1987

THE WASHINGTON POST COMPANY ANNUAL REPORT 1987

CONTENTS

(In thousands, except per share amounts)	1987	1986	% Change
Operating revenues	$1,315,422	$1,215,064	+8%
Income from operations	$ 257,073	$ 228,986	+12%
Pro forma net income (excluding certain gains in 1987)	$ 132,434*	$ 100,173	+32%
Pro forma earnings per share (excluding certain gains in 1987)	$ 10.30*	$ 7.80	+32%
Dividends per share	$ 1.28	$ 1.12	+14%
Shareholders' equity per share	$ 47.80	$ 34.04	+40%
Average number of shares outstanding	12,861	12,842	—

*Excluding gains in 1987 totaling $54.3 million ($4.22 per share) from the sales of remaining SportsChannel interests and certain cellular interests.

87	1,315.4
86	1,215.1
85	1,078.7
84	984.3
83	877.7

Operating Revenues ($ in millions)

87	$10.30
86	$7.80
85	$7.73
84	$6.11
83	$4.82

Pro Forma Earnings Per Share*

87	257.1
86	229.0
85	204.2
84	166.3
83	132.4

Operating Income ($ in millions)

87	26.6%
86	25.5%
85	28.4%
84	24.6%
83	23.7%

Pro Forma Return on Average Shareholders' Equity*

87	132.4
86	100.2
85	102.0
84	85.9
83	68.4

Pro Forma Net Income* ($ in millions)

*Excluding certain gains in 1987 and 1985

Nineteen eighty-seven was an eventful year. We continued to improve the quality of our publications, programming and service.

Our operating divisions achieved superior financial results despite some adverse market and economic conditions.

We negotiated the sales of our cellular telephone interests, realizing a substantial return on our investment in this start-up business. We also sold for a gain our minority interests in four SportsChannel cable sports programming networks.

We reduced our long-term debt substantially. As a result, net interest expense declined by almost 35 percent to $22 million. The company also benefited from a lower effective tax rate of approximately 44 percent in 1987, compared with 51 percent in 1986.

We continued to make the investments needed to ensure growth in the years ahead, including purchasing approximately 6,600 cable subscribers.

In short, we realized our goal of achieving sustained earnings growth that ranks with the industry leaders, while providing for progress in the future.

Specifically, 1987 pro forma net income (excluding nonrecurring gains) was $132.4 million, an increase of 32.2 percent over net income of $100.2 million in 1986. Pro forma earnings per share were $10.30, up 32.1 percent from $7.80 the previous year.

The 1987 pro forma figures do not include nonrecurring after-tax gains of $54.3 million ($4.22 per share) from the sales of the company's interests in Washington/Baltimore and Detroit cellular operations, and in four SportsChannel networks. When these gains are included, 1987 net income was $186.7 million ($14.52 per share), up 86.4 percent from 1986.

Revenue for 1987 totaled $1.3 billion, an 8.3 percent increase over revenue of $1.2 billion in 1986.

Total return on average shareholders' equity (excluding nonrecurring gains) was 26.6 percent, compared with 25.5 percent last year.

The annual dividend rate was raised to $1.56 from $1.28 per share on January 14, 1988.

■ ***Newspaper division*** operating income in 1987 rose 11.5 percent to $145.1 million, from $130.1 million in 1986. Division revenue totaled $648.1 million, a gain of 10 percent over revenue of $589.3 million in 1986.

In a dramatic year for news, The Washington Post provided its readers with first-rate reporting on international, national and local events. Highlights included in-depth coverage of developments in the Middle East, the Iran-Contra affair and local education issues. To respond to a growing and dynamic marketplace, The Post opened news bureaus in two additional suburban counties for which it also created weekly zoned editions.

Both The Post's daily and Sunday circulation set new records. Primary-market household penetration is now 55 percent daily and 74 percent on Sunday.

Total advertising volume increased 5.2 percent to 5.8 million inches. Advertising revenue was up 11.2 percent to $505.3 million.

The U.S. Supreme Court in October declined to review the decision of the U.S. Court of Appeals for the District of Columbia in favor of The Washington Post in a libel suit brought by William Tavoulareas, former president of Mobil Corporation, thus bringing to a close this long legal action.

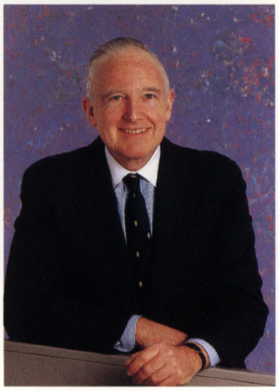
The Herald, the company's daily and Sunday newspaper in Everett, Washington, made good progress. At year end, circulation was climbing significantly. Advertising inches rose 9 percent to 2.4 million.

■ ***Broadcast division*** operating income was $70.3 million in 1987, virtually even with $70.0 million in 1986. Division revenue increased 2.6 percent to $171.4 million, from $167.1 million in 1986.

The division's results were greatly affected by the impact on our Miami and Jacksonville stations of the Florida advertising tax. We estimate this tax cost our stations about $4 million in advertising revenue. Fortunately, the tax was repealed effective January 1, 1988.

All four of our stations ranked number one in their markets from sign-on to sign-off for most of the year. This continues to be an especially significant achievement, as all three networks are represented in our station group.

■ **Katharine Graham**
Chairman of the Board



■ **Richard D. Simmons**
President

Both WPLG in Miami and WJXT in Jacksonville won Alfred I. duPont-Columbia University Awards for their public affairs programming. It is rare for two stations from one broadcast group to receive this honor at the same time.

■ ***Our cable division*** had an excellent year. Operating income totaled $17.8 million, up 50.7 percent from $11.8 million in 1986. Cable cash flow was $42.6 million, a gain of 26.4 percent over $33.7 million the previous year. Revenue for 1987 totaled $98.6 million, an increase of 16.2 percent over revenue of $84.9 million in 1986.

With cable deregulation taking effect at the end of 1986, Post-Newsweek Cable was able successfully to restructure and enhance basic services, pricing them accordingly. In addition, the division improved cable reception in many systems, as well as the quality and quantity of its programming. Revenue per basic subscriber increased 11 percent.

Total basic subscribers rose 4.5 percent to 385,165, including acquired subscribers. The sale of pay units, with prices generally reduced, increased substantially, generating an increase in pay revenue. Pay-per-view was introduced in five systems, thus making this service available to 29 percent of Post-Newsweek Cable subscribers. Cable advertising sales exceeded $2 million, more than double the 1986 figure.

In December, Post-Newsweek Cable purchased approximately 6,000 cable subscribers in Gulfport and adjacent portions of Harrison County, Mississippi. The acquired subscribers became part of the Post-Newsweek system already serving about 13,000 subscribers in Gulfport. We also purchased 644 subscribers in Nebraska.

■ ***Newsweek*** operating income in 1987 was $15.3 million, a decrease of 14.7 percent from $17.9 million the previous year. Revenue totaled $322.2 million, compared with $320.9 million in 1986.

The domestic edition of Newsweek had a strong year. Cover stories on the television evangelist scandals, AIDS and the Iran-Contra affair were especially well received.

Circulation rose sharply and for the second time in three years Newsweek raised its rate base, to 3.1 million, a 1.6 percent increase.

Newsweek regained its leadership in advertising pages. Domestic advertising totaled 2,537 pages (excluding affiliated pages) in 52 issues, compared with 2,509 pages in 53 issues in 1986.

Newsweek International, on the other hand, had a tough year, although its share of market increased significantly. The decline in the dollar had an adverse cost effect of about $2 million, and a soft overseas advertising market resulted in a decrease in advertising pages.

■ ***The company's Other Businesses*** segment, including Stanley H. Kaplan Educational Centers, Legi-Slate and Florida cellular telephone operations, posted operating income of $8.6 million in 1987, compared with an operating loss of $900,000 in 1986. Revenue from these businesses increased 41.9 percent to $75 million, from $52.9 million in 1986.

Kaplan Centers performed well, with more aggressive marketing generating substantially improved results. Total students exceeded 100,000.

■ ***Affiliate Results***—The company's equity in earnings of affiliates for 1987 was $17.7 million, compared with $12.4 million in 1986. Improved results from the company's newsprint affiliates were the major factor in the gain.

■ ***Cellular Telephone, SportsChannel Sales***—During 1987 the company sold its 20 percent interest in the Washington/Baltimore nonwireline cellular system to Southwestern Bell Corporation, and its 18 percent interest in Detroit Cellular Telephone Company to subsidiaries of Pacific Telesis Group.

We completed the sale of our Florida cellular operations to McCaw Cellular Communications, Inc., on January 4, 1988. The gain from this sale will be recorded in the company's first quarter 1988 results.

The decision to divest our cellular telephone operations, especially in Florida, was not an easy one. We continue to believe that cellular is an excellent business with strong growth potential. We concluded we had little choice but to sell our minority interests in the Washington/Baltimore and Detroit systems when other owners decided to divest. At the same time, we planned to retain and operate our Miami-Ft. Lauderdale cellular system.

We accepted the unexpected purchase offer from McCaw for three primary reasons. First, the amount of the offer was such that we believed we had a clear responsibility to our shareholders to sell. Second, McCaw is a fine company that already had a major stake in Florida cellular operations. Third, we believed that at current prices we would not be a buyer of additional cellular properties and that, as a result, cellular activities in total could never represent a major portion of The Washington Post Company's income stream.

All together, the sales of our cellular telephone interests have generated total nonrecurring after-tax gains for the company of $168 million. This represents a return on our investment of over 200 percent.

The company also sold in 1987 its minority interests in four SportsChannel cable sports programming networks to Cablevision Systems Corporation. SportsChannel provides a valued entertainment service. However, because of delays in the cabling of certain cities, it became clear that the investment would not produce for our company the financial returns we anticipated when we entered the business in 1983. This sale produced a nonrecurring after-tax gain of $6.1 million, or $.47 per share.

■ ***New Directors, Senior Executives***—Two new members were elected to the Board of Directors on July 10, 1987. They are Anthony J.F. O'Reilly, chairman, president and chief executive officer of H.J. Heinz Company; and Martin Cohen, who had been vice president-finance of The Washington Post Company since 1975. Mr. Cohen remains a vice president of the company.

Alan G. Spoon was elected vice president-finance. He had been vice president-marketing and finance of The Washington Post newspaper. Leonade D. Jones, previously assistant treasurer, was elected treasurer.

Diana M. Daniels, who had been vice president and general counsel of Newsweek, became general counsel of the company in January 1988. She succeeds Alan R. Finberg, who remains vice president and secretary.

Joel Chaseman was elected chairman and chief executive officer of Post-Newsweek Stations in March 1988. He had been president since 1973. G. William Ryan was elected president and chief operating officer. He was president and general manager of WPLG.

■ ***Outlook***—Looking ahead, we anticipate continued leadership gains for The Washington Post Company. We believe that our strong franchises, superior cash flow, decreasing debt and, above all, the dedication and commitment of our talented people position us to grow.

Sincerely,

Katharine Graham

Katharine Graham
Chairman of the Board

Richard D. Simmons
President

March 10, 1988

The Washington Post expanded its suburban coverage, opening news bureaus in Prince William County, Virginia, and Howard County, Maryland, and starting weekly, zoned editions in those counties. Athelia Knight spent several months at a D.C. public high school to write a series about the issues and challenges confronting urban schools. Blaine Harden offered readers an in-depth saga of everyday life in Africa. Nora Boustany, The Post's special correspondent in Beirut, won the 1987 George Polk Award for Foreign Reporting. For the third year in a row, The Post's Style section won the J.C. Penney-University of Missouri Award.

