

abc

**American Broadcasting Companies, Inc.
1970 Annual Report**

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Year in Brief

President's Letter to Shareholders

	1970	1969
Revenues		
Broadcasting	\$523,221,000	\$507,807,000
Theatres	99,918,000	94,774,000
Records, motion pictures, publishing and others	125,123,000	118,343,000
Total	<u>\$748,262,000</u>	<u>\$720,924,000</u>
Earnings-total		
Operations:		
Before income taxes	\$ 35,130,000	\$ 39,656,000
Provision for income taxes	19,151,000	22,017,000
	<u>\$ 15,979,000</u>	<u>\$ 17,639,000</u>
Capital and non-recurring gains (losses) net	818,000	(878,000)
	<u>\$ 16,797,000</u>	<u>\$ 16,761,000</u>
Earnings-per share*		
Operations	\$ 2.25	\$ 2.44
Capital and non-recurring gains (losses) net .....	.12	(.12)
	<u>\$ 2.37</u>	<u>\$ 2.37</u>
Dividends		
Total	\$ 8,503,000	\$ 7,675,000
Per share	\$ 1.20	\$ 1.07
Financial position at year end		
Working capital	\$188,225,000	\$177,140,000
Property and equipment, net	146,148,000	133,872,000
Total assets	479,045,000	468,419,000
Long-term debt	177,393,000	163,101,000
Stockholders' equity:		
Total	172,044,000	163,376,000
Per share	24.27	23.10
Number of common shares outstanding at year end	7,088,903	7,072,795
Average number of common shares outstanding	7,083,000	7,224,000
General		
Stockholders of record	17,248	15,586
Theatres	434	418
ABC-TV Network primary affiliates	168	157

Net operating earnings for 1970 were \$15,979,000 or \$2.25 a share compared with \$17,639,000 or \$2.44 a share for 1969. Net earnings, including capital and non-recurring transactions, were \$16,797,000 or \$2.37 a share compared with \$16,761,000 or \$2.32 a share for the prior year.

The sluggish economic environment adversely affected fourth quarter results, particularly in the television network, and this has continued into the first quarter of 1971. Despite the economic slowdown, operating earnings for the first nine months of 1970 were about equal to those of the like period of 1969.

Revenues were \$748,262,000 for 1970 compared with \$720,924,000 for the prior year.

In broadcasting, the television and radio owned stations showed improved sales and earnings over the prior year. The radio network showed improved sales and operated profitably for portions of the year but not for the year as a whole. The television network, on slightly lower sales, showed a greater loss.

There were a number of favorable developments highlighting our broadcast operation during the year:

* Assuming full conversion of convertible debentures and exercise of stock options, fully diluted earnings from operations and net earnings for 1970 would be \$2.08 and \$2.18 and, for 1969, \$2.23 and \$2.13 per share, respectively.

The television network continued to improve its overall competitive prime-time position in terms of audience acceptance for its programming, although daytime audience levels were somewhat lower than in the previous year. Notable in sports was the excellent audience response to the network's innovative Monday evening programming of professional football games this past fall.

Our five owned television stations improved upon their excellent performance of the prior year. A notable achievement was the emergence of their local news programs as truly competitive with those of the other leading stations in several of their markets.

Our four radio network program services broadened their structure of affiliated stations, which exceeded 1250 at year end.

Our owned AM radio stations maintained their leadership position as the most listened to group of radio stations in the country. During the year, a separate division was established for the owned FM stations to develop more fully their potential in this expanding medium.

ABC News continued to provide comprehensive and balanced world-wide news coverage in its programming on both television and radio networks. Audience and station acceptance has increased and the television evening news was further enhanced with the experienced newsman Harry Reasoner joining Howard K. Smith.

Our broadcast division maintained its excellent performance in responsibly serving local communities through our stations and the public at large through our networks with meaningful public affairs programming.

In our non-broadcast operations, theatre revenues increased, aided by the addition of new theatres, but earnings were off somewhat, reflecting the lesser number of quality pictures released during the year and the higher cost of product. The portfolio of theatres was further strengthened with thirty-two theatres added and sixteen divested, for a year end total of 434.

Motion picture production was not profitable. Of the seven pictures released during the year, three pictures had disappointing box-office results and were written down to realizable value. The other pictures have done and are continuing to do well, with two pictures released toward the latter part of the year showing particularly strong box-office appeal.

Results for our phonograph record manufacturing division were favorable and about comparable with the prior year. Results for the rack jobbing division did not equal 1969's performance.

In light of the elimination of cigarette advertising in broadcasting and the state of the economy, the company's cost structure was thoroughly reexamined and cost saving measures were initiated in 1970. These measures were expanded and intensified early in the first quarter of 1971. In this regard, we are maintaining the quality and excellence of our entertainment, news and sports programming although on a somewhat reduced level. We expect that earnings in the first quarter of 1971 will be substantially lower than the like period of last year principally due to the elimination of cigarette advertising and the state of the economy. For the same reason, we expect that second quarter results will be somewhat lower than the like period of 1970, with a smaller percentage of decline than in the first quarter. However, with respect to the last half of the year, we are reasonably optimistic, particularly for the fourth quarter in view of the FCC three-hour prime-time limitation of network programming which becomes effective with the new fall television season. This change should provide a firm economic base for our broadcast operations, particularly for the television network, and should provide further impetus to business going into the subsequent year. This impetus would be further enhanced by a stronger economy.

In further strengthening the management structure and developing younger executives for greater responsibilities, Elton Rule, formerly president of the television network, was elected a member of the Board of Directors and president of the broadcast division. Other key promotions were made, all from within the company and principally in the broadcast division.

In conclusion, I would like to express my appreciation to our Board of Directors and our employees for their devoted efforts on behalf of the company and to our shareholders for their continued support.

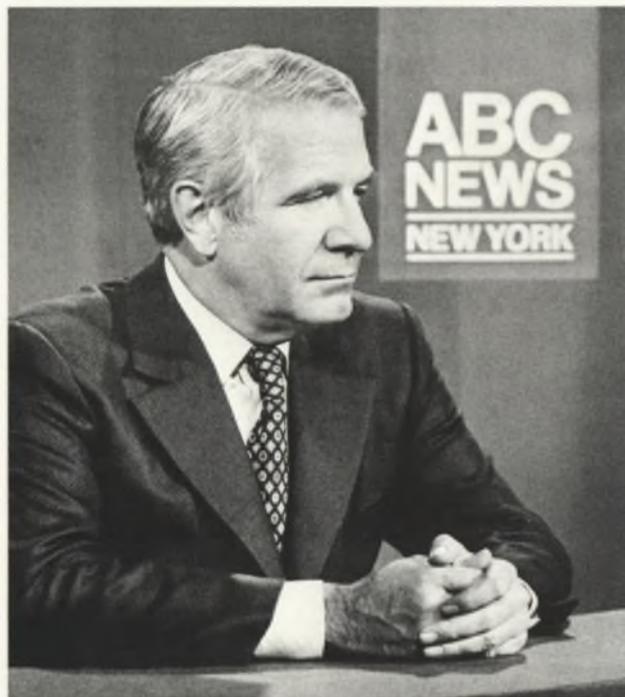
Sincerely,



President

March 12, 1971

Broadcasting



ABC News For ABC News, 1970 was a year of growth both in competitive news coverage and in audience.

