized; 1,779,250 and 1,804,250 shares issued and outstanding	1,779	1,804
Class B common stock, $1 par value; 40,000,000 shares authorized; 18,220,750 and 18,195,750 shares issued; 9,131,165 and 9,201,163 shares outstanding	18,221	18,196
Capital in excess of par value	26,455	24,941
Retained earnings	2,002,359	1,832,706
Cumulative foreign currency translation adjustment	4,663	5,537
Unrealized gain on available-for-sale securities (net of taxes)	3,155	3,224
Cost of 9,089,585 and 8,994,587 shares of Class B common stock held in treasury	(733,829)	(702,204)
	1,322,803	1,184,204
	$1,870,411	$1,732,893

The information on pages 28 through 37 is an integral part of the financial statements.

Consolidated Statements of Cash Flows

(in thousands)	Fiscal year ended December 29, 1996	December 31, 1995	January 1, 1995
Cash flows from operating activities:			
Net income	$ 220,817	$ 190,096	$ 169,672
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization of property, plant, and equipment	65,103	65,850	61,950
Amortization of goodwill and other intangibles	29,836	31,429	25,393
Gain from disposition of businesses, net	(3,112)	(1,341)	—
Equity in earnings of affiliates, net of distributions	(11,099)	(18,090)	(4,333)
Provision for deferred income taxes	(4,273)	5,408	(6,882)
Change in assets and liabilities:			
(Increase) in accounts receivable, net	(31,444)	(25,579)	(34,543)
Decrease (increase) in inventories	2,339	(6,388)	(3,959)
Increase (decrease) in accounts payable and accrued liabilities	26,923	(15,507)	17,376
Increase (decrease) in income taxes payable	1,887	(3,099)	(9,133)
(Increase) decrease in other assets and other liabilities, net	(19,635)	13,074	(20,192)
Other	10,093	10,605	9,110
Net cash provided by operating activities	287,435	246,458	204,459
Cash flows from investing activities:			
Net proceeds from sale of businesses	3,517	32,743	—
Purchases of property, plant, and equipment	(79,981)	(121,697)	(74,642)
Purchases of marketable debt securities	—	(55,649)	(38,994)
Maturities and sales of marketable debt securities	12,821	67,453	274,776
Investments in certain businesses	(147,471)	(1,757)	(281,937)
Other	784	552	(1,124)
Net cash used in investing activities	(210,330)	(78,355)	(121,921)
Cash flows from financing activities:			
Principal payments on debt	(50,209)	—	(1,400)
Issuance of redeemable preferred stock	11,947	—	—
Dividends paid	(51,164)	(48,887)	(48,721)
Common shares repurchased	(32,302)	(89,584)	(86,660)
Net cash used in financing activities	(121,728)	(138,471)	(136,781)
Net (decrease) increase in cash and cash equivalents	(44,623)	29,632	(54,243)
Cash and cash equivalents at beginning of year	146,901	117,269	171,512
Cash and cash equivalents at end of year	$ 102,278	$ 146,901	$ 117,269
Supplemental cash flow information:			
Cash paid during the year for:			
Income taxes	$ 142,000	$ 122,000	$ 134,700
Interest	$ 5,115	$ 5,102	$ 5,200

The information on pages 28 through 37 is an integral part of the financial statements.

Consolidated Statements of Changes in Common Shareholders' Equity

(in thousands, except share amounts)	Class A Common Stock	Class B Common Stock	Capital in Excess of Par Value	Retained Earnings	Cumulative Foreign Currency Translation Adjustment	Unrealized Gain on Available-for-Sale Securities	Treasury Stock
Balance January 2, 1994	$1,843	$18,157	$21,354	$1,570,546	$2,908	$ —	$(527,389)
Net income for the year				169,672			
Dividends paid on common stock – $4.20 per share				(48,721)			
Repurchase of 366,500 shares of Class B common stock							(86,660)
Restricted stock award forfeitures of 811 shares, net of issuance of Class B common stock			(130)				(49)
Change in foreign currency translation adjustment					2,420		
Unrealized gain on available-for-sale securities (net of taxes)						2,933	
Other			49				
Balance January 1, 1995	1,843	18,157	21,273	1,691,497	5,328	2,933	(614,098)
Net income for the year				190,096			
Dividends paid on common stock – $4.40 per share				(48,887)			
Repurchase of 361,106 shares of Class B common stock							(89,584)
Issuance of 20,465 shares of Class B common stock, net of restricted stock award forfeitures			3,403				1,478
Change in foreign currency translation adjustment					209		
Unrealized gain on available-for-sale securities (net of taxes)						291	
Conversion of Class A common stock to Class B common stock	(39)	39					
Other			265				
Balance December 31, 1995	1,804	18,196	24,941	1,832,706	5,537	3,224	(702,204)
Net income for the year				220,817			
Dividends paid on common stock – $4.60 per share				(50,484)			
Dividends paid on redeemable preferred stock				(680)			
Repurchase of 103,642 shares of Class B common stock							(32,302)
Issuance of 8,644 shares of Class B common stock, net of restricted stock award forfeitures			1,173				677
Change in foreign currency translation adjustment					(874)		
Unrealized gain on available-for-sale securities (net of taxes)						(69)	
Conversion of Class A common stock to Class B common stock	(25)	25					
Other			341				
Balance December 29, 1996	$1,779	$18,221	$26,455	$2,002,359	$4,663	$3,155	$(733,829)

The information on pages 28 through 37 is an integral part of the financial statements.