■ ***Circulation*** set new records. For the 12-month period ending September 30, 1987, average daily circulation grew 1.8 percent to 778,044, and Sunday circulation advanced 1.8 percent to 1,104,994, over the previous year. In the past ten years, The Post's 12-month average circulation has increased 42 percent daily and 45 percent Sunday.

■ ***Market Penetration*** reached 55 percent daily and 74 percent Sunday, the highest of any daily newspaper in the top ten U.S. markets.

■ ***Advertising*** grew to 5.8 million inches, from 5.5 million in 1986, an increase of 5.2 percent. Classified recruitment advertising was particularly strong, advancing to 664,700 inches, 16.5 percent ahead of 1986. Overall, Classified advertising totaled 1.8 million inches, an increase of 8.4 percent over 1986. General advertising advanced 9.3 percent to 409,200 inches, Retail was off 0.1 percent to 2.1 million inches and Preprints grew 9.8 percent to 1.3 million inches. Advertising revenue was up 11.2 percent to $505.3 million.

■ ***Production*** continued to prepare for long-term growth with ongoing testing of technological innovations, additional press capacity and the purchase of a 33-acre tract of land along the Capital Beltway in Prince George's County, Maryland. A record 99 percent on-time pressroom performance was key to The

Some People Who Made a Difference in 1987

■ **David R. Brosnahan,** *Supervisor, Circulation Service Center*
Dave initiated HELP (Handicapped/Elderly Liaison Program) to address the service needs of this special home delivery population. Support from customer service representatives, circulation field managers and independent distributors contributed to HELP's success.

■ **Mary Hadar,** *Assistant Managing Editor/Style*
Through Mary's leadership, The Post's Style section for the third consecutive year won the J.C. Penney-University of Missouri Newspaper Award for the best life style section of a large metropolitan daily newspaper.

■ **Tim R. Lowry,** *Sales Manager, Recruitment Advertising*
Tim led his recruitment advertising team to outstanding results, outpacing 1986 by 25.7 percent in revenue and 16.5 percent in volume. Recruitment advertising's strong performance helped The Post's Classified section achieve a record 1.8 million inches of advertising in 1987.

Post's ability to meet home delivery schedules in its expanding circulation area.

■ ***The Washington Post Writers Group*** celebrated two Pulitzer Prize winners: Berke Breathed for his "Bloom County" comic strip, and political columnist Charles Krauthammer. Three features were added, bringing to 31 the total syndicated by the Writers Group.

■ ***The Washington Post National Weekly Edition*** attained 25 percent circulation growth, averaging more than 62,000 copies per week in the last six months of 1987.

■ ***The Herald,*** the company's daily and Sunday newspaper in Everett, Washington, achieved a substantial gain in operating results. Advertising inches rose 9 percent to 2.4 million. Increased employment at the Everett Boeing 747/767 plant and Microsoft's move to Snohomish County were important signs of future growth in the area, as was the start of construction on the $272 million Everett Home Port that will welcome the U.S. Navy's Nimitz Battle Group in early 1990.

87	648.1
86	589.3
85	556.1
84	516.6
83	455.7

Operating Revenues ($ in millions)

87	145.1
86	130.1
85	114.5
84	94.6
83	78.9

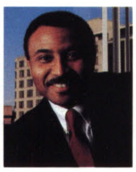
Operating Income ($ in millions)

87	5.79
86	5.50
85	5.46
84	5.25
83	4.85

Washington Post Advertising Inches (in millions)
Publisher's measurements

	Sunday	Daily
87	1,105*	778*
86	1,086	764
85	1,056	752
84	1,037	748
83	1,001	733

Washington Post Circulation (in thousands)
*unaudited



■ **Roy Myers,** *Advertising Sales Representative, Corporate & Financial Advertising*
In addition to turning in an excellent sales performance in 1987, Roy spearheaded a community project with the Meyer Elementary School in Washington, D.C., which included building a new school playground, activating a school newspaper and creating a Post employee volunteer program at the school.

■ **Margaret Thomas,** *Staff Photographer, News/Photography*
Margaret won the White House News Association's "Photographer of the Year" Award for her work, which included a photographic study of life in Haiti. Her ability to capture the essence of a news story in a single photograph has earned Margaret many awards over the years for individual photographs.

■ **Rita A. Malloy,** *Advertising Sales Representative (Lynwood Sales Office), The Herald*
Rita's relentless "cold calling" in 1987 resulted in a doubling of sales revenues in The Herald's most competitive sales territory. Rita attributes her success to perseverance—and to presenting The Herald in such a way that the only logical answer for the advertiser is "yes."

All four Post-Newsweek stations ranked number one in their markets, sign-on to sign-off, for most of the year.

■ ***WDIV/TV4-Detroit*** completed its third straight year as the top-rated television station in Detroit and again was the highest-rated NBC affiliate in the country's top ten markets.

WDIV continued to advance in revenues, operating income and margin performance, despite a soft local economy. Broadcast rights to Tiger Baseball, whose ratings are among the highest in the sport, were renewed through the 1991 season. United Press International named WDIV's "News 4 at 5:00" the country's best major market newscast. WDIV will improve its signal quality in 1988 when it replaces its 35-year-old antenna with a circular polarized antenna.

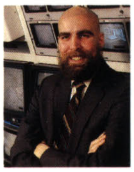
■ ***WPLG/TV10-Miami*** made major gains in 1987, achieving the #1 position in its market in all local newscasts and locally programmed time periods. It also outperformed its third place network by consistently placing first sign-on to sign-off.

After strong revenue gains in the first half of 1987, WPLG's momentum was slowed by the Florida tax on advertising, which now has been repealed. Local rights to ESPN's Miami Dolphins games and University of Miami coaches' shows strengthened WPLG's sports lineup and paid off in ratings and revenues. WPLG's programming excellence was recognized with national awards: a National Association of Television Program Executives Iris, Grand Prize at the International Film and TV Awards and the duPont-Columbia University Award.

■ ***WFSB/TV3-Hartford*** was again the ratings leader in the Hartford-New Haven market, ranking #1 in sign-on to sign-off, prime time, local news and early fringe periods.

Some People Who Made a Difference in 1987

■ **Tina Gulland,** *Bureau Chief, PNS Washington News Bureau*
Tina's skilled reporting and able direction of the Washington News Bureau added depth to local news programming at all four Post-Newsweek stations, providing viewers with special coverage and information about major events and issues not available from network reports.



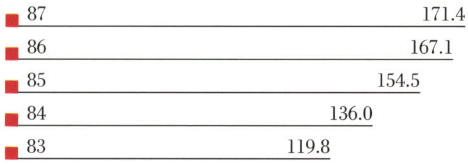
■ **Barbara Koster,** *Senior Producer/Special Projects, and* **Terrence Oprea,** *Executive Producer/Special Projects, WDIV*
Barbara and Terry coordinated and supervised the months-long, station-wide effort that produced WDIV's comprehensive coverage of Pope John Paul II's U.S. visit. WDIV's coverage won the highest ratings among Detroit affiliates and generated positive community response.

■ **Mel Martin,** *Vice President/News Director, WJXT*
Mel co-produced "Jacksonville's Roads: The Deadly Drive Home," which won for WJXT its second duPont-Columbia University Award for excellence in broadcast journalism, and led to corrections of unsafe conditions. Mel also led the effort that introduced live closed-captioning of WJXT's newscasts and editorials for hearing-impaired viewers.

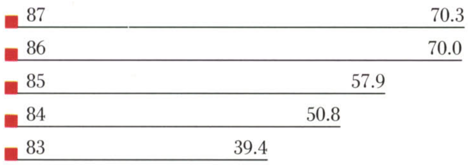
In an intensely competitive market with seven television stations and 75 percent cable penetration, WFSB performed well. An added half hour of local news at 5:00 p.m. quickly took the lead in its time period. The station acquired a Satellite Newsgathering Vehicle (SNV), providing a portable satellite uplink for reporting from remote locations. The SNV is producing revenue for WFSB from networks and other clients who lease it for remote programming originations. All four Post-Newsweek stations now have SNV's.

■ ***WJXT/TV4-Jacksonville*** continued its ratings dominance. Sign-on to sign-off, WJXT's audience was larger than its two closest competitors combined. Audience levels for WJXT's newscasts once again were outstanding: 61 percent of all households watching television were tuned to Eyewitness News at Noon; 50 percent to the 6:00 p.m. broadcast and 44 percent to Eyewitness News at 11:00 p.m.

A strong local sales effort and continued growth in its market produced good results for WJXT and held to a minimum the effect of the Florida sales tax on advertising. TV-4 won its second duPont-Columbia University Award.



Operating Revenues ($ in millions)



Operating Income ($ in millions)

■ **Lee Nixon,** *Assistant Local Sales Manager, WJXT*
Following the Iraqi attack on the U.S.S. Stark in May, Lee worked nonstop for three days, mobilizing Jacksonville's businesses to meet the needs of Stark families affected by the tragedy. She was honored for her efforts by the U.S. Navy, which declared "Lee Nixon Day" at Mayport Naval Station, the Stark's home port.

■ **Mel Olinsky,** *Executive Producer/Operations and Planning, WFSB*
Mel and his team are getting maximum return on a valuable WFSB resource—its new Satellite Newsgathering Vehicle (SNV). Used primarily to cover breaking news at remote locations throughout New England, the SNV also is in demand by network and other clients, generating new revenue for WFSB.

■ **Teresa Rodriguez,** *Special Projects Producer, WPLG*
Teri produced several powerful public affairs specials for "A World of Difference," WPLG's campaign to fight prejudice and bigotry in South Florida. Her "Eye of the Beholder," a provocative study of discrimination, earned WPLG the Grand Award at the International Film and Television Festival.

Basic subscribers grew to 385,165 at year-end 1987. This represents 67 percent of homes passed by Post-Newsweek Cable systems, compared to an industry average of 58 percent.

Approximately 6,600 of these subscribers were acquired through purchases in Gulfport and adjacent portions of Harrison County, Mississippi, and in Nebraska.

■ ***Pay units*** (individual premium services) increased substantially. Cooperative efforts with pay programmers helped offset marketing costs. Repricing, repackaging and remarketing boosted pay unit sales and revenues. Pay revenue climbed to $28 million, an increase of 5 percent over 1986.

■ ***Pay-per-view*** was introduced in five systems, including one of Post-Newsweek Cable's largest, Santa Rosa. Six systems, serving 112,000 subscribers, now offer pay-per-view. Post-Newsweek Cable subscribers have responded enthusiastically to pay-per-view offerings, which include recent movies, championship boxing matches and entertainment specials. Revenues from this source reached $300,000. With the introduction of pay-per-view programming in seven more systems in 1988, coverage will be extended to nearly half of Post-Newsweek Cable subscribers.

■ ***Advertising sales*** topped the $2 million mark in 1987, an increase of $1.2 million over 1986. Classified real estate advertising channels contributed to the increase. Introduced in three systems in 1987, "The Real Estate Channel" makes it possible for realtors to reach potential home buyers 24 hours a day, with low-cost illustrated listings. Also a factor was ESPN's inclusion of National Football League games on its schedule.