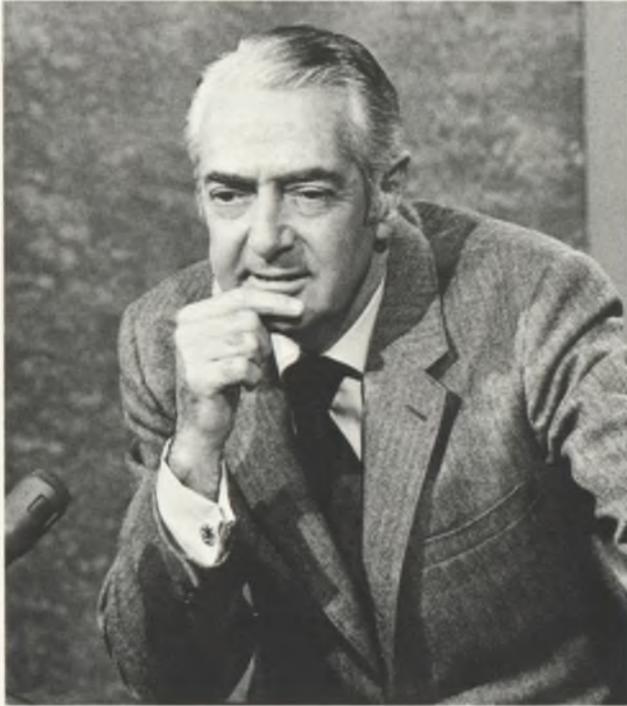
The addition in December, 1970 of Harry Reasoner as co-anchorman with Howard K. Smith of the network television "ABC Evening News" is expected to have a continuing, long-term positive effect on the already encouraging audience growth of that program. Mr. Reasoner is considered to be one of the most able and experienced newsmen in electronic journalism.

ABC Radio News, the largest radio network news service in the country, provided the 1254 affiliates of the four ABC Radio Network program services with 96 newscasts a day. Radio network news commentators with their own regularly-scheduled programs included Frank Reynolds, Howard K. Smith, Harry Reasoner, Paul Harvey, Edward P. Morgan and Louis Rukeyser.

ABC received widespread commendation throughout the country as the first television network to react to the Apollo 13 crisis in space. Commercial programming was pre-empted as ABC News and its Science Editor Jules Bergman gave early recognition and the most comprehensive television coverage of the evolving emergency in space.

Election Night 1970 coverage resulted in a substantial audience increase over the last off-year election in 1966.

Harry Reasoner. (left), veteran television newsman joined award-winning Howard K. Smith as co-anchorman of the network's "ABC Evening News."



International news, including events in the tense Middle East, was covered throughout the year by ABC News correspondents.



In documentary television programming, the widely-acclaimed series "Now" dealt with major contemporary issues of our times. These included probing the anatomy of racial prejudice in a touching experiment in a midwestern classroom ("Eye of the Storm"), examining the potent new force in the Middle East ("Palestine: New State of Mind"), an in-depth look at the views of the so-called 'silent majority' in Grand Island, Nebraska ("Straight from the Heartland"), and an examination of the anguishing problem of American war prisoners ("POW: Next of Kin").

Hour-long documentaries included a three-part series on the environment, "Mission Possible," which showed not how bad the ecology crisis was but what could be done to make it better, and "This Land is Mine," a program about people and their love for the land. "The Draft: Who Serves?" and "The Stakes in Asia" examined two additional major concerns of Americans today. In addition, "The Undersea World of Jacques Cousteau" specials continued their success this past year with programs about underwater life.

ABC News' regular radio and television interview program, "Issues and Answers," featured an impressive roster of news-making guests throughout the year, including the heads of state of Jordan and Israel, other major political figures, Congressional and Administration leaders and other opinion-leaders.

The popular "Discovery," ABC News' award-winning children's series, continued to delight and inform its youthful audiences throughout the year. "Directions," the frequently-cited ABC News' religious series, carried on its tradition of presenting a variety of religious views and values through a variety of arts, including dance, song, drama and documentary films.

ABC News continued to provide taped and filmed news stories for local use to approximately one hundred domestic and twenty foreign television stations subscribing to its syndication service.

NFL Football was a major innovation in weekly nighttime fall programming.



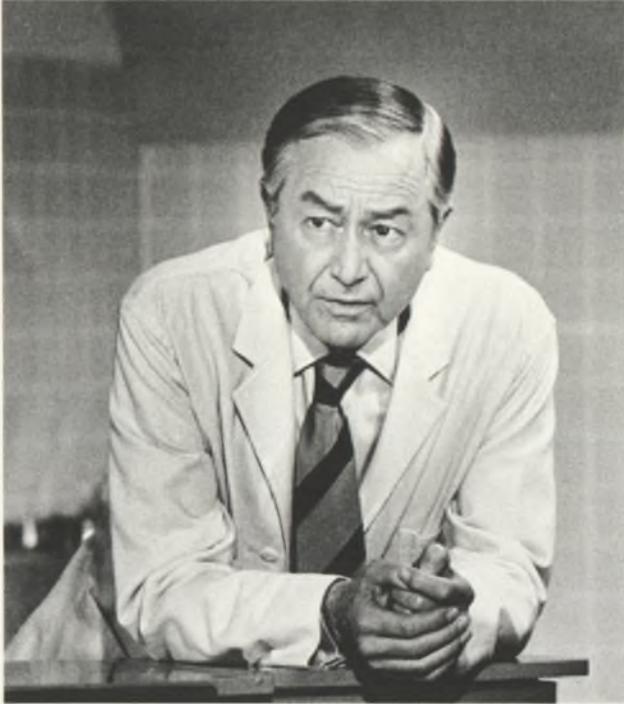
ABC Television Network In 1970, the ABC Television Network continued to make improvement in its competitive prime-time evening ratings position. The network continued many very popular programs and added a number of successful new shows in September, 1970.

"Marcus Welby, M.D." has become clearly one of the most popular programs on television and the network's other Tuesday evening programs, "Movie of the Week" and "The Mod Squad," have improved on their already outstanding success. On Sunday, "The F.B.I." enjoyed its greatest popularity in its six years on the air and "The ABC Sunday Night Movie" continued to attract very large audiences. Other established favorites included "Room 222," "The Courtship of Eddie's Father," "Bewitched" and "The Brady Bunch." The addition of "The Partridge Family" is the key to the network's increasingly popular lineup of comedy programs on Friday night.

In the fall of 1970, the network introduced NFL Football games on Monday night, a major innovation in prime-time programming. The games substantially improved the network's competitive prime-time position on Monday and were widely acclaimed for the excellence of their coverage. The series was also credited in the press for its extraordinary impact on viewing patterns and even on the life styles of viewers.

In January, 1971, the network introduced several new programs including "The Smith Family," a half-hour drama starring Henry Fonda; "Alias Smith and Jones," a new Western program with comedy overtones; and a one-hour variety program starring the talented Pearl Bailey. The network also returned "Love American Style" to its successful hour format on Friday evening.

