

CAPITAL CITIES/ABC, INC.

24 East 51st Street
New York, New York 10022

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

May 15, 1986

TO OUR SHAREHOLDERS:

The Annual Meeting of Shareholders of Capital Cities/ABC, Inc. (the "Company") will be held at 11:00 A.M. on Thursday, May 15, 1986, at 7 West 66th Street, New York, New York for the following purposes:

1. To elect a Board of Directors of 19 members to serve until the next Annual Meeting of Shareholders or until their successors are chosen and qualified.
2. To consider and act upon a proposal to amend the Employee Stock Purchase Plan, as previously amended, to (a) authorize an additional 200,000 shares to be made available under the Plan and (b) extend the termination date of the Plan to April 15, 1992.
3. To consider and act upon such other business as may properly come before the meeting or any adjournment thereof.

Only shareholders of record at the close of business on March 28, 1986, will be entitled to vote at the meeting and any adjournment thereof.

Whether or not you plan to attend the meeting, we urge you to execute and mail the enclosed proxy, in order to assure representation of your shares. For this purpose, and for your convenience, a business reply envelope is enclosed. A shareholder who attends the meeting in person may, if he wishes, vote at the meeting, thereby cancelling any proxy vote previously given.

By Order of the Board of Directors,

GERALD DICKLER
Secretary

March 31, 1986

All shareholders are requested to date and execute the accompanying proxy and to return it promptly in the enclosed, self-addressed envelope. No postage is required if mailed within the United States.

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PROXY STATEMENT

This proxy statement is furnished in connection with the solicitation by the Board of Directors of CAPITAL CITIES/ABC, INC., 24 East 51st Street, New York, New York 10022 (the "Company") of proxies in the accompanying form for use at the Annual Meeting of Shareholders to be held at 7 West 66th Street, New York, New York, at 11:00 A.M. on May 15, 1986, and at all adjournments thereof. Any shareholder may revoke his proxy at any time prior to the meeting by filing with the Company a written notice to that effect or a duly executed proxy bearing a later date and, in the event that he attends the meeting, he may, if he so desires, vote in person.

The cost of soliciting proxies will be borne by the Company, which will reimburse brokerage firms, custodians, nominees and fiduciaries for their expenses in forwarding proxy material to the beneficial owners of the Company's common stock. Officers and regular employees of the Company may solicit proxies personally and by telephone. In addition, the Company has retained Georgeson & Co. Inc. to aid in the solicitation of proxies at a fee of \$6,500 plus out-of-pocket expenses.

On all matters which may come before the meeting, each shareholder, or his or her proxy, will be entitled to one vote for each share of common stock, \$1 par value ("Common Stock") of which such shareholder was the holder of record on March 28, 1986. On such date, there were outstanding and entitled to vote 16,043,864 shares of Common Stock. Such number does not include 2,349,632 shares held by the Company as treasury shares.

The proxy statement and form of proxy will be mailed to shareholders on or about March 31, 1986.

ANNUAL REPORT

The Annual Report of the Company for the year ended December 31, 1985, including financial statements, is being mailed to shareholders together with this proxy statement. No part of such annual report shall be regarded as proxy-soliciting material or as a communication by means of which any solicitation is being or is to be made.

ELECTION OF DIRECTORS

It is proposed to elect 19 directors of the Company to hold office for one year and until their successors shall be elected and shall qualify. At the meeting, the persons named in the enclosed form of proxy intend to vote the shares covered by such proxy for the election of the nominees to the Board of Directors named below unless instructed to the contrary.

<u>Nominee</u>	<u>Age</u>	<u>Director since</u>	<u>Common Stock beneficially owned as of February 28, 1986(1)</u>	<u>Principal Occupation and Business Experience</u>
Robert P. Bauman	55	1985	200(2)	Vice Chairman of Tectron Inc. since 1985; Chairman of the Board and Chief Executive Officer of Avco Corporation 1981 to 1985. Director of McKesson Corporation and Tectron Inc.
Warren E. Buffett	55	1986	3,600,000(3)	Chairman of the Board and Chief Executive Officer of Berkshire Hathaway Inc. Director of Firs Tier, Inc.
Daniel B. Burke	57	1967	41,625(2)(4)	President and Chief Operating Officer of the Company since 1972. Member of the Executive Committee. Director of Fireman's Fund Corporation and Tectron Inc.