Some People Who Made a Difference in 1987

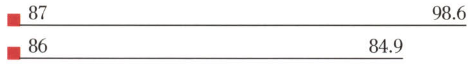
■ **Kenneth Berns, Jr.,** *General Manager, Post-Newsweek Cable, Modesto, CA*
Under Ken's direction, multi-channel pay-per-view was successfully launched in Modesto, PNC's largest system, in late 1986. The new service generated substantial revenue during its first full year of operation, offering viewers movies, San Francisco Giants home baseball games, Wrestlemania and championship boxing.

■ **William DeBacker,** *Marketing Director, Northern Division*
A sustained marketing effort spearheaded by Bill helped the Northern Division achieve a net increase of 4,450 basic subscribers and a 2.5 percent increase in basic penetration. Bill recently became general manager of PNC's Fargo, North Dakota, system.

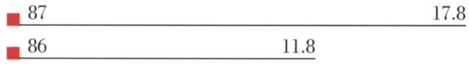
■ **David Deetz,** *General Manager, Cablecom of Port Lavaca, TX*
Proving that necessity is indeed the mother of invention, Dave designed and built the "Causeway Cruiser," a unique piece of equipment used to maintain a hard-to-reach cable trunk line suspended under a two-and-a-half-mile-long bridge. The Cruiser has cut operating and maintenance costs and improved employee safety.

■ ***Capital expenditures*** totaled $27.1 million. Rebuilds of several systems, including Modesto/Oakdale and Sherman/Denison, were completed in 1987, improving and expanding services to 123,000 subscribers and adding 12,741 pay units. By the end of 1988, substantially all of Post-Newsweek Cable's planned system rebuilds and upgrades will be completed.

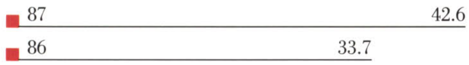
■ ***Local-origination programming***—including coverage of school team sports, regional news, events and issues—is an increasingly important way for Post-Newsweek Cable systems to serve their communities, attract new subscribers and create advertising opportunities for merchants who want to target their messages to specific audiences. Eighteen Post-Newsweek Cable systems now produce community service programming.



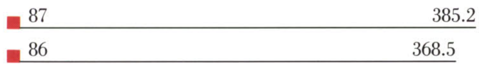
Operating Revenues ($ in millions)



Operating Income ($ in millions)



Cable Cash Flow ($ in millions)



Basic Subscribers (in thousands)

The company's cable division was acquired in January 1986.

■ **Linda Lawson,** *Marketing Manager, Cablecom of Fargo, ND*
Linda's marketing efforts led to a substantial increase—8 percent—in Fargo's average number of basic subscribers in 1987. Her creative tactics also helped to substantially reduce traditional seasonal subscriber disconnects last summer.

■ **Ingo Radicke,** *General Manager, Cablecom of Cobre Valley, Globe, AZ*
Service to the community has been an important part of Ingo's 20 years of successful management of PNC's Globe system. He has helped make his community a better place to live. Ingo currently is chairman of the County Personnel Commission, assistant chief of the volunteer fire department and president of the Chamber of Commerce.

■ **Frank R. Woodbeck,** *Vice President-Advertising Sales*
Frank has led the effort to develop and build Post-Newsweek Cable's local advertising sales program. Now operational in 24 systems, local advertising generated $2.2 million in revenue in 1987, more than double 1986 results.

E*ditorial* had an outstanding year. In early 1988 Newsweek was named "Best Magazine" in the Washington Journalism Review's "Best in the Business" awards. Week in and week out, Newsweek put the news in context for its readers with first-rate reporting, analysis and perspective. Newsweek also went below the surface to uncover issues and trends that have potentially significant impact on people's lives. The cover story "Brothers" (March 23) addressed the issue of blacks in America with a highly personal, extensively reported view of 10 men who grew up poor and black in Chicago's housing projects. Asia regional editor Melinda Liu scored the first exclusive print interview (September 21) with Philippine rebel leader Colonel Gregorio Honasan after his failed August 28 coup attempt. "Is the Party Over?" (October 26), Newsweek's cover story about the tottering stock market, hit the newsstands on Black Monday, just as the market was beginning its calamitous fall. In "Gorbachev in America" (December 14), a preview of the U.S.-Soviet summit, Newsweek challenged the stereotypes of Soviet and U.S. citizens with fresh reporting and a poll of Soviet and American attitudes towards arms control, war and peace.

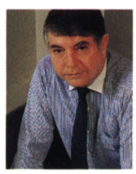
■ ***Advertising*** increased to 2,537 pages, up 28 pages from 1986. Newsweek again was the advertising page leader among the three major newsweeklies. With the exception of 1986, when it slipped to second place, Newsweek has led in advertising pages since 1968.

■ ***Circulation*** rose sharply for a record performance. Twelve-month average circulation increased 3.6 percent to 3.2 million.

Some People Who Made a Difference in 1987

■ **Elizabeth A. Greenway,**
Sales Director, Boston Sales Office
Betsy's sales ability helped Newsweek realize an increase in advertising market share among the newsweeklies and brought in advertisers who in the past have not used news magazines.

■ **Stephen Luciani,**
Editorial Art
Steve has been a driving force in Newsweek's technological advancement. His expertise in computer systems and their capabilities helped increase Newsweek's flexibility, making it possible to extend editorial deadlines in order to get the most up-to-the-minute information and photographs into the magazine.



■ **James F. McGowan, Jr.,**
Director of Operations Services
Jim oversaw the construction of Newsweek's new customer services and computer facility in Mountain Lakes, New Jersey. The building was completed under budget and on time.

Newsweek raised its 1988 rate base 50,000 to 3.1 million, an increase of 1.6 percent and the largest circulation rate base in Newsweek's history.

■ ***Customer Services*** operations were moved in September to a new, company-owned Customer Services and Information Systems Center in Mountain Lakes, New Jersey. The 118,000-square-foot center centralizes operations and doubles computer capacity for better subscriber services. Newsweek is one of only a few magazines to have an in-house customer services operation.

■ ***Newsweek International*** was adversely affected by currency volatility, weakened international markets and increased competition. Although market share increased significantly, advertising pages declined 3 percent to 2,093, from 2,155 in 1986.

87	322.2
86	320.9
85	326.1
84	331.6
83	302.2

Operating Revenues ($ in millions)

87	15.3
86	17.9
85	29.1
84	22.0
83	15.3

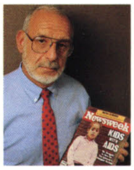
Operating Income ($ in millions)

87	3,190
86	3,077
85	3,058
84	3,025
83	3,031

Newsweek Circulation (in thousands)
Source: Audit Bureau of Circulations

87	690
86	677
85	655
84	578
83	570

Newsweek International Circulation Rate Base
(in thousands) Atlantic, Pacific and Latin America Editions



■ **Ron Meyerson,** *Senior Editor and* **Terence Monmaney,** *General Editor*
Their cover story on children with AIDS focused nationwide attention on the helpless and innocent victims of the AIDS epidemic. Ron and Terry then galvanized the staff into a major fundraising effort to help families of young AIDS victims. Their story also prompted three business people in Baltimore to quit their jobs to set up a home for children with AIDS.

■ **Sylvester Monroe,** *Correspondent, Washington Bureau*
Vest led a Newsweek team on a journey into the lives and hard times of black men coming of age in Chicago's South Side ghetto, his home town, to produce "Brothers," a special report on the plight of the black male. Vest's story of his own escape from poverty and his reporting on some of his friends who were less fortunate were the project's heart and soul.

■ **Harold Shain,** *Vice President/Circulation*
Harold led the team that brought Newsweek to its highest circulation level in history, making it possible to increase for the second time in three years Newsweek's circulation rate base guaranteed to advertisers.

Stanley H. Kaplan Educational Centers enjoyed a record year. Revenue increased substantially and student enrollments exceeded 100,000.

Driving this increase were enrollment gains in most major post-graduate preparation courses—as well as in SAT and ACT college preparation courses. Two more recent course offerings, nursing licensure and bar review, have been well received.

Four new centers were opened in 1987—in Stamford, Connecticut; Lawrence, Kansas; Bethesda, Maryland; and Grand Rapids, Michigan. This brings to more than 125 the number of permanent centers. Kaplan courses also are offered in some 500 other locations on a seasonal basis.

Legi-Slate achieved record growth, with gains of 25 percent in its subscriber base and over 40 percent in annualized value. Profit margin improved significantly on strong advances in operating revenue.

In 1987, Legi-Slate introduced the full text of the Congressional Record online. This complements its other Congressional offerings, including the full text of bills, extensively subject-indexed, committee reports, the Federal Register and Congressional voting records. At year-end, more than half of Senate offices were Legi-Slate subscribers.

To provide for expanded services and to meet the needs of its growing subscriber base, Legi-Slate plans to install a new computer system in 1988 that will more than double present capacity.

Some People Who Made a Difference in 1987

■ **Susan Darrow,** *Administrator, Kaplan Center, Philadelphia*
After tripling enrollment in her five years at the Durham, NC, center, Susan took over in Philadelphia, one of Kaplan's largest markets. In her first year, she initiated areawide advertising and marketing campaigns, assembled new staffs and opened eight temporary centers to meet seasonal demand. Enrollments increased 10 percent.

■ **Cathy Mansell,** *Kaplan Product Manager for National Council of Licensure Examinations-Registered Nurses*
Through Cathy's intensive efforts, 1987 enrollment in the nursing boards program reached 4,000, a 67 percent increase. Through product innovation and skilled marketing techniques, Cathy established Kaplan as the quality leader in the field.

■ **Edmund W. Stawick,** *Senior Systems Analyst, Legi-Slate*
Ed's computer program design skills have helped Legi-Slate maintain its reputation as a "user-friendly" online information service. His ability to disguise complex technical steps provides clients easy access to information and is a critical element in the success of new services introduced in 1987.

■ ***Results of Operations***

As a result of the acquisition of the cable television division on January 3, 1986, there has been a change in the "mix" of the company's operating revenues. As such, the percentage of total operating revenues contributed by sales of newspaper, magazine and television advertising declined to 68 percent in both 1987 and 1986, down from 74 percent in 1985. Circulation revenues also declined, representing 18 percent of total operating revenues in 1987, 19 percent in 1986 and 20 percent in 1985. At the same time, however, "other revenues" rose to 14 percent of total operating revenues in 1987, up from 13 percent in 1986 and 6 percent in 1985.

In 1987 net income increased by 86.4 percent over 1986 to $186.7 million. However, 1987 earnings included after-tax nonrecurring gains of $54.3 million from the sales of the company's minority interests in Washington/Baltimore and Detroit cellular telephone operations, and the sales of the company's remaining interests in certain sports programming networks. Also contributing to the 1987 increase were improved operating results, higher earnings from the company's affiliates, a decline in interest expense and a reduction in the company's effective tax rate.

Although net income in 1986 decreased to $100.2 million from $114.3 million in 1985, that decline was significantly affected by a number of factors, some favorable and some unfavorable. In 1986 net income reflects the acquisition of the cable division, which because of interest costs and amortization of intangibles adversely affected earnings by approximately $14.6 million. Also during 1986, the company incurred an after-tax charge that decreased earnings by $2.1 million when a portion of the debt related to the acquisition of the cable systems was retired in order to obtain more favorable borrowing terms. Conversely, the adoption of Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions" (SFAS No. 87), increased earnings by approximately $4.4 million, as did nonrecurring gains of $1.9 million on the sales of minority interests in certain enterprises, including the company's 20 percent interest in the National Journal. Finally, 1985 earnings also included nonrecurring after-tax gains of $12.3 million from the sales of portions of the company's cable sports programming and cellular interests.