Robert Young stars in "Marcus Welby, M.D.," one of television's most popular series.



Dick Cavett, personable host to a variety of well-known and unusual guests on his late evening program.



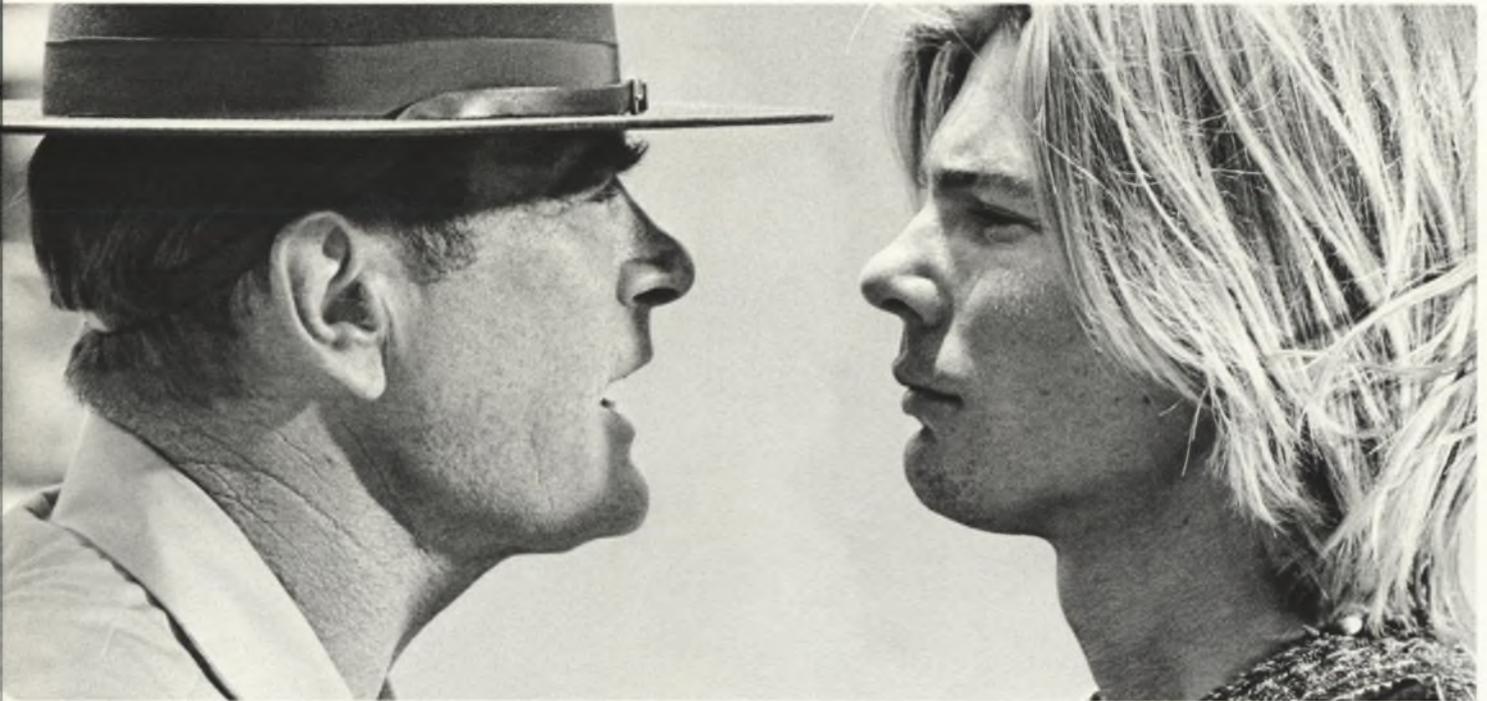
The January schedule, which returned two and a half hours of prime-time to the network affiliates, was aimed at merging the network's strengths, further improving audience growth and putting the network in a more fully competitive position for the fall. These steps were taken with consideration for the loss of cigarette advertising revenue for all broadcasters beginning January 2, 1971 and in anticipation of all networks cutting back their prime-time programming starting with the coming new fall season as a result of an FCC ruling. This rule provides that television stations in the top fifty markets may not accept more than three hours of network prime-time programming per night.

"The Dick Cavett Show," the network's late night entertainment and talk program introduced in December, 1969, received much critical acclaim throughout the year and has recently shown encouraging audience growth.

In children's programming, an area of increasing emphasis, plans were announced for a new one-hour Saturday morning program of exceptional quality titled "Curiosity Shop." Scheduled to premiere in the fall of 1971, the new series will combine animation, film, live action and music. It is anticipated that the program will be the springboard for future projects aimed at entertaining, stimulating and educating our young viewers.

The television network's Monday through Friday daytime program lineup was expanded during the year by the addition of two new daytime serials. Such programs take time to become established and overall daytime audience levels were somewhat lower than in the previous year.

"The Movie of the Week," the popular series of quality stories and performers. (below: "Tribes," starring Darren McGavin.)



ABC Sports maintained a leading position in its field. In addition to the "NFL Monday Night Football" series, other sports presentations on the network increased their overall high viewing levels – NCAA College Football, NBA Basketball, "The American Sportsman," "Professional Bowlers Tour," major golf tournaments, auto racing events and "ABC's Wide World of Sports." The network is extremely proud that it will present coverage of the 1972 Summer Olympic Games from Munich, Germany.

At the close of the year, the network had 168 primary affiliates, an increase of eleven over 1969. Despite this increase, the network has a coverage deficiency compared with that of the other two networks.

Sixty-three awards and citations, including thirteen "Emmys" from the National Academy of Television Arts and Sciences, were presented to the network's programs and performers in 1970. "Room 222" and "Marcus Welby, M.D." each received three "Emmys" with "Marcus Welby, M.D." and its stars singled out for a total of thirteen additional awards and citations.

ABC Owned Television Stations The ABC Owned Television Stations continued their notable growth in sales, news and special programming and community acceptance.

A most significant factor in the stations' growth has been the emergence of their nightly news programs as truly competitive with those of the other leading stations in several of their markets. The stations' news programs were honored with a number of awards including an "Emmy" award to WABC-TV in New York and the Michigan and Illinois Associated Press awards to WXYZ-TV in Detroit and WLS-TV in Chicago.

All five stations telecast a daily morning program dedicated to community involvement. Because of their use of guests of timely and local significance, and of the two-way telephone connection with the audience, these morning shows provide an excellent exposure and forum for important community issues including such pressing problems as drug addiction, pollution, education, housing and transportation.

WXYZ-TV's "Blacktalk" reflects the concerns of the black community in Detroit.



Special programs reflecting community concern were produced and telecast by the stations during the year. Among these were KABC-TV's award-winning "A Child's Garden of Pollution," a graphic study of environmental problems; and KGO-TV's "The Magic Electronic Rock Festival," a unique three-and-one-half hour prime-time special on drug abuse. Station KABC-TV also undertook two ambitious programs in which a studio audience, in a town meeting format, discussed vital issues of the day with guest experts and officials. They were titled "Crisis in America/Crisis in California" and were telecast in two three-hour segments.