<u>Noesinee</u>	<u>Age</u>	<u>Director since</u>	<u>Common Stock beneficially owned as of February 28, 1986(1)</u>	<u>Principal Occupation and Business Experience</u>
Frank T. Cary	65	1986	300	Formerly Chairman of the Board of International Business Machines Corporation, Director of DNA Plant Technology Corporation, Hospital Corporation of America, International Business Machines Corporation, Merck & Co., Inc., J. P. Morgan & Co. Incorporated, New York Stock Exchange, Inc., PepsiCo, Inc. and Texaco Inc.
Gerald Dickler	73	1954	78,627(2)	Secretary of the Company since 1954 and a member of the Executive and Compensation Committees. Actively engaged in the practice of law from 1959 to 1983 as a partner and from 1983 to the present as Senior Counsel of Hall, Dickler, Lawler, Kent & Friedman, counsel to the Company.
Joseph P. Dougherty	61	1967	25,373(2)(4)	Executive Vice President of the Company since 1966. President of the Broadcasting Division from 1969 to 1986.
John B. Fairchild	59	1968	27,177(2)(4)	Executive Vice President of the Company and Chairman and Chief Executive Officer of the Company's Fairchild Publications division since 1968.
Leonard H. Goldenson	86	1986	—	Chairman of the Executive Committee. Retired Chairman of the Board of American Broadcasting Companies, Inc. Director of Allied Stores Corporation.
Alan Greenspan	60	1986	250	President and Chairman of the Board of Townsend-Greenspan and Company, Inc. Director of Aluminum Company of America, Automatic Data Processing, Inc., Mobil Corporation, J. P. Morgan & Co. Incorporated, Morgan Guaranty Trust Company of New York and The Pittston Company.
Leon Hess	72	1986	200	Chairman of the Board and Chief Executive Officer of Amerada Hess Corporation. Director of The Mutual Benefit Life Insurance Company and New York Jets Football Club, Inc. (5)
George P. Jenkins	71	1986	—	Consultant to W. R. Grace & Co.; formerly Chairman of the Board of Metropolitan Life Insurance Company. Director of Bethlehem Steel Corporation, Chicago-Pacific Corporation, W. R. Grace & Co. and Trammell Crow Real Estate Investors.
Thomas M. Macioce	67	1986	200	Chairman of the Board and Chief Executive Officer of Allied Stores Corporation, Director of Manufacturers Hanover Corporation and Manufacturers Hanover Trust Company.

<u>Nominee</u>	<u>Age</u>	<u>Director since</u>	<u>Common Stock beneficially owned as of February 28, 1986(1)</u>	<u>Principal Occupation and Business Experience</u>
John H. Muller, Jr.	61	1971	800(2)	Member of the Executive, Audit and Compensation Committees. Chairman, President and Chief Executive Officer of General Housewares Corp since 1967. Director of Collins & Aikman Corporation and Sea-Land Corporation.
Thomas S. Murphy	60	1957	130,460(2)(4)	Chairman of the Board and Chief Executive Officer of the Company since 1966. Member of the Executive Committee. Director of General Housewares Corp., Johnson & Johnson and Texaco Inc.
Frederick S. Pierce	52	1986	—	Consultant to the Company. Formerly President and Chief Operating Officer of American Broadcasting Companies, Inc.
John B. Poole	73	1985	—	Retired Chairman of the Board of Poole Broadcasting Company. Formerly a director of the Company from 1959 through 1964.
John B. Stas	59	1977	14,054(4)	Executive Vice President of the Company since 1974 and President of the ABC Network Division since 1986. President of the Publishing Division from 1974 to 1986. Director of Enzo Biochem, Inc.
William I. Spencer	68	1980	500	Member of the Audit and Compensation Committees. Retired President and Chief Administrative Officer of Citicorp and Citibank. Director of Amerada Hess Corporation, Bso-Response, Inc., Keller Industries, Inc., McLean Industries, Inc., Trust Company of the West, US West, Inc., United Technologies Corporation, and Universal Trading Exchange, Inc.
M. Cabell Woodward, Jr.	57	1982	1,100(2)	Member of the Executive and Audit Committees. Vice Chairman and Chief Financial Officer of ITT Corporation since 1985; Executive Vice President and Chief Financial Officer thereof 1979 to 1985. Formerly Chairman, President and Chief Executive Officer of Continental Baking Company. Director of ITT Corporation and Melville Corporation.

(1) Beneficial ownership of Common Stock by the individuals listed in this table does not include the following beneficial ownership of the Company's outstanding warrants ("Warrants"): Mr. Buffert, 92,240 Warrants; Mr. Goldenson, 39,057 Warrants; Mr. Greenspan, 51 Warrants; Mr. Hess, 2,657 Warrants; Mr. Jenkins, 60 Warrants; Mr. Macioce, 30 Warrants; Mr. Pierce, 3,584 Warrants; or Warrants owned by or for the benefit of family members, as to which the persons disclaim any beneficial ownership; Mr. Bauman, 15 Warrants; Mr. Cary, 102 Warrants; and Mr. Goldenson, 624 Warrants. Warrants entitle the holder to purchase one share of Common Stock at \$250 per share (subject to adjustment in certain events) until July 29, 1988 and, until April 3, 1986, to require the Company to redeem all or a portion of the Warrants held by them at a redemption price of \$30 per Warrant (subject to adjustment in certain events).

(2) Shares shown do not include the following shares owned by or for the benefit of family members, as to which the persons disclaim any beneficial ownership: Mr. Bauman, 400 shares; Mr. Burke, 820 shares; Mr. Dickler, 4,000 shares; Mr. Dougherty, 2,101 shares; Mr. Fairchild, 6,491 shares; Mr. Muller, 50 shares; Mr. Murphy, 6,626 shares; and Mr. Woodward, 300 shares.

(3) These shares of Common Stock are subject to stock purchase agreements described below under "Security Ownership of Certain Beneficial Owners and Management."

(4) Shares shown do not include the following shares subject to employee stock options exercisable within 60 days after February 28, 1986: Mr. Burke, 23,000 shares; Mr. Dougherty, 5,000 shares; Mr. Fairchild, 4,700 shares; Mr. Murphy, 24,000 shares; and Mr. Sias, 7,500 shares.

(5) The Company's subsidiary, American Broadcasting Companies, Inc. ("ABC"), has an agreement with the New York Jets Football Club, Inc. providing for the exclusive radio broadcasting of the New York Jets pre-season, regular season and play-off games during the 1984-1986 football seasons by Radio Station WABC, New York at a total cost for pre-season and regular season games of \$2,400,000 payable in annual installments, with a proportionate additional payment required for each play-off game in any year. Mr. Hess is Chairman of the Board and owner of the New York Jets Football Club, Inc. The agreement was entered into in the ordinary course of ABC's business.