Earnings per share in 1987 increased by $6.72, with $4.22 of that increase attributable to nonrecurring gains realized during the year. Earnings per share were down $.86 in 1986 from earnings per share of $8.66 in 1985. However, the cable acquisition and the loss on retirement of debt reduced earnings per share by $1.31 in 1986 while nonrecurring gains and the adoption of SFAS No. 87 added $.49 to earnings per share. Also, the nonrecurring gains in 1985 added $.93 to earnings per share in that year.

Total operating revenues were up 8 percent in 1987 as advertising revenues increased 7 percent, circulation revenues increased 3 percent and other revenues rose 21 percent. The increases in advertising and circulation revenues primarily reflect price and volume increases at The Washington Post, while the increase in other revenues is due to volume and rate increases at the cable division and Stanley H. Kaplan Educational Centers, and volume increases at the Miami-Ft. Lauderdale cellular system. In 1986 total operating revenues increased approximately 13 percent. In that year advertising revenues increased 4 percent due primarily to rate increases at The Washington Post and improved pricing at the company's television stations, which together offset a 7 percent decline in domestic advertising pages at Newsweek. Circulation revenues also increased 4 percent in 1986, reflecting price and volume increases at The Washington Post and volume increases in the international edition of Newsweek. The increase in other revenues in 1986 reflects the operations of the cable division in addition to a full year of operations of the Miami-Ft. Lauderdale cellular system.

In 1987 the increase of 7 percent in total operating costs and expenses resulted from normal increases in costs, increased volume and large increases in the cost of newsprint. Total operating costs and expenses for 1986 increased by approximately 13 percent due to the inclusion of the operations of the cable division and a full year of operations of the Miami-Ft. Lauderdale cellular system. Without the cable and Miami cellular operations, total costs and expenses increased 3 percent in 1986, with higher labor costs partially offset by the adoption of SFAS No. 87.

Income from operations increased by 12 percent in 1987, with the newspaper division maintaining a 22 percent operating margin, while the operating margins at the broadcast division and Newsweek fell slightly to 41 percent and 5 percent, respectively. The decline in the broadcast division's operating margin reflects the impact of the Florida advertising tax on revenues at the company's Miami and Jacksonville stations. Despite a strong year for the domestic edition, Newsweek's operating margin was down due to the adverse effects of a soft overseas advertising climate and unfavorable currency fluctuations. Increases in sales of premium services, price increases and increases in the number of subscribers helped the cable division's operating margin reach 18 percent in 1987 while the operating margin for the company's other businesses increased to 11 percent due to volume increases at the Miami-Ft. Lauderdale cellular operations and price and volume increases at Kaplan. In 1986 income from operations increased by 12 percent. In that year the newspaper division's operating margin increased to 22 percent from 21 percent in 1985 and the broadcast division's operating margin rose to 42 percent, up from 38 percent as revenues rose at a faster rate than expenses. Newsweek's operating margin fell from 9 percent in 1985 to 6 percent in 1986, reflecting a decline in advertising pages. The company's other businesses operated at break-even in 1986, down from a 9 percent operating margin in the year before primarily due to a full year of operations at the Miami-Ft. Lauderdale cellular company. The cable division's operating margin was 14 percent in 1986.

The company's share of earnings of its affiliated companies was $17.7 million in 1987, up from $12.4 million in 1986. Volume and price increases at the company's newsprint mills boosted the company's share of those earnings by $3.4 million over 1986, while the company's share of losses from sports programming affiliates totaled $2.1 million, virtually even with the prior year. Operations improved at the company's affiliated cellular companies in 1987 and the company recognized earnings of $1.8 million, up from earnings of $0.8 million in 1986. In 1986 the company's equity in earnings of affiliates increased by $8.4 million over earnings of $4.0 million in 1985. The company's share of earnings from newsprint mill affiliates increased by $4.4 million over 1985 due to improved operations and volume increases. Losses shared from sports programming affiliates were down by $1.8 million from losses of $3.8 million in 1985. The company's share of cellular earnings improved by $2.0 million in 1986, up from losses of $1.2 million in 1985. Also included in the company's equity in earnings of affiliates were earnings from its interest in Cowles Media Company, which the company began acquiring in March 1985.

Interest expense declined in 1987 as internally generated funds combined with proceeds from the sales of businesses enabled the company to reduce its borrowings. In 1985 the company repurchased 1,197,116 shares of its Class B common stock and invested in Cowles Media Company common stock at a combined cost of approximately $205 million. Those transactions were financed through the use of internally generated funds and the private placement of short-term notes. In addition, on January 3, 1986, the company completed its cash purchase of cable television systems from Capital Cities Communications, Inc., for approximately $350 million. In anticipation of this transaction the company increased its borrowings late in 1985 and early in 1986. As a result, interest expense substantially increased and interest income decreased in 1986.

In 1987 other income and expense included pre-tax gains of $81.6 million from the sales of the company's minority interests in Washington/Baltimore and Detroit cellular operations, and in the four sports programming operations. In 1986 a loss associated with the retirement of a portion of the company's debt as well as pre-tax gains on the sales of certain minority interests were reflected in other income and expense and, in 1985, pre-tax gains of $19.3 million on sales of portions of the company's SportsChannel and cellular interests were included.

The effective tax rate for 1987 declined to approximately 44 percent as a result of changes in tax law contained in the Tax Reform Act of 1986 and because the gains on the sales of businesses were taxable at lower capital gain rates. In 1986 the effective tax rate increased to 51 percent from approximately 48 percent in 1985, principally because of nondeductible amortization related to the purchase of the cable systems. The company's effective tax rate for 1988 is expected to be approximately 41 percent, reflecting the full year's impact of changes contained in the Tax Reform Act of 1986.

In 1986 the average number of common shares outstanding declined by 3 percent, reflecting the repurchase in April 1985 of 1,197,116 shares of Class B common stock. After allowing for opportunity costs, the effect of the repurchase was to increase the company's earnings per share by approximately 5 percent in 1986.

■ *Financial Condition: Capital Resources and Liquidity*

During the period 1985 through 1987 the company expended approximately $806 million on various capital programs, principally investments in new businesses, purchases of additional plant and equipment and repurchases of Class B common stock. The transactions that occurred in 1985 were financed through the use of internally generated funds and the private placement of short-term notes. In anticipation of the acquisition of the cable systems in January 1986, the company borrowed approximately $350 million in late 1985 and early 1986, while the remaining 1986 and 1987 expenditures were financed through the use of internally generated funds.

In July 1987 the company agreed to sell its 100 percent interest in the Miami-Ft. Lauderdale cellular system and its minority interest in the Palm Beach cellular system. This transaction was completed on January 4, 1988, and an after-tax gain of approximately $115.5 million will be recorded in the company's earnings for the first quarter of 1988. At January 4, 1988, the company had $220 million of short-term investments and long-term debt of $156 million.

In December 1987, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 96, "Accounting for Income Taxes" (SFAS No. 96), which significantly changes the approach and methodology for accounting for income taxes. The new rules adopt the liability method of accounting for income taxes, which requires adjustment of deferred taxes to reflect changes in tax rates when they are enacted. The statement also limits the ability to recognize deferred tax effects of expenses or losses reported later for tax purposes than for financial statement purposes. SFAS No. 96 must be adopted for fiscal years beginning after December 15, 1988, by either retroactive restatement of prior financial statements or as a cumulative effect of a change in accounting principle in the year of adoption. The company intends to adopt SFAS No. 96 in 1989 as a cumulative effect of a change in accounting principle. Although it is expected that the adoption of the statement will result in an increase in reported income when deferred tax liabilities are reduced to reflect the lower tax rates enacted by the Tax Reform Act of 1986, a precise estimate of the amount is not currently ascertainable.

In management's opinion, the provisions of the Tax Reform Act of 1986 and the application of the provisions of SFAS No. 96 will not significantly affect the future financial position or liquidity of the company. Further, the repeal of the investment tax credit and the change in depreciation rules effected by the Tax Reform Act of 1986 are not expected to impact the timing or nature of planned expenditures for plant and equipment. The company currently estimates that it will expend a total of approximately $90 million for plant and equipment on projects planned for 1988. It expects to fund such expenditures with cash flow from operations and proceeds from the previously mentioned sales of businesses.

In management's opinion the changes in financial position described above or anticipated did not and will not impair the company's liquidity or its ability to secure additional financing.

	Fiscal Year Ended		
(In thousands, except share amounts)	January 3, 1988	December 28, 1986	December 29, 1985
Operating Revenues			
Advertising	$ 892,884	$ 831,205	$ 798,167
Circulation	231,479	225,450	217,281
Other	191,059	158,409	63,202
	1,315,422	1,215,064	1,078,650
Operating Costs and Expenses			
Operating	713,832	671,199	611,597
Selling, general and administrative	288,868	265,484	235,290
Depreciation and amortization of property, plant and equipment	42,918	37,210	24,770
Amortization of goodwill and other intangibles	12,731	12,185	2,807
	1,058,349	986,078	874,464
Income from Operations	257,073	228,986	204,186
Equity in earnings of affiliates	17,663	12,421	4,020
Interest income	3,130	1,858	5,331
Interest expense, net of capitalized interest of $734 in 1987 and $171 in 1986	(25,479)	(35,490)	(9,685)
Other income (expense), net	79,062	(3,152)	17,582
Income before Income Taxes	331,449	204,623	221,434
Provision for Income Taxes	144,706	104,450	107,173
Net Income	$ 186,743	$ 100,173	$ 114,261
Earnings per Share	$14.52	$7.80	$8.66

The information on pages 22 through 30 is an integral part of the financial statements.

(In thousands, except share amounts)	January 3, 1988	December 28, 1986
ASSETS		
Current Assets		
Cash and temporary cash investments	$ 20,660	$ 37,590
Accounts and notes receivable, net	156,085	141,579
Inventories at lower of cost or market	20,225	14,238
Prepaid film rights	18,814	15,012
Other current assets	10,739	11,003
	226,523	219,422
Investments in Affiliates	152,636	168,421
Property, Plant and Equipment		
Buildings	126,014	107,128
Machinery, equipment and fixtures	387,755	344,950
Leasehold improvements	26,625	28,334
	540,394	480,412
Less accumulated depreciation and amortization	(209,320)	(175,053)
	331,074	305,359
Land	23,643	21,812
Construction in progress	16,363	16,531
	371,080	343,702
Goodwill and Other Intangibles, less accumulated amortization of $40,523 and $27,792	358,337	363,424
Deferred Charges and Other Assets	85,620	50,258
	$1,194,196	$1,145,227

The information on pages 22 through 30 is an integral part of the financial statements.