A. Summary of Significant Accounting Policies

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

Fiscal Year. The company reports on a 52-53 week fiscal year ending on the Sunday nearest December 31. The fiscal years 1996, 1995, and 1994, which ended December 29, 1996, December 31, 1995, and January 1, 1995, respectively, included 52 weeks. With the exception of the newspaper publishing operations, subsidiaries of the company report on a calendar-year basis.

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

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

Cash Equivalents. Short-term investments with original maturities of 90 days or less are considered cash equivalents. The carrying amount reported approximates fair value.

Investments in Marketable Securities. Marketable securities held to maturity consist of debt instruments that mature over 90 days from the purchase date and are stated at cost plus accrued interest, which approximates fair value. At December 31, 1995, the company's investments in marketable debt securities consisted of U.S. Government and Government Agency obligations. Other investments in marketable equity securities available for sale are classified in "Deferred charges and other assets" in the Consolidated Balance Sheets. Unrealized gains or losses (net of taxes) relating to such investments are reported separately in the "Unrealized gain on available-for-sale securities (net of taxes)" in the Consolidated Balance Sheets.

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

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

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

Depreciation is calculated using the straight-line method over the estimated useful lives of the property, plant, and equipment: 3 to 12 years for machinery and equipment, 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 represent the unamortized excess of the cost of acquiring subsidiary companies over the fair values of such companies' net tangible assets at the dates of acquisition. Goodwill and other intangibles are being amortized by use of the straight-line method over various periods up to 40 years.

Impairment of Long-Lived Assets. Effective January 1, 1996, the company adopted Statement of Financial Accounting Standards No. 121 (FAS 121), "Accounting for Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of." FAS 121 requires that long-lived assets and certain identifiable intangibles, including goodwill, to be held and used by an entity, be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Upon adoption of this standard, the company evaluated its long-lived assets using projected undiscounted future cash flows and operating income for each subsidiary and determined that no material impairment of these assets existed at January 1, 1996, and, accordingly, no loss was recognized. The company believes that no material impairment existed at December 29, 1996.

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

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

Income Taxes. The provision for income taxes is determined in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes," which requires the use of the asset and liability approach. Under this approach, deferred taxes represent the expected future tax consequences of temporary differences between the carrying amounts and tax bases of assets and liabilities.

Foreign Currency Translation. Gains and losses on foreign currency transactions and the translation of the accounts of the company's foreign operations where the U.S. dollar is the func-

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

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

Stock-Based Compensation. Effective January 1, 1996, the company adopted Statement of Financial Accounting Standards No. 123 (FAS 123), "Accounting for Stock-Based Compensation." In accordance with the standard, the company has elected to continue to measure compensation expense for its stock option plan using the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees"; accordingly, the company does not recognize compensation expense for its stock option plan. Pro forma disclosures of net income and earnings per share as if the fair-value based method prescribed by FAS 123 had been applied in measuring compensation expense are provided in Note G.

B. Accounts Receivable and Accounts Payable and Accrued Liabilities

Accounts receivable at December 29, 1996, and December 31, 1995, consist of the following (in thousands):

	1996	1995
Accounts receivable, less estimated returns, doubtful accounts and allowances of $48,388 and $41,964	$220,168	$188,845
Other	12,895	11,853
	$233,063	$200,698

Accounts payable and accrued liabilities at December 29, 1996, and December 31, 1995, consist of the following (in thousands):

	1996	1995
Accounts payable and accrued expenses	$121,485	$ 97,520
Accrued payroll and related benefits	41,083	40,781
Accrued interest expense	—	4,232
Deferred tuition revenue	18,299	15,862
Due to affiliates (newsprint)	13,319	13,609
	$194,186	$172,004

C. Investments in Affiliates

The company's investments in affiliates at December 29, 1996, and December 31, 1995, include the following (in thousands):

	1996	1995
Cowles Media Company	$ 86,087	$ 83,097
Newsprint mills	87,122	77,018
Other	26,069	28,938
	$199,278	$189,053

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

The company's interest in newsprint mills includes a 49 percent interest in the common stock of Bowater Mersey Paper Company Limited, which owns and operates a newsprint mill in Nova Scotia and 35 percent limited partnership interests in both Bear Island Paper Company, which owns and operates a newsprint mill near Richmond, Virginia, and Bear Island Timberlands Company, which owns timberland and supplies Bear Island Paper Company with a major portion of its wood requirements. Operating costs and expenses of the company include newsprint supplied by Bowater, Inc. (parent to Bowater Mersey Paper Company), and Bear Island Paper Company, the cost of which was approximately $67,200,000 in 1996, $73,600,000 in 1995, and $53,200,000 in 1994.

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

Summarized financial data for the affiliates' operations are as follows (in thousands):

	1996	1995	1994
Financial Position			
Working capital	$ (31,042)	$ (82,505)	$(125,667)
Property, plant, and equipment	411,644	415,874	407,235
Total assets	788,024	791,748	749,165
Long-term debt	158,999	165,284	180,988
Net equity	304,828	265,918	213,484
Results of Operations			
Operating revenues	$918,148	$904,482	$ 766,232
Operating income	115,738	120,843	46,741
Net income	68,918	69,070	29,235

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

	1996	1995
Beginning investment	$189,053	$170,754
Equity in earnings	19,702	24,512
Dividends and distributions received	(8,603)	(6,422)
Foreign currency translation	(874)	209
Ending investment	$199,278	$189,053

At December 29, 1996, the unamortized excess of the company's investments over its equity in the underlying net assets of its affiliates at the dates of acquisition was approximately $78,500,000. Amortization included in "Equity in earnings of affiliates" in the Consolidated Statements of Income was approximately $2,600,000 for the years ended December 29, 1996, December 31, 1995, and January 1, 1995.