Security Ownership of Certain Beneficial Owners and Management

Officers and directors, as a group, beneficially owned 3,506,218 shares of Common Stock (representing 21.64% of the outstanding shares) at February 28, 1986. No officer or director owned 1% or more of the outstanding Common Stock, except that Mr. Buffett owned 12.71% (see below for further information on the stock ownership of Mr. Buffett). Total Common Stock outstanding for this computation is net of treasury shares and includes shares issuable upon exercise of presently outstanding options which are exercisable within 60 days after February 28, 1986, but excludes for officers and directors as a group shares issuable upon exercise of Warrants. Except as noted below, each officer and director has sole voting and investment power with respect to the shares owned.

At February 28, 1986 the only person, as that term is used in Section 13(d)(3) of the Securities Exchange Act of 1934, known to the Company to be the beneficial owner of more than 5% of the outstanding Common Stock is Berkshire Hathaway Inc. ("Berkshire"), which, through certain of its subsidiaries ("Berkshire Subsidiaries"), owned 3,000,000 shares (representing 18.71% of the Company's outstanding shares) and 92,240 Warrants. Mr. Buffett owns 45% of the outstanding stock of Berkshire and therefore may be deemed to control the stock of Berkshire and be the beneficial owner of these 3,000,000 shares and 92,240 Warrants. While each of the Berkshire Subsidiaries owning the shares of Common Stock and Warrants has both voting and investment power with respect to the shares and investment power with respect to the Warrants, Mr. Buffett, through his controlling stock ownership of Berkshire, may be deemed to be in control of such Berkshire Subsidiaries and therefore to direct the voting and investments of such subsidiaries. However, pursuant to agreements dated March 18, 1985 and January 2, 1986 (collectively, the "Stock Purchase Agreement"), Berkshire and each of such Berkshire Subsidiaries executed and delivered to the Company an irrevocable proxy to vote all shares of the Company's Common Stock owned by them, naming as their attorney and proxy Thomas S. Murphy, so long as he is Chief Executive Officer of the Company, or Daniel B. Burke, if and so long as he shall be Chief Executive Officer of the Company. Such proxies will expire upon such date as neither Mr. Murphy is nor Mr. Burke shall be Chief Executive Officer of the Company, or January 2, 1997, whichever shall first occur. In this connection, Mr. Murphy or Mr. Burke may be deemed to have sole voting power but no investment power with respect to such shares, and Mr. Buffett may be deemed to have sole investment power but no voting power with respect to such shares. However, Mr. Buffett's investment power may be deemed to be restricted in that, pursuant to the Stock Purchase Agreement, during the period ending on January 2, 1997, neither Berkshire nor any of the Berkshire Subsidiaries may dispose of any Common Stock without first offering such stock to

the Company, or knowingly sell any Common Stock to any entity or group if such a sale would give the entity or group more than 5% of all outstanding voting stock of the Company. At the forthcoming Annual Meeting, Mr. Murphy will have the power to vote these shares beneficially owned by Mr. Buffett.

The Stock Purchase Agreement also requires the Board of Directors of the Company to take all steps necessary and use its best efforts to cause Mr. Buffett to be elected by the shareholders to the Company's Board of Directors.

Meetings and Committees

The Board of Directors had a total of five meetings during 1985. Mr. Fairchild attended fewer than 75% of the total number of Board meetings held in 1985. The Board of Directors has no *Nominating Committee*.

The *Executive Committee* consists of six directors, Messrs. Burke, Dickler, Goldenson, Muller, Murphy and Woodward. The committee meets on call or acts by unanimous written consent and has authority to act on most matters during the intervals between Board meetings. There was one committee meeting during 1985.

The *Audit Committee* consists of three nonemployee directors, Messrs. Muller, Spencer and Woodward. The committee reviews and evaluates the scope of the audit, internal controls, security procedures, policy as to business ethics and other matters deemed appropriate. There were two committee meetings during 1985.

The *Compensation Committee* consists of three nonemployee directors, Messrs. Dickler, Muller and Spencer. The committee administers the 1972 Employee Stock Option Plan, the Incentive Stock Option Plan, the Incentive Compensation Plan, the Supplemental Profit Sharing Plan and the Supplemental Compensation Plan. The committee also makes recommendations to Company management regarding the compensation structure of the Company as applied to executive personnel and to the Board regarding compensation of the Chairman, President, Executive Vice Presidents and Senior Vice Presidents. There was one committee meeting during 1985. The committee also acts by unanimous written consent.

COMPENSATION OF DIRECTORS AND EXECUTIVE OFFICERS

The following tabulation sets forth the cash compensation paid to and deferred compensation for the benefit of the five most highly compensated executive officers of the Company, and all executive officers as a group, for services in all capacities to the Company and its subsidiaries during calendar year 1985.

<u>Name of individual or number in group</u>	<u>Capacities in which served</u>	<u>Cash compensation</u>	<u>Deferred compensation (1)</u>
Thomas S. Murphy	Chairman and Chief Executive Officer	\$ 625,000	\$ 84,080
Daniel B. Burke	President and Chief Operating Officer	589,500	80,405
John B. Sias	Executive Vice President	500,000	73,485
Joseph P. Dougherty	Executive Vice President	455,000	61,295
John B. Fairchild	Executive Vice President	435,000	-
All executive officers as a group (9 persons including the above) (2)		\$3,469,225	\$417,959

(1) Includes amounts accrued under the Profit Sharing Plan and the Supplemental Profit Sharing Plan but does not include amounts accrued under the Capital Cities Publishing Pension Plan and the Supplemental Pension Plan; such Plans are described under the caption "Retirement Benefits." Does not include amounts vested under the Supplemental or Incentive Compensation Plans which are described under the caption "Supplemental and Incentive Compensation Plans."