(In thousands, except share amounts)	January 3, 1988	December 28, 1986
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	$ 162,853	$ 148,586
Federal and state income taxes	22,392	(3,151)
Current portion of long-term debt and notes payable	29,396	39,678
	214,641	185,113
Other Liabilities	64,315	54,372
Long-Term Debt and Notes Payable	155,791	336,140
Deferred Subscription Revenue	81,017	77,095
Deferred Income Taxes	64,423	55,917
	580,187	708,637
Shareholders' Equity		
Preferred stock $1 par value, authorized 1,000,000 shares	—	—
Common stock		
Class A common stock, $1 par value, authorized 7,000,000 shares; 2,058,702 and 2,108,702 shares issued and outstanding	2,059	2,109
Class B common stock, $1 par value, authorized 40,000,000 shares; 17,941,298 and 17,891,298 shares issued; 10,786,078 and 10,716,836 shares outstanding	17,941	17,891
Capital in excess of par value	12,113	8,346
Retained earnings	806,021	635,717
Cumulative foreign currency translation adjustment	(1,491)	(4,232)
Cost of 7,155,220 and 7,174,462 shares of Class B common stock held in Treasury	(222,634)	(223,241)
	614,009	436,590
	$1,194,196	$1,145,227

The information on pages 22 through 30 is an integral part of the financial statements.

(In thousands, except share amounts)	Fiscal Year Ended January 3, 1988	December 28, 1986	December 29, 1985
Sources of Working Capital			
Net income	$186,743	$ 100,173	$114,261
Charges (credits) to income not requiring working capital			
Depreciation and amortization of property, plant and equipment	42,918	37,210	24,770
Amortization of television film rights	18,476	15,971	12,941
Net (gain) from sales of certain businesses	(54,309)	(1,782)	(12,268)
Income tax timing differences	7,961	23,904	4,669
Equity in (earnings) of affiliates	(17,663)	(12,421)	(4,020)
Amortization of goodwill and other intangibles	12,731	12,185	2,807
Other	5,231	3,110	11,513
Total provided by operations	202,088	178,350	154,673
Increase in long-term debt	6,029	167,017	218,392
Increase (decrease) in contracted television film rights payable	6,340	(5,742)	(3,691)
Net proceeds from sales of certain businesses	81,313	2,393	27,927
Dividends received from affiliates	1,638	1,341	957
Increase in deferred subscription revenue	3,922	7,986	4,644
Other, including $3,629 in 1986 related to the cable systems acquisition	41,330	38,946	16,799
Total sources	342,660	390,291	419,701
Uses of Working Capital			
Investment in new businesses	16,573	4,115	88,807
Purchases of property, plant and equipment, including $95,772 in 1986 related to the cable systems acquisition	73,896	162,357	43,593
Repurchases of common stock	—	—	134,642
Decrease in long-term debt	186,378	53,269	2,250
Increase in goodwill and intangibles, including $258,965 in 1986 related to the cable systems acquisition	7,644	279,215	—
Purchases of television film rights	33,117	16,849	14,209
Dividends on common stocks	16,439	14,365	12,881
Other, including $6,095 in 1986 related to the cable systems acquisition	31,040	28,266	25,881
Total uses	365,087	558,436	322,263
Net (Decrease) Increase in Working Capital	$(22,427)	$(168,145)	$ 97,438
Changes in Composition of Working Capital			
Cash and temporary cash investments	$(16,930)	$(165,262)	$129,139
Accounts and notes receivable	14,506	27,638	5,526
Inventories	5,987	(4,947)	4,641
Prepaid film rights	3,802	5,056	225
Other current assets	(264)	(2,237)	1,084
Increase (decrease) in current assets	7,101	(139,752)	140,615
Accounts payable and accrued liabilities	(14,267)	(41,384)	(9,526)
Federal and state income taxes	(25,543)	237	16,531
Current portion of long-term debt and notes payable	10,282	12,754	(50,182)
(Increase) in current liabilities	(29,528)	(28,393)	(43,177)
Net (decrease) increase in working capital	$(22,427)	$(168,145)	$ 97,438

The information on pages 22 through 30 is an integral part of the financial statements.

(In thousands, except share amounts)	Class A Common Stock	Class B Common Stock	Capital in Excess of Par Value	Retained Earnings	Cumulative Foreign Currency Translation Adjustment	Treasury Stock
Balance December 31, 1984	$2,748	$17,252	$ 5,212	$448,529	$(4,349)	$ (89,265)
Net income for the year				114,261		
Dividends—$.96 per share				(12,881)		
Repurchase of 1,197,116 shares of Class B common stock						(134,642)
Issuance of 30,002 shares of Class B common stock, net of restricted stock award forfeitures			1,777			482
Conversion of 549,680 shares of Class A common stock to Class B common stock	(549)	549				
Changes in foreign currency translation adjustment					(743)	
Other			1,167			
Balance December 29, 1985	2,199	17,801	8,156	549,909	(5,092)	(223,425)
Net income for the year				100,173		
Dividends—$1.12 per share				(14,365)		
Issuance of 3,765 shares of Class B common stock, net of restricted stock award forfeitures			74			184
Conversion of 90,000 shares of Class A common stock to Class B common stock	(90)	90				
Change in foreign currency translation adjustment					860	
Other			116			
Balance December 28, 1986	2,109	17,891	8,346	635,717	(4,232)	(223,241)
Net income for the year				186,743		
Dividends—$1.28 per share				(16,439)		
Issuance of 19,242 shares of Class B common stock, net of restricted stock award forfeitures			2,430			607
Conversion of 50,000 shares of Class A common stock to Class B common stock	(50)	50				
Changes in foreign currency translation adjustment					2,741	
Other			1,337			
Balance January 3, 1988	$2,059	$17,941	$12,113	$806,021	$(1,491)	$(222,634)

The information on pages 22 through 30 is an integral part of the financial statements.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

■ ***Fiscal Year.*** The company reports on a 52-53 week fiscal year ending on the Sunday nearest December 31. The fiscal year 1987, which ended on January 3, 1988, included 53 weeks while 1986 and 1985 each included 52 weeks.

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

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

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

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

Depreciation is calculated using the straight-line method over the estimated useful lives of the property, plant and equipment; 3 to 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 and affiliated companies over the fair values of such companies' net tangible assets at the dates of acquisition. Goodwill and other intangibles acquired prior to October 30, 1970, the effective date of Accounting Principles Board Opinion No. 17, are not being amortized because in the opinion of the company there has been no diminution of the value of such assets. Goodwill and other intangibles acquired subsequently are being amortized by use of the straight-line method over various periods of up to 40 years in accordance with Opinion No. 17.

■ ***Deferred Film Rights.*** The broadcast subsidiaries are parties to agreements which entitle them to show motion pictures and syndicated programs on television. The unamortized cost of these rights and the liability for future payments under these agreements are reflected in the Consolidated Balance Sheets. The unamortized cost is charged to expense using accelerated amortization rates for motion pictures and accelerated or straight-line rates for syndicated programs.

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

■ ***Income Taxes.*** Deferred income taxes result from timing differences in the recognition of certain revenue and expense items for tax and financial reporting purposes (principally depreciation), in the recognition of income tax to be paid or withheld on earnings of affiliates, and in the recognition of investment tax credits which for financial reporting purposes are applied as a reduction of income taxes over the depreciable lives of the related assets.

■ ***Foreign Currency Translation.*** Gains and losses on foreign currency transactions and translation of accounts of the company's foreign operations are recognized currently in the Consolidated Statements of Income. Gains and losses on translation of the company's equity interests in its foreign affiliates are not included in the Consolidated Statements of Income but are reported separately and accumulated in the "Cumulative Foreign Currency Translation Adjustment" in the Consolidated Balance Sheets.

B. INVESTMENTS IN AFFILIATES

The company's investments in affiliates included the following (in thousands):

	1987	1986
Cowles Media Company	$ 77,512	$ 74,962
Newsprint mills	68,656	66,133
Sports programming operations	—	20,240
Other	6,468	7,086
	$152,636	$168,421

The company's investment in affiliates includes a 21 percent interest in the stock of Cowles Media Company, which owns and operates the Minneapolis Star and 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; a one-third limited partnership interest in Bear Island Paper Company, which owns and operates a newsprint mill near Richmond, Virginia; and a one-third limited partnership interest in Bear Island Timberland Company, which owns timberlands and supplies Bear Island Paper Company with a major portion of its wood requirements. Operating costs and expenses of the company include cost of newsprint supplied by Bowater Mersey Paper Company and Bear Island Paper Company of approximately $63,300,000 in 1987, $61,400,000 in 1986 and $62,900,000 in 1985.

During 1983 the company acquired interests in several businesses which distribute programming, principally sports events, to pay cable and subscription television subscribers. During 1985, 1986 and a portion of 1987, the company's interests included a 33.5 percent partnership interest in SportsChannel Associates, which operates in the metropolitan New York City area; a 33⅓ percent partnership interest in SportsChannel Prism Associates, which operates in the metropolitan Philadelphia area; a 33⅓ percent partnership interest in SportsChannel Chicago Associates, which operates in the metropolitan Chicago area; and a 16⅔ percent limited partnership interest in SportsChannel New England, which operates in the New England and upstate New York areas. In August 1987, the company sold its interests in each of the four sports programming businesses.

The company's other investments include a one-third common stock interest in a French corporation based near Paris which publishes the International Herald Tribune and a 50 percent common stock interest in the Los Angeles Times-Washington Post News Service, Inc. In 1986 the company sold its 20 percent common stock interest in the National Journal, Inc., publisher of a weekly magazine specializing in national affairs. The company's investments also included various interests in several partnerships which were constructing and operating cellular systems. These investments included an 18 percent partnership interest in Detroit Cellular Telephone Company, a 20 percent partnership interest in Washington/Baltimore Cellular Telephone Company and small interests in cellular partnerships in three Florida locations. The interests in two of the Florida locations were sold in 1986 and, in 1987, the company's interests in Detroit and Washington/Baltimore were sold.

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

	1987	1986	1985
Financial Position			
Working capital	$100,100	$ 98,485	$ 74,017
Property, plant and equipment	370,781	380,518	314,915
Total assets	642,374	676,831	528,673
Long-term debt	129,651	155,033	92,673
Net equity	339,905	316,419	273,540
Results of Operations			
Operating revenues	$616,387	$640,353	$555,587
Operating income	78,972	81,442	54,735
Net income	53,439	44,356	17,536

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

	1987	1986
Beginning investment	$168,421	$154,189
Equity in earnings	17,663	12,421
Dividends received	(1,638)	(1,341)
Additional investments	5,927	4,115
Sale of investments	(27,004)	(709)
Other	(10,733)	(254)
Ending investment	$152,636	$168,421

At January 3, 1988, the unamortized excess of the company's investments over its equity in the underlying net assets of its affiliates at the date of acquisition was $42,500,000 which is being amortized over 40 years. Amortization included in equity in earnings of affiliates for the years ended January 3, 1988, December 28, 1986, and December 29, 1985, was $1,900,000, $2,300,000, and $2,200,000, respectively.