D. Income Taxes

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

	Current	Deferred
1996		
U.S. Federal	$120,612	$(3,575)
Foreign	718	598
State and local	22,343	(1,296)
	$143,673	$(4,273)
1995		
U.S. Federal	$ 96,630	$ 3,525
Foreign	608	1,215
State and local	18,654	668
	$115,892	$ 5,408
1994		
U.S. Federal	$103,182	$(6,356)
Foreign	509	323
State and local	20,441	(849)
	$124,132	$(6,882)

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

	1996	1995	1994
U.S. Federal statutory taxes	$126,076	$108,989	$100,423
State and local taxes net of U.S. Federal income tax benefit	13,681	12,559	12,735
Amortization of goodwill not deductible for income tax purposes	2,336	2,373	3,146
Other, net	(2,693)	(2,621)	946
Provision for income taxes	$139,400	$121,300	$117,250

Deferred income taxes at December 29, 1996, December 31, 1995, and January 1, 1995, consist of the following (in thousands):

	1996	1995	1994
Accrued postretirement benefits	$ 49,363	$ 47,167	$ 45,568
Other benefit obligations	26,634	20,963	22,903
Accounts receivable	8,399	6,765	6,559
Other	12,373	9,134	7,664
Deferred tax asset	96,769	84,029	82,694
Property, plant, and equipment	39,248	42,159	44,250
Prepaid pension cost	65,300	55,574	48,732
Affiliate operations	14,977	14,165	12,671
Investment tax credit	1,589	2,301	3,013
Other	5,802	4,473	3,132
Deferred tax liability	126,916	118,672	111,798
Deferred income taxes	$ 30,147	$ 34,643	$ 29,104

E. Debt

As of December 31, 1995, the company held long-term debt totaling $50,222,000, which consisted of unsecured European Currency Unit notes bearing interest at 10.1 percent. The company retired the notes in the first quarter of 1996.

In 1996 the company established a five-year, $300,000,000 revolving credit facility to provide for direct borrowings and also support the issuance of short-term promissory notes. Under the terms of the credit agreement, interest on borrowings is at floating rates, and the company is required to pay a

facility fee on used and unused portions of the facility. The agreement also contains certain covenants, including a financial covenant that requires the company to maintain common shareholders' equity of $850,000,000. At December 29, 1996, there were no borrowings outstanding under the facility, and the company was in compliance with all covenants.

F. Redeemable Preferred Stock

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

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

G. Capital Stock, Stock Awards and Stock Options

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

During 1996, 1995, and 1994 the company purchased a total of 103,642, 361,106, and 366,500 shares, respectively, of its Class B common stock at a cost of approximately $32,302,000, $89,584,000, and $86,660,000.

Stock Awards. In 1982 the company adopted a Long-Term Incentive Compensation Plan that, among other provisions, authorizes the awarding of stock to key employees. Stock awards made under the Incentive Compensation Plan are subject to the general restriction that stock awarded to a participant will be forfeited and revert to company ownership if the participant's employment terminates before the end of a specified period of service to the company. At December 29, 1996, there were 124,410 shares reserved for issuance under the Incentive Compensation Plan. Of this number, 30,490 shares were subject to awards outstanding, and 93,920 shares were available for future awards. Activity related to stock awards for the years ended December 29, 1996, and December 31, 1995, was as follows:

	1996		1995	
	Number of Shares	Average Award Price	Number of Shares	Average Award Price
Awards Outstanding				
Beginning of year	31,378	$237.85	26,860	$214.79
Awarded	64	313.88	17,753	244.90
Vested	—	—	(12,472)	198.50
Forfeited	(952)	243.61	(763)	233.23
End of year	30,490	$237.83	31,378	$237.85

For the share awards outstanding at December 29, 1996, the aforementioned restriction will lapse in January 1997 for 13,521 shares and in January 1999 for 16,969 shares.

Stock Options. The Employee Stock Option Plan, which was adopted in 1971 and amended in 1993, reserves 1,900,000 shares of the company's Class B common stock for options to be granted under the plan. The purchase price of the shares covered by an option cannot be less than the fair value on the granting date. At December 29, 1996, there were 650,075 shares reserved for issuance under the Stock Option Plan, of which 178,625 shares were subject to options outstanding and 471,450 shares were available for future grants.

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

	1996		1995	
	Number of Shares	Average Option Price	Number of Shares	Average Option Price
Beginning of year	168,525	$258.59	164,500	$255.35
Granted	19,500	343.94	9,000	298.75
Exercised	(9,400)	214.89	(3,475)	204.81
Canceled	—	—	(1,500)	268.50
End of year	178,625	$270.21	168,525	$258.59

Of the shares covered by options outstanding at the end of 1996, 93,500 are now exercisable, 13,000 will become exercisable in 1997, 10,125 will become exercisable in 1998, 57,125 will become exercisable in 1999, and, 4,875 will become exercisable in 2000.