All stations continued their policy of editorializing on issues of local importance. In the aggregate, the stations presented over 600 different editorials, aired about 2500 times, and provided the opportunity for appropriate rebuttals. The

stations also dealt with issues of community interest in multi-part documentaries which were telecast over the course of a week as part of their local news programs. In this very effective program form, for example, WXYZ-TV in Detroit looked at the problems of the aged; WABC-TV presented a five-part pictorial study of New York's lower East Side, a changing melting pot in a changing metropolis; and KABC-TV in Los Angeles dealt with the issue of child abuse in a documentary which received a local "Emmy" award.

In 1970, each station continued to provide programs dealing with the problems and interests of minority groups of their urban populations. Under the stations' supervision and control, members of these groups helped prepare, produce and present their own programs. These series are: "Like It Is" on WABC-TV; "Haney's People" and "Blacktalk" on WXYZ-TV; "Black on Black" and "Oiga, Amigo!" on WLS-TV; "Angie's Garage," directed to the Mexican-Americans of Southern California, on KABC-TV; and "On the Spot" on KGO-TV.

KABC-TV's "A Child's Garden of Pollution" dramatically depicted the dangers of despoiling the environment.



On-air rapport between newsmen helped increase the popularity of WABC-TV's "Eyewitness News."



In their markets, the stations continued to produce a substantial amount of live local programming. In addition, these stations have developed a number of attractive local personalities who participate in these productions.

ABC Television Spot Sales, which represents the five owned television stations in the sale of advertising on a national basis, posted record sales for the ninth consecutive year.

ABC Films ABC Films, the television program distribution subsidiary, again increased its sales of programming to advertisers and television stations around the world. "The Fugitive" and "N.Y.P.D." were released for domestic distribution for the first time. Several other network program series went into foreign distribution and helped account for the record number of overseas sales to stations in more than ninety countries.

The FCC has issued a rule which would prevent the company from engaging in domestic syndication and would restrict its foreign distribution activities. The effective date of this rule, October 1, 1971, has been stayed by the Commission pending its further order and this matter is presently before the Court on appeal.

ABC International ABC has minority interests in twelve foreign companies operating television stations principally in Latin America and the Far East and in four foreign production companies. During the year, the company disposed of its interests in companies in two foreign countries, reducing its investments in this area and reflecting its current policy of achieving maximum liquidity and concentrating on those foreign interests which seemed most promising for the future.

During the past year, ABC International was instrumental in the distribution and sale of the Annual Academy Awards presentation to associate foreign television stations, a program which enjoyed a tremendous world-wide audience. It also coordinated the live transmission via satellite to a number of Latin American countries of the opening ceremonies of Expo '70 from Osaka, Japan and the Grand Prix auto race from Monza, Italy. Both events, sponsored by international advertisers, promise to be forerunners of similar international broadcasts in the years ahead.

From ABC Radio News' "Newswatch" control, affiliates receive broadcasting's only overnight news protection service for major happenings.



ABC Radio Network The ABC Radio Network made commendable progress in 1970 with substantial increases in revenues and the number of affiliated stations. It was the third year of improving operations for the four distinct and separate radio network program services, each with a different lineup of affiliated stations throughout the country.

Affiliate growth in the top national markets reached a new high with each network being represented in from 90 to 96 of the top 100 markets. At year end, 1254 stations were affiliated with the four network services; 279 stations with the Contemporary Network (46 new affiliates); 447 stations with the Information Network (102 new affiliates); 314 stations with the Entertainment Network (65 new affiliates); and 214 stations with the FM Network (44 new affiliates).

The increase in advertising revenues came primarily from new advertisers. During the year, 72 new advertisers had bought schedules on one or more of the network services. Many of these were long-sought packaged goods advertisers returning to radio to make use of the demographic targeting afforded them.

The strong and steady growth in the number of affiliates can be partly attributed to the continuing excellence of ABC Radio News. The country's largest radio-only news gathering organization provided the stations with the most complete and comprehensive news in network radio. Late in the year, ABC Radio News initiated "Newswatch," the industry's only 24-hour news protection service for affiliates.

It was also a year of additional recognition and honors. The Overseas Press Club Award for "Best Radio Reporting from Abroad" went to ABC Radio News Correspondent Steve Bell. The Alfred P. Sloan Award for Highway Safety was presented to ABC Radio for its outstanding safety campaign on all four network services.

ABC Owned Radio Stations 1970 was a year of innovation and new achievements at the ABC Owned Radio Stations. New commitments were made for FM, and an increased emphasis on retail broadcast revenue added measurably to record sales. As in the previous year, the ABC Owned AM Stations continued to maintain their leadership position as the most listened to group of radio stations in the country.

Governor Reagan meets with KABC radio staff to provide insight on statewide issues.



A separate FM Stations division has been established, with each of the seven FM stations developing its own management, sales, programming, news and community affairs staffs. The call letters also have been changed in order to create their separate identity from the AM stations. While FM radio today is not a source of great revenue to the company, we believe it has substantial future potential.

Recent increases in retail advertising have contributed substantially to the growth of our stations. The division offers expert consulting services to local retailers in each of our seven radio markets.

The strength and success of the ABC Owned AM Stations has been built upon community involvement, news, service and entertainment. During the year, the growing problem of drug abuse was explored by WABC New York, KQV Pittsburgh, and KABC Los Angeles. WABC's "Drug Scene" consisted of a series of anti-drug statements recorded by young people, many of whom were former drug addicts. The program was researched and developed with the assistance of Federal and municipal authorities. It won the coveted Ohio State University award and was used by the

WABC's weekly program, hosted by Congressmen Badillo and Rangel, explores New York City's problems and how Washington acts to solve them.



White House during a national conference for radio station management as an example of community involvement in the drive against drug use. KQV also received an Ohio State University award for its anti-drug program, while KABC devoted an entire twenty-four hour broadcast day to the subject, featuring comments by listeners and leading authorities.

Another problem of our technological society which has concerned the stations is air pollution. KGO San Francisco promoted a "Car Pool Day" which resulted in a considerable elimination of air pollutants and a noticeable decrease in traffic into the city. In Houston, KXYZ produced a series of special reports on the controversial "lead in gasoline" issue. Spokesmen from the major petroleum companies and leading air conservationists discussed the problem from their respective viewpoints.

Another community service is one which assists our less fortunate citizens. WLS Chicago and WXYZ Detroit offered that kind of service in "Project: Joey," a campaign which collected thousands of Christmas toys for needy children.

Non-Broadcasting

Lobby of new Phipps Plaza Theatre in Atlanta, Georgia.



ABC Theatres Theatre revenues increased, aided by the addition of new theatres, but earnings were somewhat less than the previous year, reflecting the lesser number of quality pictures released and the higher cost of product.

The constant and progressive upgrading of theatres has been an important factor in our operations. This policy reflects the addition of modern, well-equipped theatres, principally in growth suburban areas, as well as the disposition of properties that are or may become marginal.