C. ACCOUNTS AND NOTES RECEIVABLE AND ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts and notes receivable at January 3, 1988, and December 28, 1986, consist of the following (in thousands):

	1987	1986
Accounts receivable, less estimated returns, doubtful accounts and allowances of $26,928 and $25,567	$122,770	$123,111
Notes receivable	21,276	10,713
Other	12,039	7,755
	$156,085	$141,579

Accounts payable and accrued liabilities at January 3, 1988, and December 28, 1986, consist of the following (in thousands):

	1987	1986
Accounts payable and accrued expenses	$ 91,100	$ 80,460
Accrued payroll and related benefits	34,643	25,235
Accrued interest expense	9,605	17,935
Film contracts payable	19,681	17,499
Contributions due employee benefit trust funds	160	240
Due to affiliates (newsprint)	7,664	7,217
	$162,853	$148,586

D. INCOME TAXES

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

	Current	Deferred
1987		
U.S. Federal	$115,567	$ 5,889
Foreign	228	778
State and local	20,950	1,294
	$136,745	$ 7,961
1986		
U.S. Federal	$ 65,846	$19,881
Foreign	51	610
State and local	14,649	3,413
	$ 80,546	$23,904
1985		
U.S. Federal	$ 84,881	$ 3,880
Foreign	767	382
State and local	16,856	407
	$102,504	$ 4,669

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

	1987	1986	1985
Tax depreciation in excess of depreciation for financial reporting purposes	$6,467	$19,072	$4,471
Deferral of investment tax credits for financial reporting purposes	(47)	2,349	51
Other	1,541	2,483	147
Totals	$7,961	$23,904	$4,669

The provision for income taxes exceeds the amount of taxes determined by applying the U.S. Federal statutory rate of 40 percent in 1987 and 46 percent in 1986 and 1985 to income before taxes as a result of the following (in thousands):

	1987	1986	1985
U.S. Federal income taxes at 40% of income before taxes in 1987 and 46% in 1986 and 1985	$132,580	$ 94,127	$101,860
State and local taxes net of Federal income tax benefit	13,346	9,754	9,322
Amortization of goodwill not deducted for tax purposes	3,493	3,737	1,016
Domestic and foreign income taxes netted in equity in earnings of affiliates	(3,475)	(3,392)	(2,612)
Other	(1,238)	224	(2,413)
Provision for income taxes	$144,706	$104,450	$107,173

In December 1987, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 96, "Accounting for Income Taxes" (SFAS No. 96), which significantly changes the approach and methodology for accounting for income taxes. The new rules adopt the liability method of accounting for income taxes, which requires adjustment of deferred taxes to reflect changes in tax rates when they are enacted. The statement also limits the ability to recognize deferred tax effects of expenses or losses reported later for tax purposes than for financial statement purposes. SFAS No. 96 must be adopted for fiscal years beginning after December 15, 1988, by either retroactive restatement of prior financial statements or as a cumulative effect of a change in accounting principle in the year of adoption. The company intends to adopt SFAS No. 96 in 1989 as a cumulative effect of a change in accounting principle. Although it is expected that the adoption of the statement will result in an increase in reported income when deferred tax liabilities are reduced to reflect the lower tax rates enacted by the Tax Reform Act of 1986, a precise estimate of the amount is not currently ascertainable.

E. DEBT

Long-term debt of the company as of January 3, 1988, and December 28, 1986, is summarized as follows (in thousands):

	1987	1986
10.68 percent unsecured promissory notes due 1991-1994	$100,000	$100,000
10.1 percent unsecured European Currency Unit notes due 1996	50,808	50,881
8.5 percent unsecured promissory notes due 1987	—	100,000
6.95 percent unsecured promissory notes due 1987	—	4,000
10.875 percent unsecured Eurodollar notes due 1995	1,400	1,400
Unsecured short-term notes supported by credit agreements with banks	28,700	114,402
Other	4,279	5,135
Less amounts included in current liabilities	(29,396)	(39,678)
	$155,791	$336,140

Effective in February 1988, the company had a credit agreement with a group of banks that permitted borrowings of up to $75,000,000 until December 31, 1988, and lesser amounts thereafter until the commitment expires on January 1, 1992. At January 3, 1988, this credit agreement permitted borrowings of up to $200,000,000. Interest rates on borrowings under this credit agreement are no greater than the floating prime rate. During the commitment period, a fee is payable on the unused portion of the permitted borrowings. At January 3, 1988, there were no outstanding borrowings under this agreement.

The agreements relating to the promissory notes and the credit agreement include restrictive provisions which principally pertain to limits on indebtedness, minimum working capital requirements, the payment of dividends and the redemption or purchase of the company's capital stock. At the end of 1987, retained earnings unrestricted by these provisions were $246,600,000.

During 1987, 1986 and 1985, the company issued unsecured short-term notes supported by bank credit agreements. The average daily borrowings were $126,400,000, $103,200,000 and $68,200,000 at a weighted average cost of 7.1 percent, 7.8 percent and 8.5 percent in 1987, 1986 and 1985, respectively. The maximum borrowings outstanding at the end of any period for the years ended January 3, 1988, December 28, 1986, and December 29, 1985, were $193,700,000, $191,500,000 and $123,500,000, respectively.

Annual maturities of long-term debt based on existing loan repayment schedules are $1,100,000 in 1989, $1,200,000 in 1990, $26,000,000 in 1991, $25,000,000 in each of the years 1992-1994, $1,400,000 in 1995, and $50,000,000 in 1996.

F. CAPITAL STOCK, STOCK OPTIONS AND STOCK AWARDS

■ ***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.

■ ***Stock Options.*** In 1971 the company adopted a Stock Option Plan and reserved 1,400,000 shares of Class B common stock for options to be granted under the plan. The purchase price of the shares covered by an option must be equal to their fair market value on the granting date. At January 3, 1988, there were 189,700 shares reserved for issuance under the Stock Option Plan. Of this number, 27,500 shares were subject to options outstanding and 162,200 shares were available for future grants. Changes in the options outstanding for the years ended January 3, 1988, and December 28, 1986, were as follows:

	1987		1986	
	Number of Shares	Average Option Price	Number of Shares	Average Option Price
Beginning of year	26,500	$ 35.37	30,000	$ 30.25
Granted	1,000	191.00	1,000	149.00
Exercised	—	—	(4,500)	26.47
Cancelled	—	—	—	—
End of year	27,500	41.03	26,500	35.37

Of the shares covered by options outstanding at the end of 1987, 25,000 are now exercisable, 875 will become exercisable in each of 1988 and 1989, 500 will become exercisable in 1990, and 250 will become exercisable in 1991.

■ ***Stock Awards.*** In 1982 the company adopted a Long-Term Incentive Compensation Plan which, 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. 275,000 shares of

Class B common stock were reserved for stock awards to be made under the Incentive Compensation Plan. Activity related to stock awards for the years ended January 3, 1988, and December 28, 1986, was as follows:

	1987		1986	
	Number of Shares	Average Award Price	Number of Shares	Average Award Price
Awards Outstanding Beginning of year	58,863	$ 69.17	60,011	$ 66.12
Awarded	19,690	156.00	3,378	124.40
Vested	(29,686)	55.27	(413)	57.74
Forfeited	(448)	78.75	(4,113)	68.35
Awards Outstanding End of year	48,419	112.92	58,863	69.17

For the shares outstanding at January 3, 1988, the aforementioned restriction will lapse in January 1989 for 29,661 shares and in January 1991 for 18,758 shares.

■ ***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. The average number of shares considered outstanding was 12,861,000 for 1987, 12,842,000 for 1986, and 13,194,000 for 1985.

G. RETIREMENT PLANS

The company and its subsidiaries have various pension and incentive savings plans and in addition contribute to several multi-employer plans on behalf of certain union-represented employee groups. Substantially all of the company's employees, including some located in foreign countries, are covered by these plans.

In 1986 the company adopted Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions" (SFAS No. 87). Pension costs for 1987 and 1986 and related disclosures as of January 3, 1988, and December 28, 1986, are determined under the provisions of SFAS No. 87. Pension cost and related disclosures for 1985 are determined under the provisions of previous accounting principles. In 1985 total expense for all plans combined was $8,500,000. The net effect of the change to the methods required by SFAS No. 87 was to decrease pension expense by approximately $10,400,000 in 1987 and $9,000,000 in 1986 and for all plans combined a net credit of $1,100,000 and $400,000 was recognized in 1987 and 1986, respectively.

The costs for the company's defined benefit pension plans are actuarially determined and include amortization of prior service costs over various periods, generally not exceeding 20 years. The company's policy is to fund the costs accrued for its defined benefit plans. However, in 1985 the company funded amounts less than the costs accrued for certain plans.

The following table sets forth the funded status of the defined benefit plans and amounts recognized in the Consolidated Balance Sheets at January 3, 1988, and December 28, 1986 (in thousands):

	1987	1986
Actuarial present value of accumulated plan benefits, including vested benefits of $60,186 and $55,904	$ 66,939	$ 64,897
Plan assets at fair value, primarily listed securities	$250,935	$228,674
Projected benefit obligation for service rendered to date	(84,306)	(82,957)
Plan assets in excess of projected benefit obligation	166,629	145,717
Prior service cost not yet recognized in periodic pension cost	(108)	—
Less unrecognized net gain from past experience different from that assumed	(38,336)	(20,069)
Less unrecognized net asset (transition amount) being recognized over approximately 17 years	(114,743)	(122,798)
Prepaid pension cost	$ 13,442	$ 2,850

The accumulated plan benefits at January 1, 1985, were $48,642,000, including vested benefits of $41,310,000. Plan assets available for benefits at January 1, 1985, were valued at $155,268,000.

The net pension credit for the years ended January 3, 1988, and December 28, 1986, included the following components (in thousands):

	1987	1986
Service cost for benefits earned during the period	$ 5,607	$ 5,386
Interest cost on projected benefit obligation	6,166	5,609
Less actual return on plan assets	(24,641)	(32,685)
Net amortization and deferral	2,475	12,717
Net pension credit	$(10,393)	$ (8,973)

The weighted average discount rate and rate of increase in future compensation levels used for 1987 and 1986 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 8 percent in 1987, 1986 and 1985.

Contributions to multi-employer pension plans, which are generally based on hours worked, amounted to $1,400,000 and $1,300,000 in 1987 and 1986, respectively.

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 $20,900,000 at January 3, 1988, and $18,800,000 at December 28, 1986.

In addition to providing pension benefits, the company and its subsidiaries have certain health care and life insurance plans that include retired employees who have reached retirement age while employed by the company. The cost of these plans, which is charged to expense as premiums are paid or trust contributions are made, was approximately $16,900,000 for 1987, $16,300,000 for 1986 and $13,000,000 for 1985. Retiree participation in these plans as a percentage of total participation approximated 8 percent in 1987, 1986 and 1985 for the life insurance plan, and 12 percent in 1987, 10 percent in 1986 and 9 percent in 1985 for the medical plan.

H. LEASES

Total rental expense under operating leases included in operating costs and expenses was approximately $15,500,000 for 1987, $16,000,000 for 1986, and $14,300,000 for 1985. As of January 3, 1988, minimum future rentals under non-cancelable leases, principally all for real estate, were as follows (in thousands):

1988	$11,877
1989	11,086
1990	8,853
1991	7,865
1992	6,166
Thereafter	16,253
	$62,100

Included in the rentals above is $4,200,000 per year related to a real estate lease which expires in 1994, but may be renewed for an additional fifteen-year period at the option of the company at an amount to be negotiated.

I. ACQUISITIONS AND DISPOSITIONS

During 1987 the company sold its remaining partnership interests in certain cable sports programming businesses and its minority interests in the Washington/Baltimore and Detroit cellular companies. The effect of these transactions before giving effect to taxes of $27,265,000 was a gain of $81,574,000, which amount is included in "Other Income (Expense), Net" in the Consolidated Statement of Income for 1987. These gains increased earnings per share by $4.22.

During 1986 the company sold its 20 percent interest in National Journal, Inc., and its minority interests in two Florida cellular systems. The effect of these transactions on 1986 earnings was an increase of $1,900,000 or fifteen cents per share.