At December 29, 1996, options were outstanding at prices ranging from $173.00 to $343.94 with a weighted-average remaining contractual life of approximately 6 years. All options were granted at an exercise price equal to or greater than the fair market value of the company's common stock at the date of grant. The weighted-average fair value at date of grant for options granted during 1996 and 1995 was $96.53 and $77.12 per option, respectively. The fair value of options at date of grant was estimated using the Black-Scholes method with the following assumptions:

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

Stock-based compensation costs resulting from stock awards reduced pretax income by $1.9 million ($1.1 million after tax or $0.10 per share) and $1.8 million ($1.1 million after tax or $0.10 per share) in 1996 and 1995, respectively. Had the fair values of options granted in 1996 and 1995 been recognized as compensation expense, stock-based compensation costs would have been increased by $0.6 million ($0.4 million after tax or $0.04 per share) and $0.2 million ($0.1 million after tax or $0.01 per share) in 1996 and 1995, respectively. The pro forma effect on net income for 1996 and 1995 is not representative of the pro forma effect on net income in future years because it does not take into consideration pro forma compensation expense related to grants made prior to 1995.

Average Number of Shares Outstanding. 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, and awards made under the Incentive Compensation Plan. The average number of shares outstanding was 10,980,000 for 1996, 11,086,000 for 1995, and 11,582,000 for 1994.

H. Retirement Plans

The company and its subsidiaries have various funded and unfunded pension and incentive savings plans and in addition contribute to several multi-employer plans on behalf of certain union-represented employee groups. Substantially all of the company's employees, including some located in foreign countries, are covered by these plans. Pension benefit for all retirement plans combined was $3,900,000 in 1996, $600,000 in 1995, and $1,600,000 in 1994.

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

The following table sets forth the funded status of the defined benefit plans and amounts recognized in "Deferred charges and other assets" in the Consolidated Balance Sheets at December 29, 1996, and December 31, 1995 (in thousands):

	1996	1995
Actuarial present value of accumulated plan benefits, including vested benefits of $212,158 and $179,123	$219,154	$183,573
Plan assets at fair value, primarily listed securities	$731,999	$610,560
Projected benefit obligation for service rendered to date	(261,266)	(227,793)
Plan assets in excess of projected benefit obligation	470,733	382,767
Prior service cost not yet recognized in periodic pension cost	15,987	12,185
Less unrecognized net gain from past experience different from that assumed	(277,049)	(201,024)
Less unrecognized net asset (transition amount) being recognized over approximately 17 years	(45,937)	(53,602)
Prepaid pension cost	$163,734	$140,326

The net pension credit for the years ended December 29, 1996, December 31, 1995, and January 1, 1995, includes the following components (in thousands):

	1996	1995	1994
Service cost for benefits earned during the period	$ 10,373	$ 10,623	$ 9,117
Interest cost on projected benefit obligation	17,741	15,430	14,022
Actual return on plan assets	(129,756)	(162,253)	(7,211)
Net amortization and deferral	78,373	116,812	(36,751)
Net pension credit	$ (23,269)	$ (19,388)	$(20,823)

The weighted average discount rate and rate of increase in future compensation levels used for 1996, 1995, and 1994 in determining the actuarial present value of the projected benefit obligation were 7.5 percent and 4 percent, respectively. The expected long-term rate of return on assets was 9 percent in 1996, 1995, and 1994.

Contributions to multi-employer pension plans, which are generally based on hours worked, amounted to $1,700,000 in 1996, $1,800,000 in 1995, and $1,700,000 in 1994.

The costs of unfunded retirement plans are charged to expense when accrued. The company's liability for such plans, which is included in "Other liabilities" in the Consolidated Balance Sheets, was $51,600,000 at December 29, 1996, and $50,700,000 at December 31, 1995.

I. Postretirement Benefits Other Than Pensions

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

The following table sets forth the amounts included in "Other liabilities" in the Consolidated Balance Sheets at December 29, 1996, and December 31, 1995 (in thousands):

	1996	1995
Accumulated postretirement benefit obligation:		
Retirees	$ 49,806	$ 48,178
Fully eligible active plan participants	7,828	7,356
Other active plan participants	36,125	33,538
	93,759	89,072
Unrecognized prior service costs arising from plan amendments	4,123	3,017
Unrecognized net gain from past experience different from that assumed	15,911	17,268
Accrued postretirement benefit cost	$113,793	$109,357

Net periodic postretirement benefit cost for 1996, 1995, and 1994 includes the following components (in thousands):

	1996	1995	1994
Service cost for benefits earned during the period	$2,939	$ 2,719	$ 3,373
Interest cost on accumulated post-retirement benefit obligation	6,546	6,515	7,419
Amortization of prior service costs	(290)	(290)	(214)
Amortization of gains	(909)	(1,296)	—
Net periodic postretirement benefit cost	$8,286	$ 7,648	$10,578

For 1996 and 1995 the accumulated postretirement benefit obligation was determined using a discount rate of 7.5 percent and health care cost trend rates of approximately 11.4 percent to 12 percent for pre-age-65 benefits, decreasing to 5.5 percent in the year 2015 and thereafter; and rates of approximately 10.8 percent to 11.4 percent for post-age-65 benefits, decreasing to 5.5 percent in the year 2015 and thereafter. For 1994 the accumulated postretirement benefit obligation was determined using a discount rate of 8 percent and a health care cost trend rate of approximately 14 percent for pre-age-65 benefits, decreasing to 6.5 percent in the year 2022 and thereafter; and rates of approximately 11 to 14 percent for post-age-65 benefits, decreasing to 6.5 percent in the year 2022 and thereafter.

The effect on the accumulated postretirement benefit obligation at December 29, 1996, of a 1 percent increase each year in the health care cost trend rate used would result in increases of approximately $11,900,000 in the obligation and $1,300,000 in the aggregate service and interest components of the 1996 expense.