During the past year, thirty-two theatres were acquired and sixteen were divested. Approximately twenty-seven theatres are in various stages of construction. Most of these are expected to be in operation before the year end, including the two motion picture theatres in the ABC Entertainment Center in Century City in Los Angeles. Giving effect to the acquisitions and divestitures during 1970, our company, through subsidiaries, had interests in 434 theatres at the year end.

ABC Pictures Motion picture production was not profitable in 1970. Seven pictures were released during the year. The results of three pictures, particularly "Too Late the Hero" and "Suppose They Gave a War and Nobody Came," were disappointing and were written down to realizable value. The other pictures, "They Shoot Horses, Don't They?" and "Jenny," have done and are continuing to do well, with two pictures released toward the latter part of the year showing particularly strong box-office appeal, "Lovers and Other Strangers" and "Song of Norway."

Pictures presently scheduled for future general release include:

"The Last Valley," an epic drama about the Thirty Years War, starring Michael Caine and Omar Sharif. It was written, produced and directed by James Clavell, the well-known writer-director whose last feature was "To Sir With Love."

"Zachariah," a youth-oriented 'rock western,' featuring a number of today's most popular recording groups.

ABC Pictures' delightful family musical "Song of Norway"



Emitt Rhodes, popular new recording artist on Dunhill Records.



"The Grissom Gang," a suspense-filled underworld drama set against the turbulent thirties. Starring Kim Darby, Tony Musante, Scott Wilson and Connie Stevens, it is produced and directed by Robert Aldrich.

"The Touch," a compelling love story written, produced and directed by Ingmar Bergman. Starring Elliot Gould, Bibi Anderson and Max Von Sydow, it is Bergman's first motion picture in English.

"The Straw Dogs," a contemporary drama starring Dustin Hoffman and directed by Sam Peckinpah.

"Kotch," a warm, human comedy starring Walter Matthau and directed by Jack Lemmon.

"Cabaret," based upon the hit Broadway show and starring Liza Minelli and Joel Grey. The picture will be co-financed with Allied Artists.

ABC Records ABC Records, which manufactures records under its various labels, reported increased sales. Operating results were favorable and about comparable with 1969.

ABC Records celebrated its fifteenth anniversary in 1970 with a number of albums at the top of the popularity charts and with three single records and six albums (which reached a million dollar sales) being certified as gold records by the Record Industry Association of America.

During the year, ABC Records released the motion picture soundtracks of "Song of Norway" and "Lovers and Other Strangers" and the original cast recording of the successful Broadway show "Applause." It developed best-selling contemporary recording artists such as The James Gang and continuing hit records by established favorites such as B. B. King and Ray Charles. Dunhill Records continued to produce top hits by already established acts such as Three Dog Night and Steppenwolf and introduced Emitt Rhodes with a dynamic campaign that quickly established him as a best-seller. At the end of

World-renowned soprano Beverly Sills records on Westminster Records.



1970, the division's free form jazz label, Impulse, placed three out of ten albums at the top of the popularity charts, with Pharoah Sanders dominating as a favorite. Three albums by coloratura soprano Beverly Sills on the Westminster label placed in the best-selling classical charts, and the introduction of the Westminster Gold Series was well received. Two complete operas were recorded, "Lucia Di Lammermoor" and "Manon," both starring Beverly Sills.

The record division is being consolidated in Los Angeles, California, for greater efficiency as well as economy.

Results for ABC Record and Tape Sales Corp. did not equal 1969's performance. Consequently, during 1970, that company devoted its primary effort to further integrating the recently-acquired independent rack jobbing operations and to increasing the efficiency of its operation. The company is now comprised of twelve strategically located offices and warehouses to handle national distribution to retail outlets. Operations include automated warehouse facilities and computerized accounting reporting and sales analysis. As a result, the company is more favorably positioned to share in the growing market of leisure time commodities such as pre-recorded tapes, cassettes and other audio-visual products.

Other Activities Our three agricultural publications, *Prairie Farmer*, *Wallaces Farmer*, and *Wisconsin Agriculturist*, continued to place among the nation's leading agricultural publications in editorial coverage and advertising lineage. Use of four color printing expanded and all magazines now possess computerized mailing lists.

Silver Springs and Weeki Wachee Spring, the two scenic attraction centers in Florida, also continued to operate successfully although the latter's business was somewhat affected by a three-week strike. With their glass-bottom boat rides and underwater mermaid shows, enhanced by the unique setting of natural springs, these long-established and well-known centers expect to continue to draw on the increasing number of tourists projected by the State of Florida. ABC Marine World, near San Francisco, completed its second season. Its progress in establishing itself has been slower than anticipated. The sixty-acre park now features over fifteen different activities, including performing whales and dolphins, a water ski and boat show, and a popular new porpoise petting pool.

Financial Review

Revenues Revenues increased to a record level of \$748,262,000 for the 52 weeks ended January 2, 1971. Revenues for the 53-week prior year amounted to \$720,924,000. All divisions of the Company participated in this increase. In the broadcasting division, revenues increased \$15,414,000 to a record level of \$523,221,000; theatre revenues increased by \$5,144,000 to \$99,918,000; revenues in the other divisions increased by \$6,780,000 to \$125,123,000.

Earnings Earnings from operations were \$15,979,000, or \$2.25 per share in 1970 compared with \$17,639,000, or \$2.44 per share in 1969. On a fully diluted basis, per share earnings from operations were \$2.08 in 1970 and \$2.23 in 1969.

Net capital and non-recurring gains of \$818,000, or 12¢ per share, represent net extraordinary gains of \$1,154,000 less estimated federal income taxes of \$336,000. The principal gains were \$618,000 from the disposition of foreign investments and \$399,000 from the disposition of theatre properties, partially offset by a \$150,000 write-off of intangible costs which are no longer considered to have continuing value. In 1969 the Company reported a net non-recurring loss of \$878,000 or 12¢ a share, which represented an increase in the reserves for foreign investments and a write-off of certain intangible costs, partially offset by a gain from the sale of a foreign investment.

Total net earnings for the year 1970 amounted to \$16,797,000 or \$2.37 per share compared with \$16,761,000 or \$2.32 per share in the prior year.

Cash Dividends Cash dividends of \$1.20 per share were paid during the year 1970. This represented a 12% increase over the \$1.07 per share paid in the prior year. Total dividends paid in 1970 amounted to \$8,503,000 compared with \$7,675,000 in 1969.

Stockholders' Equity Stockholders' equity increased to \$172,044,000 or \$24.27 per share at January 2, 1971 from \$163,376,000 or \$23.10 per share at the end of 1969.

Long-term Debt In December 1970, the Company negotiated a \$32,500,000 five-year term loan from four banks at a fluctuating interest rate $\frac{1}{4}$ % above prime. The proceeds of this loan were used to repay existing bank loans of \$9,884,000 from the same four banks and for general corporate purposes. Other long-term borrowings during the year amounted to \$12,448,000.

Other long-term debt repayment during the year amounted to \$20,767,000.

Further information about the Company's long-term debt is set forth in Note E to the consolidated financial statements.