(2) Payments of \$1,716,657 (on an accrual basis) were made for the year 1985 to the law firm of Hall, Dickler, Lawler, Kent & Friedman of which Mr. Gerald Dickler, Secretary and a Director of the Company, is Senior Counsel.

Compensation of Directors

Directors who are not employees receive annual compensation of \$20,000 and a fee of \$1,000 for each Board and committee meeting attended.

Mr. Goldenson is acting as a consultant to the Company for which he is receiving \$250,000 for 1986. The Company also has agreements with Mr. Pierce, dated January 8, 1986, providing for (i) the termination of his employment agreement with ABC dated as of September 1, 1981, as amended, which would have expired on August 31, 1989, and payment to Mr. Pierce of \$500,000 per year until August 31, 1989 and (ii) his services as a consultant to the Company for the one-year period ending January 10, 1987 at compensation of \$250,000.

Employment Contracts

Mr. Fairchild has a contract with the Fairchild Publications division of Capital Cities Media, Inc., a subsidiary, providing for payments to Mr. Fairchild or his widow or children at the rate of \$45,000 per year through December 31, 1997, provided that during the period of payment he does not compete with the Company.

Supplemental and Incentive Compensation Plans

Supplemental Compensation Plan. In 1978, the Company adopted a Supplemental Compensation Plan under which the Compensation Committee of the Board of Directors was empowered in its discretion to grant "units" to key employees of the Company and its subsidiaries. The value of each such unit is equal to the fair market value of one share of the Company's Common Stock as at the earlier of the date of the employee's termination of employment or the sixth anniversary of the date of grant of the unit to him. Each employee's units are credited with 6% interest each December 31 based on the fair market value of the Company's Common Stock at that date. An employee gains vested rights in his units on a graduated basis over the six-year period following the grant of the units to him. However, he only becomes entitled to the accumulated interest credits upon completion of the full six-year period of employment. An employee's vested benefits may be paid to him in a lump sum or in installments following his completion of the six-year vesting period or, if he so elects, payment of such amounts can be deferred until after termination of his employment. The employee's vested benefits under the Supplemental Compensation Plan are credited with interest at 75% of prime rate. No additional grants of units may be made under this Plan.

At December 31, 1985 there were outstanding 52,200 units granted in the years 1978 through 1982, as to which Mr. Murphy was granted 7,500 units; Mr. Burke, 7,500 units; Mr. Sias, 6,000 units; and all executive officers as a group, 26,000 units. At December 31, 1985, of all executive officers only Mr. Dougherty had fully vested benefits, which amounted to \$903,181. In January 1986, all executive officers as a group were paid \$529,886 under this Plan. The unpaid vested benefits, together with additional interest from January 1, 1986, at 75% of prime rate, are payable in a lump sum or in five annual installments following the employee's completion of the vesting period or, at the employee's election, following his termination of employment.

Incentive Compensation Plan. In 1983, the Board of Directors adopted the Incentive Compensation Plan which replaced the Supplemental Compensation Plan. The two plans are similar in design; the major differences between them are that (a) each unit in the incentive Compensation Plan bears a value equal to the excess of the market price of one share of the Company's Common Stock over a specified dollar floor, and (b) an employee's right to the benefits represented by his units vests on a five-year graduated schedule.

During 1985, 20,100 units were granted, of which 17,500 have a dollar floor of \$100 and 2,600 have a dollar floor of \$150. As of February 28, 1986, an aggregate of 97,650 units have been granted and were outstanding, of which 94,050 have a dollar floor of \$100, 2,600 have a dollar floor of \$150 and 1,000 have no dollar floor. Of these, Messrs. Murphy, Burke and Sias were granted 10,000 units each and Mr.

Fairchild, 7,500 units (all of which have a \$100 floor); and all executive officers as a group, 44,300 units (all of which have a \$100 floor except that 800 have a \$150 floor).

Supplementary Compensation Agreements. Under supplementary compensation agreements entered into in 1977, Messrs. Murphy, Burke and Sias had vested benefits at December 31, 1985 in the amounts of \$1,772,966, \$1,477,473 and \$1,181,978, respectively. These amounts, together with additional interest from January 1, 1986 at 75% of prime rate, are payable after termination of employment.

Retirement Benefits

Profit Sharing Plan and Northwest Plan. The Company maintains an Employee Profit Sharing Plan (the "Profit Sharing Plan") which covers all of its employees, including executive officers except Mr. Fairchild, except those employed by the Northwest Publishing Group and Andrew Welch Associates. The Company also maintains a separate profit sharing plan for the benefit of certain of the employees of the Northwest Publishing Group (the "Northwest Plan").