The company's policy is to fund the above-mentioned benefits as claims and premiums are paid. The cash expenditures for postretirement benefits were $3,850,000 in 1996, $2,980,000 in 1995, and $3,262,000 in 1994.

J. Lease and Other Commitments

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

At December 29, 1996, future minimum rental payments under noncancelable operating leases are as follows (in thousands):

1997	$ 20,918
1998	18,130
1999	15,533
2000	13,089
2001	9,703
Thereafter	42,865
	$120,238

Minimum payments have not been reduced by minimum sublease rentals of $3,800,000 due in the future under noncancelable subleases.

Rent expense under operating leases included in operating costs and expenses was approximately $24,900,000 in 1996, $22,900,000 in 1995, and $22,600,000 in 1994. Sublease income was approximately $800,000 in 1996, $1,600,000 in 1995, and $1,500,000 in 1994.

The company's broadcast subsidiaries are parties to certain agreements that commit them to purchase programming to be produced in future years. At December 29, 1996 such

commitments amounted to approximately $62,400,000. If such programs are not produced, the company's commitment would expire without obligation.

In conjunction with the construction of new newspaper production facilities in the Washington, D.C., area, the company has entered into certain commitments to purchase plant and equipment. As of December 29, 1996, the open commitments relating to this project were approximately $140,000,000. The company expects this project to be completed in late 1998.

K. Acquisitions and Dispositions

During 1996 the company expended approximately $147,471,000 for investments in new businesses. These included, among others, cable systems serving approximately 66,000 subscribers, a commercial printer in the Maryland suburbs of Washington, D.C., a company which provides educational services to students in grades K through 12, and a publisher of business periodicals for the computer services industry and the Washington-area technology community.

In April 1994 the company acquired substantially all of the assets comprising the businesses of television stations KPRC-TV, the NBC affiliate in Houston, Texas, and KSAT-TV, the ABC affiliate in San Antonio, Texas, for approximately $253,000,000 in cash, including related expenses.

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

In January 1995 the company sold substantially all of its 70 percent limited partnership interest in American Personal Communications (APC) to its partner, APC, Inc., and others, for approximately $33,000,000. The proceeds approximate the amounts the company had cumulatively invested in the partnership since it was formed in August 1990. The resulting gain, which is included in "Other income (expense), net" in the Consolidated Statements of Income, increased 1995 net income by $8.4 million and earnings per share by $0.75.

In September 1995 the company wrote off its remaining investment in Mammoth Micro Productions, a producer and publisher of multimedia CD-ROM titles, originally acquired in 1994 for approximately $23,000,000. The loss resulting from the write-off, which is included in "Operating costs and expenses" in the Consolidated Statements of Income, decreased 1995 net income by $5.6 million and earnings per share by $0.51.

In early 1997 the company purchased a cable system serving about 15,000 subscribers for approximately $22,000,000.

L. Contingencies

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

M. Business Segments

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

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

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

Magazine operations consist of the publication of a weekly news magazine, Newsweek, which has one domestic and three international editions. Revenues from both newspaper and magazine publishing operations are derived from advertising and, to a lesser extent, from circulation.

Cable television operations consist of over 50 cable systems offering basic cable and pay television services to more than 594,000 subscribers in 16 midwestern, western, and southern states. The principal source of revenues is monthly subscription fees charged for services.

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

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

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

(in thousands)	Newspaper Publishing	Broadcasting	Magazine Publishing	Cable Television	Other Businesses	Consolidated
1996						
Operating revenues	$763,935	$335,156	$377,063	$229,695	$147,596	$1,853,445
Income (loss) from operations	$116,773	$155,026	$ 22,823	$ 56,023	$ (13,476)	$ 337,169
Equity in earnings of affiliates						19,702
Interest expense						(1,514)
Other income, net						4,860
Income before income taxes						$ 360,217
Identifiable assets	$420,601	$377,799	$226,411	$452,525	$ 86,070	$1,563,406
Investments in affiliates						199,278
Corporate assets						107,727
Total assets						$1,870,411
Depreciation and amortization of property, plant, and equipment	$ 20,386	$ 10,482	$ 4,610	$ 25,075	$ 4,550	$ 65,103
Amortization of goodwill and other intangibles	$ 830	$ 11,252		$ 16,785	$ 969	$ 29,836
Capital expenditures	$ 19,441	$ 10,923	$ 4,798	$ 37,362	$ 7,457	$ 79,981
1995						
Operating revenues	$729,172	$306,108	$352,619	$194,142	$137,408	$1,719,449
Income (loss) from operations	$109,737	$132,351	$ 15,008	$ 41,019	$ (27,097)	$ 271,018
Equity in earnings of affiliates						24,512
Interest expense						(5,600)
Other income, net						21,466
Income before income taxes						$ 311,396
Identifiable assets	$399,090	$387,462	$204,947	$322,443	$ 73,055	$1,386,997
Investments in affiliates						189,053
Corporate assets						156,843
Total assets						$1,732,893
Depreciation and amortization of property, plant, and equipment	$ 18,248	$ 9,958	$ 4,633	$ 28,819	$ 4,192	$ 65,850
Amortization of goodwill and other intangibles	$ 800	$ 11,253		$ 12,150	$ 7,226	$ 31,429
Capital expenditures	$ 61,879	$ 9,265	$ 4,145	$ 40,050	$ 6,358	$ 121,697
1994						
Operating revenues	$717,280	$260,252	$337,602	$182,140	$116,704	$1,613,978
Income (loss) from operations	$134,415	$107,656	$ 14,159	$ 41,464	$ (22,819)	$ 274,875
Equity in earnings of affiliates						7,325
Interest expense						(5,590)
Other income, net						10,312
Income before income taxes						$ 286,922
Identifiable assets	$349,194	$425,789	$187,052	$326,645	$100,028	$1,388,708
Investments in affiliates						170,754
Corporate assets						137,406
Total assets						$1,696,868
Depreciation and amortization of property, plant, and equipment	$ 18,086	$ 8,123	$ 5,075	$ 26,912	$ 3,754	$ 61,950
Amortization of goodwill and other intangibles	$ 800	$ 7,725		$ 12,149	$ 4,719	$ 25,393
Capital expenditures	$ 20,681	$ 8,881	$ 23,028	$ 18,860	$ 3,192	$ 74,642

