CAPITAL CITIES/ABC, INC.

24 East 51st Street

New York, New York 10022

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

May 7, 1987

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 7, 1987, in Studio 1 at Station WPVI-TV, 4100 City Line Avenue, Philadelphia, Pennsylvania, 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 ratify an amendment to the Company's By-laws which provides for indemnification of directors, elected officers and certain other persons to the fullest extent permitted by New York law.

3. To consider and act upon a proposal to amend the Incentive Stock Option Plan.

4. To consider and act upon a shareholder proposal concerning accountants, which is opposed by the Board of Directors.

5. 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 20, 1987, 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.

Attendance at the meeting will be limited to shareholders of record as of the record date or their authorized representatives, not to exceed two per shareholder, and to guests of the Company.

By Order of the Board of Directors,

Gerald Dickler
Secretary

March 27, 1987

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 in Studio 1 at Station WPVI-TV, 4100 City Line Avenue, Philadelphia, Pennsylvania, at 11:00 A.M. on May 7, 1987, 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 & Company Inc. to aid in the solicitation of proxies at a fee of $7,500 plus out-of-pocket expenses.

On all matters which may come before the meeting, each shareholder, or his 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 20, 1987. On such date, there were outstanding and entitled to vote 16,129,947 shares of Common Stock. Such number does not include 2,263,549 shares held by the Company as treasury shares. On March 20, 1987, the mean of the high and low prices for one share of the Company's Common Stock on the New York Stock Exchange was $347¾.

The proxy statement and form of proxy is being mailed to shareholders on or about March 27, 1987.

ANNUAL REPORT

The Annual Report of the Company for the year ended December 28, 1986, 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.

Nominee	Age	Director since	Common Stock beneficially owned as of February 6, 1987(1)	Principal occupation and business experience
Robert P. Bauman	56	1985	200(2)	Chairman of the Board and Chief Executive Officer of Beecham Group p.l.c. (manufacturer of consumer products and pharmaceuticals) since 1986; Vice Chairman of Textron Inc. (aerospace technology, commercial products and financial services) 1985 to 1986; Chairman of the Board and Chief Executive Officer of Avco Corporation (financial services, propulsion systems, aerospace technology and management services) 1981 to 1985. Director of McKesson Corporation and Wyman-Gordon Company.
Warren E. Buffett	56	1986	3,000,000(3)	Chairman of the Board and Chief Executive Officer of Berkshire Hathaway Inc. (insurance underwriting, newspaper publishing, and various manufacturing and marketing activities).
Daniel B. Burke	58	1967	48,669(2)(4)	President and Chief Operating Officer of the Company since 1972. Member of the Executive Committee. Director of Rohm & Haas Company.

Nominee	Age	Director since	Common Stock beneficially owned as of February 6, 1987(1)	Principal occupation and business experience
Frank T. Cary	66	1986	300	Former Chairman of the Board of International Business Machines Corporation. Director of American Health Companies, Inc., 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	74	1954	78,575(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	62	1967	17,090(2)(4)	Executive Vice President of the Company since 1966. President of the Broadcast Group from 1969 to 1986.
John B. Fairchild	60	1968	28,094(2)(4)	Executive Vice President of the Company and Chairman and Chief Executive Officer of the Company's Fairchild Publications since 1968.
Leonard H. Goldenson	81	1986	—	Chairman of the Executive Committee. Retired Chairman of the Board of American Broadcasting Companies, Inc.
Alan Greenspan	61	1986	250	President and Chairman of the Board of Townsend-Greenspan and Company, Inc. (economic consulting). 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	73	1986	200	Chairman of the Board and Chief Executive Officer of Amerada Hess Corporation (an integrated oil company). Director of The Mutual Benefit Life Insurance Company and New York Jets Football Club, Inc. (5)
George P. Jenkins	72	1986	—	Consultant to W. R. Grace & Co. (specialty chemicals, with interests in natural resources and general industrial businesses); former Chairman of the Board of Metropolitan Life Insurance Company. Director of Bethlehem Steel Corporation, Chicago Pacific Corporation, W. R. Grace & Co., Presbyterian Ministers Fund and Trammell Crow Real Estate Investors.
Thomas M. Macioce	68	1986	400	Partner of the law firm of Shea & Gould since February 1987. Former Chairman of the Board and Chief Executive Officer of Allied Stores Corporation (department and specialty stores). Director of Manufacturers Hanover Corporation and Manufacturers Hanover Trust Company.