In January 1985 the company sold a portion of its interest in each of the cable sports programming businesses, reducing its respective interests in SportsChannel Associates, SportsChannel Prism Associates, and SportsChannel Chicago Associates to approximately 33⅓ percent and its interest in SportsChannel New England to 16⅔ percent. During 1985 the company also sold its minority cellular interests in the Pacific Northwest and Connecticut cellular companies. The effect of these transactions before giving effect to taxes of $7,036,000 was a gain of $19,304,000, which amount is included in "Other Income (Expense), Net" in the Consolidated Statement of Income for 1985. These gains increased 1985 earnings per share by $.93.

On January 3, 1986, the company completed its acquisition of over 50 cable television systems and certain related properties by purchasing virtually all of the outstanding stock of eight subsidiaries of Capital Cities Communications, Inc., for an aggregate cash purchase price of approximately $350 million, which was financed through borrowings. The transaction was accounted for as a purchase and the results of operations of the systems were included with those of the company for the period subsequent to the date of acquisition.

The following statements present the company's pro forma condensed consolidated income statement for the year ended December 29, 1985, as if the cable acquisition and the required borrowings had occurred at the beginning of the year. Amounts reflect an allocation of the purchase price to the acquired net tangible assets, with the excess being amortized over periods of 5 to 40 years. The revenues and results of operations presented in the pro forma income statement do not necessarily reflect the results of operations that might have been attained had the acquisition occurred at the beginning of 1985.

	Pro Forma Income Statement For the Year Ended December 29, 1985			
	Company	Cable	Adjustments	Combined
Operating Revenues	$1,078,650	$78,032		$1,156,682
Net Income	114,261	2,133	(19,496)	96,898
Earnings per share	$8.66			$7.34

During 1986 the company acquired an additional 30 percent partnership interest in its Miami-Ft. Lauderdale cellular system and, in January 1987, acquired the remaining 10 percent partnership interest outstanding.

J. COMMITMENTS AND CONTINGENCIES

In connection with its investments in new businesses, the company may be required to pay additional amounts if the businesses achieve specified levels of performance. These amounts are not significant to the company's financial position at January 3, 1988.

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

K. BUSINESS SEGMENTS

The company operates principally in four areas of the communications industry: newspaper publishing, magazine publishing, television broadcasting and, in 1987 and 1986, cable television.

Newspaper operations involve the publication of newspapers in Washington, D.C., and Everett, Washington, and a newsprint warehousing facility. Magazine publishing 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.

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

Cable television operations consist of over 50 cable systems which offer basic cable and pay television services to approximately 385,000 subscribers in 15 midwestern, western and southern states. The principal source of revenues is monthly subscription fees charged for services.

"Other Businesses" include the operations of a database publishing company, educational centers engaged in preparing students for admissions tests and licensing examinations, including the preparation and publishing of training materials, and a cellular system in Miami-Ft. Lauderdale.

Income from operations is the excess of operating revenues over operating expenses including corporate expenses which are allocated to operations of the segments. In computing income from operations by segment, the effects of equity in earnings of affiliates, interest income, interest expense, other income and expense items and income taxes are not included. Development costs in 1985 relate primarily to a new magazine effort.

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

	Newspaper Publishing	Magazine Publishing	Broadcast	Cable Television	Other Businesses	Consolidated
1987						
Operating revenues	$648,133	$322,233	$171,396	$ 98,625	$75,035	$1,315,422
Income from operations	$145,088	$ 15,305	$ 70,295	$ 17,822	$ 8,563	$ 257,073
Equity in earnings of affiliates						17,663
Interest expense						(25,479)
Other income, net						82,192
Income before income taxes						$ 331,449
Identifiable assets	$254,962	$104,527	$166,892	$378,569	$99,656	$1,004,606
Investments in affiliates						152,636
Corporate assets						36,954
Total assets						$1,194,196
Depreciation and amortization of property, plant and equipment	$ 13,660	$ 5,091	$ 7,243	$ 13,052	$ 3,872	$ 42,918
Amortization of goodwill and other intangibles	$ 543		$ 664	$ 9,553	$ 1,971	$ 12,731
Capital expenditures	$ 16,003	$ 14,270	$ 5,999	$ 27,060	$10,564	$ 73,896

	Newspaper Publishing	Magazine Publishing	Broadcast	Cable Television	Other Businesses	Consolidated
1986						
Operating revenues	$589,252	$320,924	$167,122	$ 84,878	$52,888	$1,215,064
Income from operations	$130,138	$ 17,934	$ 70,004	$ 11,829	$ (919)	$ 228,986
Equity in earnings of affiliates						12,421
Interest expense						(35,490)
Other expense, net						(1,294)
Income before income taxes						$ 204,623
Identifiable assets	$246,810	$ 86,992	$151,962	$365,963	$84,279	$ 936,006
Investments in affiliates						168,421
Corporate assets						40,800
Total assets						$1,145,227
Depreciation and amortization of property, plant and equipment	$ 13,072	$ 4,756	$ 6,641	$ 10,465	$ 2,276	$ 37,210
Amortization of goodwill and other intangibles	$ 534		$ 664	$ 9,517	$ 1,470	$ 12,185
Capital expenditures	$ 11,888	$ 8,872	$ 6,650	$ 23,695	$15,480	$ 66,585

	Newspaper Publishing	Magazine Publishing	Broadcast	Other Businesses	Consolidated
1985					
Operating revenues	$556,070	$326,053	$154,513	$42,014	$1,078,650
Income from operations	$114,477	$ 29,064	$ 57,945	$ 3,668	$ 205,154
Development costs					(968)
Total income from operations					204,186
Equity in earnings of affiliates					4,020
Interest expense					(9,685)
Other income, net					22,913
Income before income taxes					$ 221,434
Identifiable assets	$228,958	$ 91,866	$146,181	$50,662	$ 517,667
Investments in affiliates					154,189
Corporate assets					213,223
Total assets					$ 885,079
Depreciation and amortization of property, plant and equipment	$ 12,717	$ 4,686	$ 5,714	$ 1,653	$ 24,770
Amortization of goodwill and other intangibles	$ 534		$ 664	$ 1,609	$ 2,807
Capital expenditures	$ 16,188	$ 9,731	$ 9,205	$ 8,469	$ 43,593

L. SUMMARY OF QUARTERLY OPERATING RESULTS (UNAUDITED)

Quarterly results of operations for the years ended January 3, 1988, and December 28, 1986, are as follows (in thousands, except per share amounts):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
1987				
Operating revenues	$298,364	$339,126	$312,910	$365,022
Income from operations	39,524	81,555	59,337	76,657
Net income	18,649	42,362	61,314	64,418
Earnings per share	$1.45	$3.29	$4.77	$5.01
Average number of shares outstanding	12,859	12,861	12,862	12,861

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
1986				
Operating revenues	$276,761	$313,275	$291,534	$333,494
Income from operations	37,269	66,558	49,931	75,228
Net income	12,362	30,409	21,131	36,271
Earnings per share	$ .96	$2.37	$1.65	$2.82
Average number of shares outstanding	12,843	12,843	12,842	12,840

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

M. SUBSEQUENT EVENTS

On January 4, 1988, the company sold its 100 percent interest in the Miami-Ft. Lauderdale cellular telephone system and its minority interest in the Palm Beach cellular system at an after-tax gain of approximately $115,500,000, or $9.00 per share. This gain will be recorded in the company's earnings for the first quarter of 1988.

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

In our opinion, the consolidated financial statements appearing on pages 17 through 21 present fairly the financial position of The Washington Post Company and its subsidiaries at January 3, 1988, and December 28, 1986, and the results of their operations and the changes in their financial position for each of the three fiscal years in the period ended January 3, 1988, in conformity with generally accepted accounting principles consistently applied. Our examinations of these statements were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Price Waterhouse

Washington, DC
February 9, 1988

See Notes to Consolidated Financial Statements for the summary of significant accounting policies and additional information relative to the years 1985-1987. Share and per share data have been restated to give effect to a two-for-one stock split on December 29, 1978.

(In thousands, except per share amounts)	1987	1986	1985
Results of Operations			
Operating revenues	$1,315,422	$1,215,064	$1,078,650
Income from operations	$ 257,073	$ 228,986	$ 204,186
Income before cumulative effect of change in method of accounting	$ 186,743	$ 100,173	$ 114,261
Cumulative effect in 1979 of change in method of accounting for magazine subscription procurement costs	—	—	—
Net income	$ 186,743	$ 100,173	$ 114,261
Per Share Amounts			
Earnings per share			
Income before cumulative effect of change in method of accounting	$14.52	$ 7.80	$ 8.66
Cumulative effect in 1979 of change in method of accounting for magazine subscription procurement costs	—	—	—
Net income	$14.52	$ 7.80	$ 8.66
Cash dividends	$ 1.28	$ 1.12	$ .96
Shareholders' equity	$47.80	$34.04	$27.26
Average Number of Shares Outstanding	12,861	12,842	13,194
Financial Position			
Current assets	$ 226,523	$ 219,422	$ 359,174
Working capital	11,882	34,309	202,454
Property, plant and equipment	371,080	343,702	219,310
Total assets	1,194,196	1,145,227	885,079
Long-term debt	155,791	336,140	222,392
Shareholders' equity	614,009	436,590	349,548
Pro Forma Amounts (See Notes)			
Net income	$ 132,434	$ 100,173	$ 101,993
Earnings per share	$10.30	$ 7.80	$ 7.73

NOTES:

In 1979 the company changed its method of accounting for magazine subscription procurement costs. Pro forma amounts for 1978 show what net income and earnings per share would have been if the current method for magazine subscription procurement costs had been in effect during that year. Additionally, pro forma amounts for 1978, 1981, 1985 and 1987 show what net income would have been without nonrecurring gains and losses from the sales of businesses as described below.

In 1978 the company realized a nonrecurring gain from the sale of a radio station which increased net income and earnings per share by $4,300,000 and $.27. In 1981 the company realized a net nonrecurring loss from the sale of its newspaper subsidiary in Trenton, New Jersey, its national television sales subsidiary and the company's magazine, Inside Sports. The effect of this loss was to decrease net income and earnings per share by $2,100,000 and $.15. In 1985 the company realized nonrecurring gains from the sales of portions of the company's SportsChannel and cellular telephone interests. The effect of these gains was to increase net income and earnings per share by $12,300,000 and $.93. In 1987 the company realized nonrecurring gains from the sales of portions of the company's cellular telephone interests and the company's remaining SportsChannel interests. The effect of these gains was to increase net income and earnings per share by $54,300,000 and $4.22.