N. Summary of Quarterly Operating Results (Unaudited)

Quarterly results of operations for the years ended December 29, 1996, and December 31, 1995, are as follows (in thousands, except per share amounts):

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

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
1995				
Operating revenues				
Advertising	$252,210	$284,954	$250,011	$307,445
Circulation and subscriber	108,466	114,079	113,355	117,430
Other	40,875	37,961	54,553	38,111
	401,551	436,994	417,919	462,986
Operating costs and expenses				
Operating	221,158	226,879	240,912	259,140
Selling, general, and administrative	98,013	106,053	96,606	102,391
Depreciation and amortization of property, plant, and equipment	16,374	16,370	16,379	16,728
Amortization of goodwill and other intangibles	7,673	8,956	8,315	6,485
	343,218	358,258	362,212	384,744
Income from operations	58,333	78,736	55,707	78,242
Other income (expense)				
Equity in earnings of affiliates	772	8,858	6,268	8,614
Interest income	2,334	2,032	1,860	1,748
Interest expense	(1,431)	(1,368)	(1,388)	(1,413)
Other	14,395	(869)	716	(751)
Income before income taxes	74,403	87,389	63,163	86,440
Provision for income taxes	30,505	35,875	21,370	33,550
Net income	$ 43,898	$ 51,514	$ 41,793	$ 52,890
Earnings per common share	$ 3.91	$ 4.65	$ 3.79	$ 4.80
Average number of common shares outstanding	11,220	11,084	11,019	11,020

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

Ten-Year Summary of Selected Historical Financial Data

See Notes to Consolidated Financial Statements for the summary of significant accounting policies and additional information relative to the years 1994–1996.

(in thousands, except per share amounts)	1996	1995	1994
Results of Operations			
Operating revenues	$1,853,445	$1,719,449	$1,613,978
Income from operations	$ 337,169	$ 271,018	$ 274,875
Income before cumulative effect of changes in accounting principle	$ 220,817	$ 190,096	$ 169,672
Cumulative effect of change in method of accounting for income taxes	–	–	–
Cumulative effect of change in method of accounting for postretirement benefits other than pensions	–	–	–
Net income	$ 220,817	$ 190,096	$ 169,672
Per Share Amounts			
Earnings per common share			
Income before cumulative effect of changes in accounting principle	$ 20.05	$ 17.15	$ 14.65
Cumulative effect of change in method of accounting for income taxes	–	–	–
Cumulative effect of change in method of accounting for postretirement benefits other than pensions	–	–	–
Net income	$ 20.05	$ 17.15	$ 14.65
Cash dividends	$ 4.60	$ 4.40	$ 4.20
Common shareholders' equity	$ 121.24	$ 107.60	$ 99.32
Average Number of Shares Outstanding	10,980	11,086	11,582
Financial Position			
Current assets	$ 382,631	$ 406,570	$ 375,879
Working capital	100,995	98,393	102,806
Property, plant, and equipment	511,363	457,359	411,396
Total assets	1,870,411	1,732,893	1,696,868
Long-term debt	–	–	50,297
Common shareholders' equity	1,322,803	1,184,204	1,126,933

1993	1992	1991	1990	1989	1988	1987
$1,498,191	$1,450,867	$1,380,261	$1,438,640	$1,444,094	$1,367,613	$1,315,422
$ 238,980	$ 232,112	$ 192,866	$ 281,768	$ 313,691	$ 233,290	$ 257,073
$ 153,817	$ 127,796	$ 118,721	$ 174,576	$ 197,893	$ 269,117	$ 186,743
11,600	—	—	—	—	—	—
—	—	(47,897)	—	—	—	—
$ 165,417	$ 127,796	$70,824	$ 174,576	$ 197,893	$ 269,117	$ 186,743
$ 13.10	$ 10.80	$ 10.00	$ 14.45	$ 15.50	$ 20.91	$ 14.52
0.98	—	—	—	—	—	—
—	—	(4.04)	—	—	—	—
$ 14.08	$ 10.80	$ 5.96	$ 14.45	$ 15.50	$ 20.91	$ 14.52
$ 4.20	$ 4.20	$ 4.20	$ 4.00	$ 1.84	$ 1.56	$ 1.28
$ 92.84	$ 84.17	$ 78.12	$ 76.31	$ 75.40	$ 67.50	$ 47.80
11,750	11,830	11,876	12,081	12,768	12,873	12,861
$ 625,574	$ 524,975	$ 472,219	$ 471,669	$ 553,188	$ 493,736	$ 226,523
367,041	242,627	183,959	175,807	283,118	235,698	(50,290)
363,718	390,804	390,313	394,979	370,597	352,113	371,080
1,622,504	1,568,121	1,487,661	1,496,509	1,532,211	1,422,267	1,194,196
51,768	51,842	51,915	126,988	152,061	154,751	155,791
1,087,419	993,005	924,285	905,112	941,522	868,240	614,009