Property and Equipment Property and equipment expenditures of \$29,273,000 comprise \$13,676,000 applicable to the broadcast division, principally for the acquisition of additional buildings and other television studio facilities in New York City; \$13,667,000 related to theatres; and \$1,930,000 applicable to other operations. Depreciation for the year amounted to \$16,129,000 of which \$9,972,000 related to the broadcasting division, \$4,704,000 to theatres, and \$1,453,000 to all other operations.

Working Capital During the year working capital increased by \$11,085,000 to \$188,225,000 at January 2, 1971. The ratio of current assets to current liabilities at year end was 2.8 to 1 compared with 2.5 to 1 at the end of the previous year. A statement of source and application of funds is included with the consolidated financial statements.

Consolidated Balance Sheet

Assets

	<u>January 2, 1971</u>	<u>January 3, 1970</u>
Current Assets:		
Cash	\$ 21,405,000	\$ 22,931,000
Marketable securities, at cost (approximate market)	21,723,000	48,841,000
Receivables, less allowance for doubtful accounts of \$3,255,000 in 1970 and \$3,334,000 in 1969	108,103,000	96,417,000
Television and theatrical motion picture rights, production costs and advances, less amortization (Notes B, E and K) ...	127,948,000	107,533,000
Inventory of merchandise and supplies, at cost or less	13,336,000	13,774,000
Prepaid expenses (Note D)	2,511,000	5,470,000
Total current assets	<u>295,026,000</u>	<u>294,966,000</u>
Investments, at cost, less reserve of \$3,911,000 in 1970 and \$7,451,000 in 1969 (Notes C, F and I)	<u>6,875,000</u>	<u>9,427,000</u>
Property and Equipment, at cost (Note D):		
Land	29,547,000	25,048,000
Buildings	74,667,000	72,754,000
Operating equipment	77,691,000	76,597,000
Leasehold improvements	30,998,000	19,618,000
	<u>212,903,000</u>	<u>194,017,000</u>
Less-accumulated depreciation and amortization	<u>66,755,000</u>	<u>60,145,000</u>
	<u>146,148,000</u>	<u>133,872,000</u>
Other Assets:		
Intangibles, at cost (Notes A and I)	22,826,000	22,881,000
Deferred charges	2,093,000	2,249,000
Other assets (Note D)	6,077,000	5,024,000
	<u>30,996,000</u>	<u>30,154,000</u>
	<u>\$479,045,000</u>	<u>\$468,419,000</u>

See accompanying notes to consolidated financial statements.

American Broadcasting Companies, Inc. and Subsidiaries

Liabilities and Stockholders' Equity

	<u>January 2, 1971</u>	<u>January 3, 1970</u>
Current Liabilities:		
Accounts payable and accrued expenses	\$ 91,828,000	\$ 98,784,000
Federal income taxes (Note D)	4,878,000	11,041,000
Loans payable within one year (Note E)	10,095,000	8,001,000
Total current liabilities	<u>106,801,000</u>	<u>117,826,000</u>
Long-term Liabilities:		
5% convertible subordinated debentures (Note E)	49,972,000	49,977,000
Loans payable (Note E)	127,421,000	113,124,000
Other	18,004,000	19,521,000
	<u>195,397,000</u>	<u>182,622,000</u>
Deferred Income	4,803,000	4,595,000
	<u>307,001,000</u>	<u>305,043,000</u>
Stockholders' Equity (Notes F and G):		
Common stock, par value \$1 per share, authorized 20,000,000 shares	7,341,000	7,331,000
Capital in excess of par value	66,561,000	66,343,000
Retained earnings	105,575,000	97,281,000
	<u>179,477,000</u>	<u>170,955,000</u>
Less-common stock held in treasury, at cost	7,433,000	7,579,000
	<u>172,044,000</u>	<u>163,376,000</u>
Commitments and Contingent Liabilities (Note K).		
	<u>\$479,045,000</u>	<u>\$468,419,000</u>

Statement of Consolidated Earnings

	1970 (52 weeks)	1969 (53 weeks)
Revenues:		
Broadcasting	\$523,221,000	\$507,807,000
Theatres	99,918,000	94,774,000
Records, motion pictures, publishing and others	125,123,000	118,343,000
	<u>748,262,000</u>	<u>720,924,000</u>
Expenses:		
Operating expenses and cost of sales	590,893,000	570,993,000
Selling, general and administrative	98,302,000	87,074,000
Depreciation and amortization of property and equipment (Note D)	16,129,000	15,515,000
Interest	7,808,000	7,686,000
	<u>713,132,000</u>	<u>681,268,000</u>
Earnings from operations before income taxes	<u>35,130,000</u>	<u>39,656,000</u>
Provision for income taxes (Note D):		
Federal	15,721,000	18,900,000
State, foreign and local	3,430,000	3,117,000
	<u>19,151,000</u>	<u>22,017,000</u>
Earnings from operations before extraordinary items	15,979,000	17,639,000
Capital and non-recurring gains (losses), net of applicable federal income tax (Note I)	<u>818,000</u>	<u>(878,000)</u>
Net earnings for the year	<u>\$ 16,797,000</u>	<u>\$ 16,761,000</u>
Earnings per average share of common stock (Note J):		
From operations before extraordinary items	\$ 2.25	\$ 2.44
Capital and non-recurring gains (losses) .....	.12	(.12)
Net earnings for the year	<u>\$ 2.37</u>	<u>\$ 2.32</u>
Fully-diluted earnings per average share of common stock (Note J):		
From operations before extraordinary items	\$ 2.08	\$ 2.23
Capital and non-recurring gains (losses) .....	.10	(.10)
Net earnings for the year	<u>\$ 2.18</u>	<u>\$ 2.13</u>

See accompanying notes to consolidated financial statements.

American Broadcasting Companies, Inc. and Subsidiaries

Statement of Consolidated Retained Earnings

	1970	1969
Balance at beginning of year.....	\$ 97,281,000	\$ 87,825,000
Net earnings for the year.....	16,797,000	16,761,000
Retained earnings of companies acquired.....	—	370,000
	114,078,000	104,956,000
Deduct dividends on common stock — (per share — 1970 \$1.20; 1969 \$1.07).....	8,503,000	7,675,000
Balance at end of year.....	\$105,575,000	\$ 97,281,000

Statement of Consolidated Source and Application of Funds

	1970	1969
Source:		
Net earnings.....	\$ 16,797,000	\$ 16,761,000
Depreciation and amortization (Note D).....	16,129,000	15,515,000
Long-term borrowings.....	44,948,000	41,160,000
Reduction in investments and advances.....	2,552,000	2,102,000
Non-current deferred income taxes — net.....	1,253,000	1,986,000
Book value of disposals of property and equipment.....	868,000	1,386,000
Sale of stock under option agreements.....	222,000	770,000
Other — net.....	—	4,071,000
	82,769,000	83,751,000
Application:		
Payment of cash dividends.....	8,503,000	7,675,000
Purchases of property and equipment.....	29,273,000	21,365,000
Repayment of loans payable.....	30,651,000	21,573,000
Purchase of treasury shares.....	—	7,579,000
Other — net.....	3,257,000	—
	71,684,000	58,192,000
Increase in working capital.....	\$ 11,085,000	\$ 25,559,000

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Note A—Consolidation Policy The consolidated financial statements include the accounts of American Broadcasting Companies, Inc. and its majority-owned domestic subsidiaries.