Each year, the Board of Directors determines what portion of the Company's profits to contribute into both the Profit Sharing Plan and the Northwest Plan. The amount of the Company's annual contribution into each Plan is divided among the active participants in that Plan for that year in accordance with a formula which also takes into account amounts paid by the Company on behalf of the Plan's participants under Social Security. However, Internal Revenue Code Section 415 ("Section 415") imposes a limit on the amount of Company contributions that may be allocated for the benefit of any participant in either Plan for any year. The aggregate amount of Company contributions allocated over the years for the benefit of each Plan participant, together with Plan earnings on such amount, becomes vested and nonforfeitable based on the participant's period of service with the Company and its affiliates. In the Profit Sharing Plan, a participant has no vested rights until he has completed five years of service, at which point he becomes 50% vested in his share of Company contributions. Thereafter, the participant gains an additional 10% vested interest for each additional year of service so that, upon his completion of ten years of service, his rights to his aggregate share of Company contributions is completely vested and nonforfeitable. In the Northwest Plan, a participant gains a 10% vested right in his share of Company contributions for each year of service, and his rights are fully vested and nonforfeitable upon his completion of ten years of service. In both Plans, a participant also gains a fully-vested right to his share of Company contributions upon death, retirement for disability, or attainment of age 65. Benefits under both Plans are paid out to the participants in installments or in lump-sum distributions following their retirement or other termination of employment.

Supplemental Profit Sharing Plan. The Company also maintains an unfunded Supplemental Profit Sharing Plan for the benefit of eligible employees, including executive officers, under which individual participants will be paid those amounts which would have been allocated to them under the Profit Sharing Plan but for the limitations of Section 415. These amounts are to be credited with an earnings rate designed to approximate the rate these amounts would have earned had they been contributed into the Profit Sharing Plan. Participants' rights to additional benefits accrued through the Supplemental Profit Sharing Plan become nonforfeitable on the same basis as benefits vest under the Profit Sharing Plan. Such benefits will be paid in a lump-sum distribution upon a participant's retirement or other termination of employment.

Pension Plan. Mr. Fairchild is covered by the Capital Cities Publishing Pension Plan (the "Pension Plan"). The Pension Plan covers employees of the Fairchild, Belleville and Highland divisions of Capital Cities Media, Inc. ("Media") and employees of The Oakland Press Company, The Kansas City Star Company and Star-Telegram, Inc., all subsidiaries of the Company. The Pension Plan excludes certain employees, such as hourly paid employees at some divisions. Under the Pension Plan, a participant receives, upon retirement at age 65, a pension benefit equal to 1 1/2% of his compensation for each year of his benefit service during which he was a participant, less the product of 1 1/2% of his Social Security benefit multiplied by his aggregate number of years of benefit service. For the purpose of this computation, the Pension Plan provides that a participant's average compensation for 1978-1982 will be used to calculate

benefit credits for all years through 1982. Participants gain fully vested rights in their retirement benefits under the Pension Plan after they complete 10 years of employment. As a result of the limitations of Section 415, the estimated annual benefits payable upon retirement at normal retirement age 65 to Mr. Fairchild will be \$90,000.

Supplemental Pension Plan. Messrs. Murphy, Burke, Sias, Dougherty and five other executive officers of the Company are covered under a Supplemental Pension Plan which was adopted in 1984 (the "Supplemental Pension Plan"). All employees covered under the Profit Sharing Plan are eligible for coverage under the Supplemental Pension Plan following completion of one year of service and attainment of age 21. Under the Supplemental Pension Plan, a participant receives, upon retirement at age 62, a pension benefit equal to 50% of his average final compensation less 50% of his Social Security benefit, with the benefit proportionately reduced if the participant has fewer than 30 years of employment. A participant's pension benefit is offset by the amount of benefit attributable to his balance in the Profit Sharing Plan and is limited, in all events, to a maximum of \$20,000 annually. Participants gain fully vested rights in their benefits after they complete 10 years of service. It is estimated that no benefits will be payable under the Supplemental Pension Plan upon retirement at normal retirement age 65 to Messrs. Murphy, Burke, Sias, Dougherty or to any other executive officers covered by the Supplemental Pension Plan.

Stock Options

ISO Plan. In 1981, the Board of Directors adopted an Incentive Stock Option Plan (the "ISO Plan") which was approved by the shareholders of the Company in 1982. Under the ISO Plan, in the discretion of the Compensation Committee, options may be granted to key employees (including officers) of the Company and its subsidiaries for the purchase of shares of the Company's Common Stock. All of such options are to be incentive stock options under Section 422A of the Internal Revenue Code. The ISO Plan does not limit the number of options which may be granted to an employee or the number of shares which may be subject to any option, except that the aggregate fair market value of stock for which any employee may be granted options in any calendar year may not exceed \$100,000 plus one-half of this limitation amount which remains unused from each of the three previous calendar years. If any option expires, terminates or is cancelled for any reason without having been exercised in full, the shares which were reserved for issuance upon its exercise shall again be available for the purpose of the ISO Plan. The ISO Plan is to remain in effect until December 1991, unless it is terminated earlier by the Board of Directors.

Each option under the ISO Plan is to be granted pursuant to an agreement with the optionee. Required terms of the option agreements are: (a) the option price shall not be less than 100% of the fair market value of the Company's Common Stock at the time the option is granted; (b) an option may not be exercised more than 10 years from the date it is granted; (c) an option may not be transferred by an optionee otherwise than by will or by the laws of descent and distribution, and may be exercised, during his lifetime, only by the optionee; (d) each option shall be exercisable, commencing one year from the date it is granted, in cumulative annual portions at the rate of 25% of the total number of shares subject to such option; (e) an option may be exercised within three months after the date of an optionee's termination of employment (or within 12 months after that date, if the optionee's termination of employment was on account of his death or disability), but only to the extent the option is otherwise exercisable on that date; and (f) an option may not be exercised while there is outstanding any other incentive stock option previously granted to the optionee.