Corporate Directory

Board of Directors

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

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

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

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

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

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

Martin Cohen (3)
Vice President

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

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

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

Barbara Scott Preiskel (1)
Attorney

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

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

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

Committees of the Board of Directors

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

Other Company Officers

Patrick Butler
Vice President

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

Ross F. Hamachek
Vice President – Planning and Development

Hal S. Jones
Controller

Beverly R. Keil
Vice President – Human Resources

Guyon Knight
Vice President – Corporate Communications

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

Christopher Schroeder
Treasurer

Ralph S. Terkowitz
Vice President – Technology

John F. Hockenberry
Assistant Secretary

James W. Keller
Assistant Treasurer

The Washington Post Company In Brief

Newspaper Division

The Washington Post – a morning daily and Sunday newspaper published in Washington, D.C. For the 12-month period ending September 30, 1996, The Post's audited average circulation was 809,340 daily and 1,129,519 Sunday. The Post maintains 20 foreign, 5 national, and 13 metropolitan news bureaus.

The Washington Post National Weekly Edition – a tabloid publication of selected Post articles on politics and government, edited for a national audience, with a circulation of approximately 101,000.

The Washington Post Writers Group – a syndicator of 27 writers and cartoonists and material from Newsweek to newspapers and magazines throughout the country.

The Herald – a morning daily and Sunday newspaper published in Everett, Washington, 30 miles north of Seattle. The Herald's unaudited estimated average circulation for the 12-month period ending September 30, 1996, was 53,551 daily and 63,311 Sunday.

Gazette Newspapers, Inc. – a publisher of one paid-circulation and 21 controlled-circulation weekly newspapers in Montgomery, Frederick, and Carroll Counties, Maryland, and a monthly business publication in Montgomery County, Maryland. During 1996, Gazette Newspapers had an aggregate average weekly circulation of over 330,000 copies. Gazette Newspapers also produces 11 military publications with a circulation of over 141,000.

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

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

Post-Newsweek Stations

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

WDIV – the NBC affiliate in Detroit, Michigan, the 9th-largest broadcasting market in the United States, with 1,771,950 television households.

KPRC – the NBC affiliate in Houston, Texas, the 11th-largest broadcasting market in the United States, with 1,595,350 television households.

WPLG – the ABC affiliate in Miami, Florida, the 16th-largest broadcasting market in the United States, with 1,363,260 television households.

WFSB – the CBS affiliate in Hartford, Connecticut, the 27th-largest broadcasting market in the United States, with 915,710 television households.

KSAT – the ABC affiliate in San Antonio, Texas, the 38th-largest broadcasting market in the United States, with 641,740 television households.

WJXT – the CBS affiliate in Jacksonville, Florida, the 54th-largest broadcasting market in the United States, with 493,160 television households.

Newsweek

Newsweek – a weekly news magazine published in New York City, with a 1997 rate base of 3.1 million and a 12-month average circulation for 1996 of more than 3.2 million. Newsweek maintains 9 U.S. and 14 overseas news bureaus.

Newsweek International – a weekly English-language news magazine published in New York City and circulated throughout the world. For 1997, Newsweek International's combined circulation for its three editions is 767,000: Atlantic, 340,000; Pacific, 350,000 (including 110,000 for The Bulletin with Newsweek, Australia's largest news magazine); Latin America, 77,000.

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

Newsweek Korea (Newsweek Hankuk Pan) – a Korean-language newsweekly with a circulation of 150,000. It is produced with Joong-ang Ilbo of Korea, a division of the Samsung Group, which translates and publishes the magazine.

Newsweek en Español – a Spanish-language newsweekly with a Latin American circulation of 54,000. Launched in May 1996, it is produced with Ideas & Capital, based in Miami.

Itogi – a Russian-language newsweekly whose circulation averaged 50,000 in 1996. Itogi, or "summing up," is Russia's first independent newsweekly. Launched with the help of Newsweek in May 1996, it is produced by Seven Days Publishing, a subsidiary of The MOST Group.

Post-Newsweek Cable

Post-Newsweek Cable – Headquartered in Phoenix, Arizona, Post-Newsweek Cable systems served over 594,000 subscribers in 16 midwestern, western, and southern states in 1996. States served and the number of basic subscribers in each as of December 29, 1996, were:

State	Subscribers	State	Subscribers
Arizona	62,874	Nebraska	12,703
Arkansas	8,055	New Mexico	24,516
California	122,646	North Dakota	25,064
Illinois	21,794	Ohio	16,383
Indiana	15,248	Oklahoma	54,335
Iowa	25,591	Tennessee	9,811
Kansas	8,636	Texas	99,671
Mississippi	58,930		
Missouri	28,064	Total	594,321

Other Businesses

Digital Ink Co. – Headquartered in Arlington, Virginia, Digital Ink Co. is the digital media and electronic information services subsidiary of The Washington Post Company. Digital Ink publishes three Web sites: washingtonpost.com; Newsweek Parent's Guide to Children's Software '97, a site that offers reviews and other information on the best children's software available; and PhotoStore, where consumers can view and purchase prints of photographs from The Washington Post, Newsweek, and other collections. Digital Ink also administers Post-Haste, the audiotext information service of The Washington Post.

Kaplan Educational Centers – Kaplan is one of the nation's premier educational companies, providing individuals with a full range of resources to achieve their educational and career goals. With 150 Kaplan centers, 22 Score@Kaplan centers, and 1,000 satellite locations throughout the U.S. and abroad, Kaplan has served 2.5 million students in its test preparation courses and now offers academic programs for students in grades K-12. In addition, Kaplan offers admissions services, student loan information programs, career services, and educational tools for universities and businesses.