Intangibles as shown in the accompanying consolidated balance sheet represent the excess of cost over the underlying net tangible assets at dates of acquisition of companies purchased, all of which occurred prior to 1970. Such intangibles are considered to be of continuing value and therefore are not being amortized.

Note B—Television and Theatrical Motion Picture Rights, Production Costs and Advances Television program rights, production costs and advances of \$77,359,000 primarily represent amounts paid less amortization based on usage for network programs and rental periods for local station programs. Management estimates that a major portion of the costs will be charged to operations within one year and substantially all of the balance in the subsequent year.

Theatrical motion picture costs of \$50,589,000 are stated at the lower of cost or estimated realizable value. Amortization of these costs is based upon the estimated flow of income. When it is determinable, based on such estimates, that a motion picture will result in an ultimate loss, the entire loss is reflected immediately.

Note C—Investments Investments at January 2, 1971 include \$830,000 representing the carrying value of unliquidated investments in certain theatres sold since the inception of the Company. Of the original sales prices, \$4,571,000 remains uncollected and is due in installments of variable contingent amounts to 1981. The difference between the uncollected balance and the carrying value represents a contingent profit to be reflected proportionately in future earnings as installments are collected.

Note D—Income Taxes Certain items are reported for tax purposes in different periods than for financial statement purposes. The net effect of these items in 1970 was an increase in the provision for income taxes of \$4,249,000.

At January 2, 1971, net estimated future tax benefits are included \$919,000 in prepaid expenses and \$400,000 in other assets. Similar amounts for 1969 were \$3,915,000 and \$1,653,000, respectively. Properties acquired after 1967 are depreciated on an accelerated basis for tax purposes, but substantially all property and equipment is depreciated on a straight-line basis for financial reporting purposes.

The Company is contesting proposed deficiencies in income taxes with respect to the years 1958-1960. The years 1961-1964 are currently under examination by the Internal Revenue Service. In the opinion of management, adequate provision has been made in the accounts for any liability payable with respect to all open years.

Note E—Debt	1970	1969
Debentures:		
5% convertible subordinated debentures due July 1, 1993, convertible into common stock at \$43.33 per share and redeemable at 104½% to July 1, 1971, and at decreasing prices thereafter. Beginning July 1, 1979, the Company is required to retire \$2,000,000 principal annually	\$ 49,972,000	\$ 49,977,000
Loans:		
4.55% notes payable semi-annually \$1,625,000 to January 1, 1985 and \$10,750,000 on July 1, 1985	\$ 56,250,000	\$ 58,750,000
Bank loans at prime rate plus ¼ of 1% per annum payable quarterly \$1,787,500 from April 2, 1973 to January 2, 1976 and \$11,050,000 on February 2, 1976	32,500,000	14,277,000
Bank loans, secured by motion picture film rights, at prime rate plus ½ of 1% per annum payable by a subsidiary company from the net proceeds of various motion pictures. The loans outstanding at January 2, 1971 are to be reduced to \$35,000,000 on March 31, 1971. The remainder matures 24 months from the date of borrowing or December 31, 1973, whichever is earlier	40,000,000	40,000,000
Mortgage and other loans payable through 1985 with interest from 4½% to 8¾% per annum	8,766,000	8,098,000
Total	137,516,000	121,125,000
Less current installments	10,095,000	8,001,000
	<u>\$127,421,000</u>	<u>\$113,124,000</u>

Note F—Capital Stock and Capital in Excess of Par Value At January 2, 1971, 2,000,000 shares of preferred stock, par value \$1, are authorized, but none are outstanding. In May 1970, the stockholders approved an increase in the number of authorized common shares from 10,000,000 shares to 20,000,000 shares.

During the year, changes in common stock and capital in excess of par value were as follows:

	COMMON STOCK		CAPITAL IN EXCESS OF PAR VALUE
	NUMBER OF SHARES	AMOUNT	
Balance at beginning of year	7,330,927	\$7,331,000	\$66,343,000
Options and deferred compensation to employees	10,564	10,000	212,000
Conversion of debentures	130	—	6,000
Adjustment of shares issued for company acquired on a pooling of interests basis, less 1,647 shares reflected in prior year	(330)	—	—
Balance at end of year	<u>7,341,291</u>	<u>\$7,341,000</u>	<u>\$66,561,000</u>

The 252,388 shares of common stock held in treasury at January 2, 1971 were purchased at a cost of \$8,838,000, of which 31,760 shares, at a cost of \$1,405,000 are classified as an investment held for the purposes of the Key Employees Incentive Compensation Plan. During 1970, from the common stock held in the treasury, 1,372 shares were issued in connection with the Key Employees Incentive Compensation Plan, and 4,372 shares were issued under an employee's profit participation agreement.

The following table reflects transactions in the number of shares under all stock option plans during the year:

Outstanding at beginning of year	576,721	
Granted at 100% of fair market value (\$21.625 to \$38.125 per share)	136,500	
Less: Exercised at prices ranging from \$19.098 to \$21.81 per share	10,564	
Cancelled	174,133	(184,697)
Outstanding at end of year at prices ranging from \$21.625 to \$57.00 per share	528,524	

Of the 528,524 shares, 129,304 were exercisable at January 2, 1971. The remaining options become exercisable as to 127,800 shares in 1971 and 271,420 in 1972 and later.

Common stock shares reserved total 2,014,448 to cover the stock options outstanding, the 332,642 additional shares which may be issued under the Qualified Stock Option Plans and the 1,153,282 shares required for conversion of the convertible subordinated debentures.

Note G—Retained Earnings The various agreements pertaining to long-term debt contain, among other things, certain restrictions as to the payment of dividends (other than in shares of capital stock of the Company) or the purchase or redemption of capital stock of the Company. Of the consolidated retained earnings at January 2, 1971, approximately \$45,000,000 was not so restricted.

Note H—Retirement Plans The cost of the contributory retirement plans of the Company and certain of its subsidiaries paid to the retirement funds was \$2,190,000 in 1970 and \$1,768,000 in 1969 including amortization of the unfunded past service costs over a period of thirty years. The actuarially computed value of vested benefits exceeded the total of the retirement funds by approximately \$6,415,000 at January 2, 1971. The Company is also required to contribute to various union retirement funds under collective bargaining agreements.

Note I—Capital and Non-recurring Gains (Losses) Net capital and non-recurring gains of \$818,000 represent net extraordinary credits of \$1,154,000 less federal income taxes of \$336,000 resulting principally from net gains of \$618,000 on the sale of foreign investments and \$399,000 on the disposal of theatre properties, partially offset by a \$150,000 write-off of intangible costs which are no longer considered to have a continuing value. In 1969 the Company had net capital and non-recurring losses of \$878,000 which represent net extraordinary charges of \$1,208,000 less federal income tax benefits of \$330,000. Extraordinary charges in that year included a provision of \$2,800,000 for loss on investments, the write-off of intangible costs of \$1,115,000 which were no longer considered to have a continuing value, less a gain of \$2,868,000 on the sale of a foreign investment.