1972 Plan. Since 1972, the Company also has maintained an Employee Stock Option Plan (the "1972 Plan"), under which options were granted from time to time to key employees (including officers) of the Company and its subsidiaries for the purchase of shares of the Company's Common Stock. No additional options may be granted under the 1972 Plan.

As of February 28, 1986, all executive officers of the Company as a group held outstanding options granted prior to January 1, 1985 under the ISO and 1972 Plans to acquire 73,793 shares at an average per share exercise price of \$48.80, of which Mr. Murphy had options to acquire 24,000 shares at \$39.30; Mr. Burke, 23,000 shares at \$39.99; Mr. Sias, 7,500 shares at \$61.50; Mr. Dougherty, 5,000 shares at \$61.50;

and Mr. Fairchild, 5,400 shares at \$53.92. The following table shows as to certain executive officers and as to all executive officers as a group, stock options granted and/or exercised between January 1, 1989 and December 31, 1985.

	<u>T. S. Murphy</u>	<u>D. B. Burke</u>	<u>J. R. Stas</u>	<u>J. P. Dougherty</u>	<u>J. B. Fairchild</u>	<u>All executive officers as a group</u>
OPTIONS GRANTED						
Number of shares of Common Stock	1,340	1,340	1,340	---	750	5,570
Average per share ex- ercise price	\$186.38	\$186.38	\$186.38	---	\$186.38	\$186.38
OPTIONS EXERCISED						
Net value (market value less exercise price)	---	---	---	---	---	\$209,841

PROPOSED AMENDMENTS TO EMPLOYEE STOCK PURCHASE PLAN

General Information

At the annual meeting of shareholders of the Company held on May 4, 1977, the shareholders adopted the Employee Stock Purchase Plan (the "Plan") which authorized the granting of options to purchase an aggregate of 600,000 shares (adjusted to reflect a two-for-one stock split in 1978) of the Company's Common Stock to all full-time employees of the Company and its designated subsidiaries ("Designated Subsidiaries") (except officers and certain employees as set forth hereinafter under the caption "Eligibility"). At the annual meeting of shareholders of the Company held on May 6, 1981, the shareholders extended the termination date of the Plan until April 15, 1987 and approved an additional 400,000 shares of the Company's Common Stock for use under the Plan. As of February 28, 1986, an aggregate of 704,327 shares of Common Stock have been acquired by employees under this Plan. The Board of Directors has proposed that the Plan be extended for an additional 5-year term ending on April 15, 1992, and that an additional 200,000 shares of the Company's Common Stock be made available for use under the Plan.

Purpose of Plan

The purpose of the Plan is to provide a greater community of interest between the Company's shareholders and its employees and those of its Designated Subsidiaries. The Plan is intended to expand the Company's stock option program (otherwise available only to executives and key employees) by extending the benefits of this policy throughout the employee community.

Eligibility

All employees of the Company and of its Designated Subsidiaries, approximately 7,800 in number, are eligible to receive options, except any of the following:

1. Employees having less than three months of service;
2. Employees who customarily work 20 hours per week or less, or five months or less in a year;
3. Officers of the Company and the executive officers of the Designated Subsidiaries.

Option to Purchase Shares

All employees who are eligible to participate in the Plan as of the Date of Grant (as defined below) in each year will be offered an option to purchase that number of shares of the Company's Common Stock for each \$1,000 of such employee's Annual Compensation as is specified by the committee which administers the Plan (see "Administration" herein), but not more than the lesser of 400 shares or \$25,000 worth of shares. Eligible employees will receive an offer once in each year during the term of the Plan (the date of offer is known as the "Date of Grant"). The Date of Grant is presently the first business day of April in

each year, but it may be changed by the committee which administers the Plan. The number of shares granted is subject to adjustment to reflect stock splits, dividends or any changes in the outstanding Common Stock (see "Administration" herein). Each option will expire when the shares subject to it are purchased (see "Method of Purchase of Shares" herein) or sooner if the holder is no longer employed by the Company or a Designated Subsidiary, or has died or otherwise ceased to be eligible to participate in the Plan or if he has withdrawn his accumulated contributions (see "Participation" herein).

Options are non-assignable and may be exercised only by the employee to whom they have been granted.

Participation

An eligible employee participates in the Plan by delivering a written authorization to the Company to make a monthly payroll deduction of not more than 15% of his compensation and not less than \$10.00. An employee may authorize such payroll deduction at any time after the Date of Grant but not later than 90 days prior to the regularly scheduled Date of Purchase (see "Method of Purchase of Shares" herein) and he may increase or decrease the amount of the deduction or discontinue it entirely once during the term of the option. The payroll deductions will be credited to an account maintained for each participating employee and will bear interest at an annual rate to be fixed by the committee which administers the Plan. (The current annual interest rate is 8%.) Funds deducted from payroll for the account of participating employees will be held with the general funds of the Company and will not be segregated.

An employee may withdraw all of his accumulated payments (plus interest) at any time up to thirty days prior to the regularly scheduled Date of Purchase (or up to 5 days prior to a special Date of Purchase) whereupon his option will terminate (see "Method of Purchase of Shares" herein).