LEGI-SLATE, Inc. – Headquartered in Washington, D.C., LEGI-SLATE® is the nation's leading commercial online information service for legislation, regulations, and related news and analysis for the federal government. Recently LEGI-SLATE began offering a 50-state legislative and regulatory online service.

Moffet, Larson & Johnson, Inc. (71 percent of common stock) – Headquartered in Arlington, Virginia, MLJ provides advanced network design support, software design tools, database services, and measurement hardware to the telecommunications industry. MLJ specializes in the design and development of advanced mobile, broadcast, and common carrier radio systems both domestically and internationally.

PASS Sports – Headquartered in Detroit, Michigan, PASS is a regional sports cable network that supplies sports programming to 1.1 million subscribers in Michigan and northwest Ohio.

TechNews, Inc. – Headquartered in Vienna, Virginia, TechNews publishes business periodicals for the computer services industry and Washington-area technology community.

Affiliates

International Herald Tribune (50 percent of common stock) – a daily newspaper published in Paris, France. In 1996 the International Herald Tribune had an average daily paid circulation of almost 200,000 in over 180 countries.

Los Angeles Times–Washington Post News Service, Inc. (50 percent of common stock) – a supplier of spot news, features, and commentary to more than 600 clients in 47 countries.

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

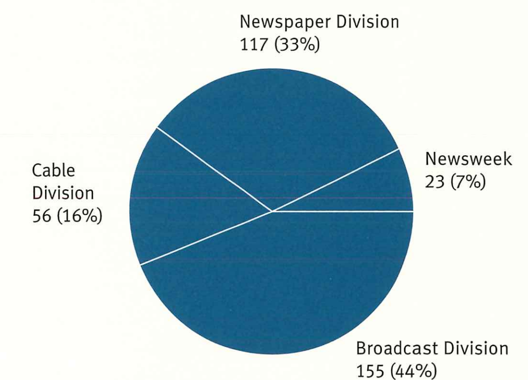
Bear Island Paper Company (35 percent limited partnership interest) – a newsprint manufacturer in Doswell, Virginia.

Bear Island Timberlands Company (35 percent limited partnership interest) – an owner/manager of timberland.

Cowles Media Company (28 percent of common stock) – owner of the Minneapolis Star Tribune and other smaller properties.

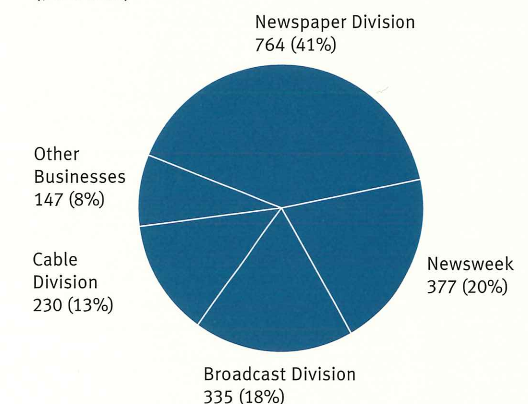
ACTV, Inc. (20 percent of common stock) – an interactive-television company serving the entertainment and education markets.

The Washington Post Company
1996 Operating Income
($ in millions)*



*excluding losses from Other Businesses

The Washington Post Company
1996 Operating Revenues
($ in millions)



Stock Trading

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

Stock Transfer Agent and Registrar

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

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

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

Shareholder Inquiries

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

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

Form 10-K

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

Annual Meeting

The annual meeting of stockholders will be held on Thursday, May 8, 1997, at 8:00 a.m., at The Washington Post Company, 9th floor, 1150 15th Street, N.W., Washington, D.C.

Common Stock Prices and Dividends

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

	1996		1995	
Quarter	High	Low	High	Low
January–March	$300	$278	$258	$238
April–June	$324	$277	$271	$255
July–September	$350	$300	$315	$258
October–December	$352	$325	$312	$280

During 1996 the company repurchased 103,642 outstanding shares of Class B common stock in unsolicited transactions at prices no higher than the last sale price on the New York Stock Exchange. Of the total shares repurchased in 1996, 95,848 were included in trading volume on that year's consolidated tape and accounted for less than one percent of such volume.

Both classes of common stock participate equally as to dividends. Quarterly dividends were paid at the rate of $1.15 per share in 1996. At February 20, 1997, there were 23 Class A and 1,340 Class B shareholders.

Electronic Addresses

The Washington Post Company
www.washpostco.com
The Washington Post
www.washingtonpost.com
The Herald
www.heraldnet.com
Gazette Newspapers
www.gazette.net
Comprint Military Publications
www.dcmilitary.com
Post-Newsweek Stations
www.wdiv.com
www.kprc.com
www.wplg.com
www.wfsb.com
www.wjxt.com
www.pass.com

Newsweek
America Online: Keyword: Newsweek
www.newsweekparentsguide.com
Kaplan Educational Centers
www.kaplan.com
America Online: Keyword: Kaplan
Student Loan Information Program
www.kaploan.com
LEGI-SLATE
www.legislate.com
Moffet, Larson & Johnson
www.mlj.com
Washington Technology
www.wtonline.com

Digital Ink
www.washingtonpost.com
www.newsweekparentsguide.com
www.photostore.com
International Herald Tribune
www.iht.com
Los Angeles Times–Washington Post News Service
www.newsservice.com

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