Note J—Per Share Earnings Earnings per share have been computed based on the weighted average number of shares outstanding during each year (7,083,000 shares in 1970 and 7,224,000 shares in 1969). Outstanding stock options have

not been included inasmuch as their assumed exercise would have resulted in an anti-dilutive effect in 1970 and less than 3% dilution in 1969.

Fully diluted earnings per share have been computed based on the weighted average number of shares outstanding, assuming full conversion of the convertible subordinated debentures (with appropriate adjustment to net earnings for the elimination of interest expense, net of tax effect) and in 1969 also assuming the exercise of outstanding stock options, net of shares that could have been purchased from the proceeds of such exercise based on the market price at the end of the year. The shares used for this computation were 8,293,000 shares in 1970 and 8,426,000 shares in 1969.

Note K—Commitments and Contingent Liabilities The Company is liable under real property leases in effect at January 2, 1971 for minimum annual rentals totaling \$9,066,000 of which \$2,108,000 relates to leases expiring before 1973, \$2,501,000 to leases expiring during 1974-1978, \$1,223,000 to leases expiring during 1979-1983, \$585,000 to leases expiring during 1984-1988 and \$2,649,000 to leases expiring after 1988. Total rent, including rentals based on a percentage of revenues, charged to operations in 1970 was \$9,053,000 (1969—\$8,271,000).

Under contracts covering rentals of feature films for future telecast, the Company is obligated for payments aggregating approximately \$112,522,000 during the next five years.

There are contingent liabilities under pending litigation including antitrust suits. However, in the opinion of counsel, the Company will not suffer any material liability in connection therewith.

Accountants' Report

The Board of Directors and Stockholders
American Broadcasting Companies, Inc.:

We have examined the consolidated balance sheet of American Broadcasting Companies, Inc. and subsidiaries as of January 2, 1971 and the related statements of earnings, retained earnings and source and application of funds for the year then ended. Our examination was 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. The consolidated financial statements for the year ended January 3, 1970, presented for comparative purposes, were examined by other independent accountants.

In our opinion, such financial statements present fairly the financial position of American Broadcasting Companies, Inc. and subsidiaries at January 2, 1971 and the results of their operations and source and application of funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

NEW YORK, NEW YORK
MARCH 1, 1971

PEAT, MARWICK, MITCHELL & CO.

Five Year Financial Summary

(Dollars in thousands, except per share amounts)

	1970	1969	1968	1967	1966
Revenues					
Broadcasting	\$ 523,221	\$ 507,807	\$ 454,704	\$ 431,325	\$ 413,684
Theatres	99,918	94,774	97,627	84,877	82,390
Others	125,123	118,343	81,663	58,750	43,898
Total	<u>\$ 748,262</u>	<u>\$ 720,924</u>	<u>\$ 633,994</u>	<u>\$ 574,952</u>	<u>\$ 539,972</u>
Earnings – total					
Operations	\$ 15,979	\$ 17,639	\$ 12,679	\$ 11,759	\$ 17,860
Capital and non-recurring gains (losses), net	818	(878)	3,661	1,770	206
	<u>\$ 16,797</u>	<u>\$ 16,761</u>	<u>\$ 16,340</u>	<u>\$ 13,529</u>	<u>\$ 18,066</u>
Earnings – per share *					
Operations	\$ 2.25	\$ 2.44	\$ 1.78	\$ 1.67	\$ 2.54
Capital and non-recurring gains (losses), net .....	.12	(.12)	.51	.25	.03
	<u>\$ 2.37</u>	<u>\$ 2.32</u>	<u>\$ 2.29</u>	<u>\$ 1.92</u>	<u>\$ 2.57</u>
Dividends					
Total	\$ 8,503	\$ 7,675	\$ 7,581	\$ 7,515	\$ 7,496
Per share *	\$ 1.20	\$ 1.07	\$ 1.07	\$ 1.07	\$ 1.07
Financial position at year end					
Working capital	\$ 188,225	\$ 177,140	\$ 151,581	\$ 83,050	\$ 91,755
Property and equipment, net	146,148	133,872	129,024	127,024	113,464
Total assets	479,045	468,419	434,563	368,759	320,315
Long-term debt	177,393	163,101	143,527	84,381	87,897
Stockholders' equity	172,044	163,376	160,286	147,973	141,111
Number of common shares outstanding at year end *	7,088,903	7,072,795	7,193,595	7,026,928	7,038,163

* Adjusted for the 3 for 2 stock split in December 1969. Assuming full conversion of convertible debentures and exercise of dilutive stock options, fully diluted earnings from operations and net earnings for 1970 would be \$2.08 and \$2.18, for 1969, \$2.23 and \$2.13 and for 1968, \$1.69 and \$2.15, per share, respectively.

Board of Directors

Alger B. Chapman	Chairman of the Board of Squibb Beech-Nut, Inc.
Samuel H. Clark	Group Vice President of Corporation
John A. Coleman	Senior Partner, Adler, Coleman & Co.
Donald C. Cook	President and Chief Executive Officer of American Electric Power Company, Inc.
Everett H. Erlick	Group Vice President of Corporation
Charles T. Fisher III	Executive Vice President of National Bank of Detroit
Leonard H. Goldenson ...	President of Corporation
Robert V. Hansberger	President and Chairman of Boise Cascade Corporation
Jack Hausman	President of Belding Hausman Fabrics, Inc.
Leon Hess	Chairman of Executive Committee of Amerada Hess Corporation
George P. Jenkins	Vice-Chairman of the Board and Chairman of Finance Committee of Metropolitan Life Insurance Company
Elton H. Rule	Group Vice President of Corporation
Theodore Schlesinger ...	Chairman of the Board and Chief Executive Officer of Allied Stores Corporation
Simon B. Siegel	Executive Vice President of Corporation

Executive Committee

John A. Coleman, Chairman
Alger B. Chapman
Leonard H. Goldenson
Jack Hausman
George P. Jenkins
Theodore Schlesinger
Simon B. Siegel

Officers

Leonard H. Goldenson ... **President**
Simon B. Siegel **Executive Vice President**
Samuel H. Clark **Group Vice President**
Everett H. Erlick **Group Vice President and
General Counsel**
Elton H. Rule **Group Vice President**
Jerome B. Golden **Vice President and Secretary**
Robert T. Goldman **Financial Vice President**
James C. Hagerty **Vice President**
Herbert R. Hahn **Vice President**
Marie J. McWilliams **Vice President**
Harry Pape, Jr. **Treasurer**
David G. Fulton **Comptroller**
Eugene R. Hahn **Assistant Comptroller**
Rudolph J. Skalka **Assistant Comptroller**
Franklin Feinstein **Assistant Secretary**

Executive Offices

1330 Avenue of the Americas
New York, New York 10019

Independent Auditors

Peat, Marwick, Mitchell & Co.
345 Park Avenue
New York, New York 10022

Transfer Agent

Bankers Trust Company
485 Lexington Avenue
New York, New York 10017

Registrar

The Bank of New York
48 Wall Street
New York, New York 10015



AMERICAN BROADCASTING COMPANIES, INC.