1984	1983	1982	1981	1980	1979	1978
$984,303	$877,714	$800,824	$753,447	$659,535	$593,262	$520,398
$166,295	$132,415	$ 98,106	$ 65,714	$ 65,513	$ 80,421	$ 89,190
$ 85,886	$ 68,394	$ 52,413	$ 32,710	$ 34,335	$ 42,999	$ 49,720
—	—	—	—	—	13,531	—
$ 85,886	$ 68,394	$ 52,413	$ 32,710	$ 34,335	$ 29,468	$ 49,720
$ 6.11	$ 4.82	$ 3.70	$ 2.32	$ 2.44	$ 2.75	$ 3.06
—	—	—	—	—	.86	—
$ 6.11	$ 4.82	$ 3.70	$ 2.32	$ 2.44	$ 1.89	$ 3.06
$ .80	$ .66	$ .56	$ .50	$ .44	$ .36	$ .30
$27.17	$22.50	$18.32	$15.17	$13.40	$11.56	$11.15
14,050	14,195	14,153	14,077	14,068	15,609	16,232
$218,559	$190,616	$170,658	$135,002	$126,070	$112,168	$119,468
105,016	81,846	62,342	34,030	41,615	36,615	53,813
191,072	181,333	181,982	171,301	152,109	93,734	67,674
645,800	570,676	501,223	458,197	429,103	357,949	328,517
6,250	8,500	10,750	23,000	43,586	17,550	19,930
380,127	318,890	258,843	213,393	187,270	164,782	177,414
$ 85,886	$ 68,394	$ 52,413	$ 34,817	$ 34,335	$ 42,999	$ 44,675
$ 6.11	$ 4.82	$ 3.70	$ 2.47	$ 2.44	$ 2.75	$ 2.75

■ ***Newspaper Division***

The Washington Post—a morning daily and Sunday newspaper published in Washington, D.C. For the 12 months ending September 30, 1987, The Post's unaudited average circulation was 778,044 daily and 1,104,994 Sunday. The Post maintains 18 foreign, 6 national and 11 metropolitan news bureaus. It is printed at sites in Northwest and Southeast Washington and nearby Springfield, Virginia.

The Washington Post National Weekly Edition—Selected Post articles on politics and government, edited for a national audience, appear in this tabloid publication, which has a circulation exceeding 60,000.

The Herald—a daily newspaper published weekday afternoons and Saturday and Sunday mornings in Everett, Washington, 30 miles north of Seattle. The Herald's unaudited average circulation for the 12-month period ending September 30, 1987, was 55,255 daily and 59,753 Sunday.

The Washington Post Writers Group—an in-house syndicate that distributes 31 columns and features to newspapers throughout the United States. Several Pulitzer Prize winners are represented by the Writers Group: columnists David Broder, Ellen Goodman, George Will and Charles Krauthammer, and Berke Breathed, creator of the comic strip, "Bloom County," as are long-time Post columnists Richard Cohen, Colman McCarthy, William Raspberry and Tom Shales.

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

■ ***Post-Newsweek Stations***

Post-Newsweek Stations—the owner and operator of four network-affiliated VHF television stations, the PNS Washington News Bureau and the PNS documentary unit.

WDIV-4—an NBC affiliate in Detroit, Michigan, the 7th largest U.S. broadcasting market, with 1,697,400 television households.

WPLG-10—an ABC affiliate in Miami, Florida, the 16th largest U.S. broadcasting market, with 1,200,520 television households.

WFSB-3—a CBS affiliate in Hartford, Connecticut, the 23rd largest U.S. broadcasting market, with 868,100 television households.

WJXT-4—a CBS affiliate in Jacksonville, Florida, the 57th largest U.S. broadcasting market, with 442,400 television households.

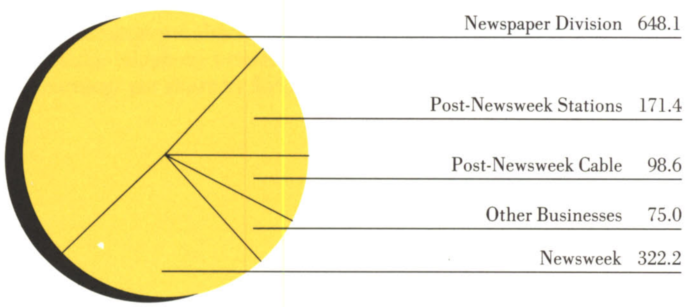
■ ***Post-Newsweek Cable***

Post-Newsweek Cable—Acquired in 1986 and headquartered in Phoenix, Arizona, Post-Newsweek Cable systems currently serve approximately 385,400 subscribers in 15 midwestern, western and southern states.

Principal communities served and the number of basic subscribers in each as of January 31, 1988:

Arizona	
Clifton	1,428
Cottonwood	1,502
Globe	4,356
Holbrook	1,517
Page	1,722
Safford	4,864
Showlow	6,210
Winslow	2,485
California	
Burlingame	6,061
Modesto/Oakdale	44,990
Santa Rosa	41,191
Union City	7,164
Illinois	
Highland Park	8,661
Indiana	
Greenwood	6,599
Iowa	
Sioux City	18,578
Kansas	
Abilene	2,486
Beloit	1,657
Clay Center	1,974
Concordia	2,363
Mississippi	
Clarksdale	6,724
Gulfport	19,377
Missouri	
Brookfield	2,147
Joplin	9,358
Kirksville	5,126
Trenton	2,736
Nebraska	
Norfolk	9,318
New Mexico	
Rio Rancho	4,418
Roswell	11,230
North Dakota	
Fargo	15,464
Ohio	
Akron	10,855
Oklahoma	
Altus	8,466
Ardmore	9,144
Frederick	1,712
Hobart	1,780
Idabel	2,260
Mangum	1,498
Miami	4,207
Ponca City	11,358
Vinita/Nowata	2,445
Tennessee	
Dyersburg	5,844
Texas	
Aransas Pass	3,763
Bonham	2,638
Childress	1,899
Lampasas	2,213
Lufkin	14,333
Memphis	955
Odessa	23,526
Port Lavaca	4,058
Sherman/Denison	19,707
Wellington	1,075
TOTAL	385,442

1987 Operating Revenues ($ in millions)



■ *Newsweek*

Newsweek—a weekly news magazine published in New York City. Its 1988 rate base is 3.1 million. Newsweek maintains 10 U.S. and 16 foreign news bureaus and has 9 domestic and 11 overseas advertising sales offices. The magazine is printed at 4 U.S. sites and in Ontario, Canada.

Two Newsweek executives were promoted to vice president: Jean Barish from director of personnel to vice president for administrative services, and Harold Shain from director of circulation to vice president/circulation.

Newsweek International—a weekly English-language news magazine published in New York City and circulated throughout the world. For 1988, Newsweek International has rate bases of 300,000 for its Atlantic edition, 320,000 for its Pacific edition (including 120,000 for the Bulletin with Newsweek, Australia's largest newsweekly) and 55,000 for its Latin America edition. Newsweek International maintains 12 sales offices, one in the U.S. and 11 overseas. The magazine is printed in Zurich, Hong Kong, Sydney and Hollywood, Florida.

Newsweek Japan (Newsweek Nihon Ban)—The first Japanese-language newsweekly, Nihon Ban has a circulation of 120,000. Launched in 1986, it is produced with TBS-Britannica, which translates and publishes the magazine.

■ *Other Businesses*

Stanley H. Kaplan Educational Centers—Headquartered in New York City, Kaplan Centers offer courses at more than 125 permanent centers throughout the United States and in Canada and Puerto Rico, and at about 500 other locations on a seasonal basis, to prepare students for a broad range of academic, professional and licensing examinations, including SAT, LSAT, GMAT, GRE, medical and nursing boards and bar reviews. Kaplan Centers also offer general skill-building programs such as speed reading. In 1987 enrollment exceeded 100,000 students.

Legi-Slate— a Washington, D.C., online information service covering Congressional legislation and voting records, federal regulatory activity and other government-related matters.

■ *Affiliates*

Los Angeles Times-Washington Post News Service, Inc. (50 percent of common stock)—a supplier of spot news and features to more than 600 newspapers, broadcast stations and magazines in 46 countries.

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

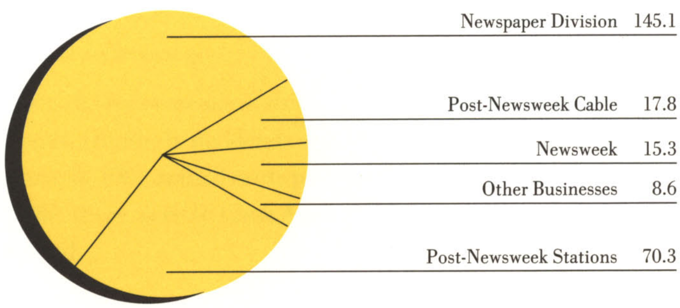
Bear Island Paper Company (one-third limited partnership interest)—a newsprint manufacturer in Doswell, Virginia.

Bear Island Timberland Company (one-third limited partnership interest)—an investor in timberland.

International Herald Tribune, S.A. (33⅓ percent of common stock)—a daily newspaper published in Paris, France. In 1987 the International Herald Tribune had an average daily paid circulation of 170,000 in 164 countries, served from printing sites in Paris, Zurich, London, Marseilles, The Hague, Singapore, Hong Kong, Tokyo and Miami.

Cowles Media Company (26 percent of common stock)—owner of the Minneapolis Star and Tribune and other smaller properties.

1987 Operating Income ($ in millions)



■ ***Board of Directors***

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Chairman of the Board
Chief Executive Officer

Richard D. Simmons (3)
President
Chief Operating Officer

Martin Cohen
Vice President

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

Donald E. Graham (3)
Vice President
Publisher, The Washington Post

Nicholas deB. Katzenbach (2)
Attorney; Former Senior Vice President, IBM Corporation

Robert S. McNamara (1)
Retired; Former President, The World Bank

Arjay Miller (1, 2)
Dean Emeritus, Stanford University Graduate School of Business

Barbara Scott Preiskel (1)
Attorney

Anthony J.F. O'Reilly
Chairman, President and Chief Executive Officer,
H.J. Heinz Company

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

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

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

■ ***Other Company Officers***

Joel Chaseman
Vice President
Chairman and Chief Executive Officer,
Post-Newsweek Stations

Alan R. Finberg
Vice President and Secretary

Ross F. Hamachek
Vice President-Planning and Development

Leonade D. Jones
Treasurer

Beverly R. Keil
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Gordon C. King, Jr.
Vice President

Guyon Knight
Vice President-Corporate Communications

Christopher M. Little
Vice President
President, Newsweek

Alan G. Spoon
Vice President-Finance

Edward N. Van Gombos
Vice President-Information Systems

Howard E. Wall
Vice President
President, Post-Newsweek Cable

■ ***Stock Trading***

The Washington Post Company Class B common stock is traded on the American Stock Exchange with the symbol WPOB.

■ ***Stock Transfer Agents and Registrar***

Morgan Shareholder Services Trust Company
30 West Broadway
New York, NY 10007-2193

The Riggs National Bank of Washington, DC
Corporate Trust Division
Post Office Box 2651
Washington, DC 20013

■ ***Shareholder Inquiries***

Communications concerning transfer requirements, lost certificates, dividends and changes of address should be directed to either transfer agent. Inquiries may be made by telephone to Morgan Shareholder Services Telephone Response Group at (212) 587-6515.

■ ***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, NW, Washington, DC 20071.

■ ***Annual Meeting***

The annual meeting of stockholders will be held on Thursday, May 12, 1988, at 9:00 a.m., at The Washington Post Company, 9th floor, 1150 15th Street, NW, Washington, DC.

■ ***Common Stock Prices and Dividends***

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

	1987		1986	
Quarter	High	Low	High	Low
January-March	$194	$153	$156	$115
April-June	222	177	178	145½
July-September	269	206	184½	128
October-December	266	150	158	141

Both classes of common stock participate equally as to dividends. Quarterly dividends were paid at the rate of 32 cents per share in 1987 and 28 cents per share in 1986. At February 22, 1988, there were 16 Class A and 1,898 Class B shareholders of record.

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The Washington Post Company
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