Method of Purchase of Shares

The year following the Date of Grant, each employee's accumulated payments, including accrued interest thereon, will be used to purchase from the Company, at the price set forth hereinbelow, up to the maximum number of shares of Common Stock subject to his option. Any balance remaining in the employee's account after such purchase will be returned to him. Unless changed by the committee which administers the Plan, the regularly scheduled Date of Purchase will be the first business day in April of each year during the term of the Plan. However, if an employee's employment terminates in the year following the Date of Grant but before the regularly scheduled Date of Purchase as a direct result of the sale or disposition of a subsidiary or a division of the Company, or some other operating unit of the Company's business, the date of such sale or disposition will be a special Date of Purchase with respect to that employee's option. As soon as practicable after each Date of Purchase, each participant will be furnished a report containing all relevant information concerning the status of his account.

Purchase Price

The purchase price per share of Common Stock will be the lesser of:

- (a) 85% of its fair market value on the Date of Grant; or
- (b) 85% of its fair market value on the Date of Purchase.

Fair market value is deemed to be the mean of the high and low prices of the Common Stock of the Company on the New York Stock Exchange.

Termination and Amendment

The Plan, as extended by the proposed amendments will be effective until April 15, 1992, unless it is sooner terminated by the Board of Directors of the Company. The Board of Directors, in its discretion and at any time, may modify, amend or terminate the Plan; however, no modification or amendment may be made, without the approval of the shareholders of the Company, which would increase the maximum aggregate number of shares which may be optioned under the Plan, change the class of employees which is eligible to participate in the Plan, reduce the purchase price of optioned shares, or extend the termination date of the Plan.

Administration

The Plan is administered by the Executive Committee of the Board of Directors (Messrs. Burke, Dickler, Goldenson, Müller, Murphy and Woodward), who serve at the pleasure of the Board and whose addresses are in care of the Company, unless the President of the Company appoints a Stock Purchase Plan Committee ("Committee"). The President has not appointed such a Committee to administer the Plan. A majority of the members of any such Committee must consist of individuals who are ineligible to participate in the Plan. The Committee has the authority, subject to the express provisions of the Plan, to designate the Date of Grant and the regularly scheduled Date of Purchase in any year; to change the number of shares to be granted to employees each year; to prescribe the terms and provisions regarding payroll deductions and the amount of interest to be credited to employee withholdings; to make adjustments in the number of shares of Common Stock subject to option and/or the purchase price in the event of a change in the outstanding Common Stock of the Company as a result of any stock dividend, split up, recapitalization, merger, consolidation, combination or similar change; to designate the subsidiaries of the Company whose employees shall be eligible to participate in the Plan, and to make all rules and regulations to administer the Plan.

Tax Aspects

Under the Internal Revenue Code of 1954, as amended, an employee will realize no taxable income upon the grant or exercise of the option if he does not dispose of the stock acquired within two years after the date the option was granted. Any gain realized on subsequent disposition of the stock will be taxable at that time as ordinary income to the extent of the lesser of (a) 15% of the fair market value of the stock on the date the option was granted or (b) the profit realized on the disposition. Any further gain would be taxable as long-term capital gain. The Company will not be entitled to a deduction for Federal income tax purposes in connection with either the grant or the exercise of the option. On the other hand, if the employee acquires stock by the exercise of an option granted under the Plan and disposes of it before the expiration of the holding period described above, he will realize ordinary compensation income in the year in which the disposition occurs. The amount of that income will be the excess of the fair market value of the acquired stock on the date the option was exercised over the purchase price of the stock. In this case, the Company would be entitled to a deduction for Federal income tax purposes at the same time and in the same amount. Any additional gain realized on disposition would be taxable as a capital gain. If the stock had declined in value since the date of purchase, the amount of the decline would be treated as a capital loss for Federal income tax purposes.

The Plan is not qualified under Section 401(a) of the Internal Revenue Code of 1954 and is not subject to any of the provisions of the Employee Retirement Income Security Act of 1974.

Other Plans

Certain of the employees eligible for the Plan have participated in profit sharing, pension and stock option plans for more than five years; in the Supplementary Compensation Plan, described herein, since 1978; and in the Incentive Compensation Plan, also described herein, since 1983. In addition to the profit sharing and pension plans described above (see "Retirement Benefits" under "Compensation of Directors and Executive Officers"), certain employees eligible for the Plan participate in two profit sharing plans (the International Medical News Group Profit Sharing Plan ("IMNG Plan") and the Institutional Investor Employee Savings Plan ("Savings Plan")) and two pension plans (the Times Leader Pension Plan ("Times Leader Plan") and the Institutional Investor Employees Pension Trust ("Employees Pension Trust")).

The IMNG Plan is maintained for the benefit of the employees of the International Medical News Group of Media's Fairchild division. Each year, the Board of Directors of Media determines what portion of its profits to contribute into the IMNG Plan. The amount of Media's contribution into the Plan for each year is divided among the active participants in the Plan for that year in proportion to their compensation, and no participant may receive a share of Media's contribution which exceeds 10% of his compensation.

The Savings Plan is maintained by Institutional Investor, Inc., a subsidiary of the Company ("II"), for the benefit of its employees. Under the Savings Plan, employees are eligible to make salary reduction elections with respect to certain portions of their annual compensation, which portions are contributed by II to the Savings Plan on their behalf. II makes a matching contribution to the Savings Plan on behalf of each employee equal to 50% of his salary reduction contribution, but only with respect to salary reductions which do not exceed 6% of an employee's compensation. Section 415 imposes a limit on the amount of contributions that may be contributed or allocated for the benefit of any participant in either the IMNG Plan or the Savings Plan for any year. Participants in the Savings Plan always have fully vested rights in their Plan benefits. In the IMNG Plan, the aggregate amounts of Media contributions allocated over the years for the benefit of each participant, together with Plan earnings on such amounts, become vested and non-forefeitable based on the participant's period of service with Media and its affiliates. In the IMNG Plan, a participant gains a 20% vested right in his share of Media's contributions for each year of service, and his rights are fully vested and non-forefeitable upon his completion of five years of service. In addition, a participant also gains a fully vested right to his share of Media's contributions upon death, retirement for disability, or attainment of age 65. Benefits under both Plans are paid out to the participants in installments or in lump-sum distributions following their retirement or other termination of employment.

The Employees Pension Trust is maintained by II for the benefit of its employees. Each participant receives, at his normal retirement date (the later of age 65 or the 10th anniversary of his joining the Plan), a monthly pension benefit equal to (A) (i) 50% of his average monthly compensation multiplied by a fraction, the numerator of which is his total years of service to December 31, 1983, and the denominator of which is 30; plus (ii) 40% of his average monthly compensation, multiplied by a fraction, the numerator of which is his total years of service on or after January 1, 1984 projected to his normal retirement date (not to exceed 30) minus his total years of service to December 31, 1984 (but the numerator may not be less than zero), and the denominator of which is 30; offset by (iii) 74% of his Social Security benefit, less (B) 1/30 for each year of service less than 30 at normal retirement date. Participants gain vested rights in their retirement benefits under the Employees Pension Trust based on their period of service with II and its affiliates. A participant has no vested rights until he has completed 4 years of service, at which time he gains a 40% vested interest in his retirement benefits. The participant gains an additional 5% vested interest for each of his next 2 years of service, and an additional 10% vested interest for each additional year of service thereafter so that, upon his completion of eleven years of service, his rights to his retirement benefits are completely vested and nonforefeitable.

The Times Leader Plan is maintained for the benefit of the employees of the Wilkes-Barre Times Leader, a division of Media. Under this Plan, a participant receives, upon retirement at age 65, a monthly pension benefit equal to 1/12 of the sum of (i) 22% of his average compensation over the five consecutive year period then ending, plus (ii) \$24 for each year of his credited service after January 1, 1940. The minimum benefit any participant may receive under these terms is \$100 per month. All benefits (including the minimum benefit) are reduced proportionately if the participant has fewer than 15 years of credited service. In addition, each participant, upon retirement at age 65, is also entitled to receive an annuity equal in value to a lump-sum payment of \$3,000. Participants gain fully vested rights in their retirement benefits under this Plan after they complete 10 years of employment.

Contributions have been made to qualified profit sharing plans for the five years ended December 31, 1985 in the amounts of \$3,583,000, \$4,050,000, \$4,388,000, \$5,229,000 and \$5,774,000, respectively. Contributions of \$1,873,000, \$1,549,000, \$2,122,000, \$1,628,000 and \$831,000, respectively, have been made in connection with noncontributory pension plans for the five years ended December 31, 1985.

During the five years ended December 31, 1985, non-qualified stock options and incentive stock options aggregating 74,000 shares were issued to employees, other than officers or directors, at an average option price per share of \$143.95. Additionally, 7,000 units have been granted to employees, other than officers or directors, under the Supplemental Compensation Plan, described herein; and 17,200 units have been granted to employees, other than officers or directors, under the Incentive Compensation Plan, described herein, of which 15,500 have a dollar floor of \$100, 700 have a dollar floor of \$150 and 1,000 have no dollar floor.

General

The affirmative vote of a majority of the outstanding shares is required to approve the adoption of the proposed amendments to the Plan.

On March 14, 1986, the mean of the high and low prices for one share of the Company's Common Stock on the New York Stock Exchange was \$240^{1/8}.

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

On January 19, 1986 the Company renewed its directors' and officers' liability insurance policy with Federal Insurance Company for the one-year period commencing January 19, 1986 at a total cost of \$890,000. Within the limits of the coverage, the policy insures (a) the directors and officers of the Company and its subsidiaries and officers of certain divisions thereof against certain losses from claims against them in their capacities as directors and officers to the extent such losses are not indemnified by the Company or such subsidiaries and (b) the Company and such subsidiaries to the extent they indemnify such directors and officers for losses as permitted under applicable law. No payments have been made by such insurance company under this policy or the prior policy as of February 28, 1986.

RELATIONSHIP WITH INDEPENDENT PUBLIC ACCOUNTANTS

The Company has selected Arthur Young & Company as its independent public accountants for the current fiscal year. The firm has audited the Company's financial statements annually since 1968. A representative of Arthur Young & Company is expected to attend the shareholders' meeting with an opportunity to respond to appropriate questions from the shareholders.

OTHER BUSINESS

As of the date of this proxy statement, management knows of no other business that it intends to present or that others will present.

PROXIES REVOCABLE

All proxies delivered pursuant to this solicitation are revocable at the option of the persons executing the same at any time prior to exercise. If not revoked, the shares represented thereby will be voted at the meeting as directed by the shareholders. If no directions are given in such proxies they will be voted "for" propositions 1 and 2, as set forth in the notice and proxy and described herein.

1987 SHAREHOLDER PROPOSALS

Shareholders are entitled to submit proposals on matters appropriate for shareholder action consistent with regulations of the Securities and Exchange Commission. In order for shareholder proposals for the 1987 Annual Meeting of Shareholders to be eligible for inclusion in the Company's proxy statement, they must be received by the Secretary of the Company at its principal executive offices not later than December 1, 1986.

By Order of the Board of Directors,

THOMAS S. MURPHY
Chairman

March 31, 1986