Nominee	Age	Director since	Common Stock beneficially owned as of February 6, 1987(1)	Principal occupation and business experience
John H. Muller, Jr.	62	1971	800(2)	Member of the Executive, Audit and Compensation Committees. Chairman, President and Chief Executive Officer of General Housewares Corp. (manufacturer and marketer of cookware and tabletop giftware products) since 1967.
Thomas S. Murphy	61	1957	135,062(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., International Business Machines Corporation, Johnson & Johnson and Texaco Inc.
Frederick S. Pierce	53	1986	—	Former President and Chief Operating Officer of American Broadcasting Companies, Inc.
John B. Poole	74	1985	—	Retired Chairman of the Board of Poole Broadcasting Company. Formerly a director of the Company from 1959 through 1964.
John B. Sias	60	1977	13,854(4)	Executive Vice President of the Company since 1974 and President of the ABC Television Network Group since 1986. President of the Publishing Group from 1974 to 1986. Director of Enzo Biochem, Inc.
William I. Spencer	69	1980	500	Member of the Audit and Compensation Committees. Retired President and Chief Administrative Officer of Citicorp and Citibank, N.A. Director of Amerada Hess Corporation, Bio-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.	58	1982	1,100(2)	Member of the Executive and Audit Committees. Vice Chairman and Chief Financial Officer of ITT Corporation (diversified multinational enterprise) since 1985; Executive Vice President and Chief Financial Officer thereof 1979 to 1985. Former Chairman, President and Chief Executive Officer of Continental Baking Company. Director of ITT Corporation and Melville Corporation.

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(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. Buffett, 92,240; Mr. Goldenson, 20,000; Mr. Greenspan, 51; Mr. Hess, 2,657; Mr. Jenkins, 60; Mr. Macioce, 30; Mr. Pierce, 1,084; or Warrants owned by or for the benefit of family members, as to which the persons disclaim any beneficial ownership: Mr. Bauman, 15; Mr. Cary, 102; and Mr. Goldenson, 624. 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.

(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; Mr. Burke, 1,020;

Mr. Dickler, 4,000; Mr. Dougherty, 1,159; Mr. Fairchild, 100; Mr. Muller, 50; Mr. Murphy, 472; and Mr. Woodward, 500.

(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 6, 1987: Mr. Burke, 10,335; Mr. Dougherty, 5,000; Mr. Fairchild, 1,237; Mr. Murphy, 10,335; and Mr. Sias, 7,835.

(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 3-year 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. A subsidiary of the Company has reached an agreement with the New York Jets Football Club, Inc. to extend the above agreement for similar rights for the 1987 football season at a total cost for pre-season and regular season games of $1,000,000.

Security Ownership of Certain Beneficial Owners and Management

Officers and directors, as a group, beneficially owned 3,466,945 shares of Common Stock (representing 21.32% of the outstanding shares) at February 6, 1987. No officer or director owned 1% or more of the outstanding Common Stock, except that Mr. Buffett beneficially owned 18.45% (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 6, 1987, 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 6, 1987 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"), 1440 Kiewit Plaza, Omaha, Nebraska 68131, which, through certain of its subsidiaries ("Berkshire Subsidiaries"), owned 3,000,000 shares (representing 18.45% 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 required 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 six meetings during 1986. Messrs. Dougherty, Fairchild and Poole attended fewer than 75% of the total number of Board meetings held in 1986. 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.

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 1986.

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 were five committee meetings during 1986. 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 1986.

Name of individual or number in group	Capacities in which served	Cash compensation	Deferred compensation(1)
Thomas S. Murphy	Chairman and Chief Executive Officer	$ 644,750	$ 89,340
Daniel B. Burke	President and Chief Operating Officer	611,750	85,664
John B. Sias	Executive Vice President and President of ABC Television Network Group	542,100	77,393
Michael P. Mallardi	Senior Vice President and President of Broadcast Group	534,300	16,676
Ronald J. Doerfler	Senior Vice President and Chief Financial Officer	503,100	71,510
All executive officers as a group (12 persons including the above)(2)(3)		$4,794,275	$531,899

(1) Includes amounts accrued under the Profit Sharing Plan, the Supplemental Profit Sharing Plan and tax-deferred contributions under the ABC Savings & Investment Plan, but does not include amounts accrued under the Capital Cities Publishing Pension Plan, the Supplemental Pension Plan or the ABC Retirement Plan; such Plans are described under the caption "Retirement Benefits." Does not include amounts vested under the Supplemental or Incentive Compensation Plans; such Plans are described under the caption "Supplemental and Incentive Compensation Plans."

(2) Payments of $1,372,549 (on an accrual basis) were made for the year 1986 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.

(3) One executive officer has a contract with the Fairchild Publications division of Capital Cities Media, Inc., a subsidiary, providing for payments to him 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.

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 acted as a consultant to the Company during 1986 for which he received $250,000. Mr. Pierce also acted as a consultant to the Company for the one-year period ending January 10, 1987 for which he received $250,000. The Company also has an agreement with Mr. Pierce, dated January 8, 1986, providing for 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.

Supplemental and Incentive Compensation Plans

Supplemental Compensation Plan. Under the Supplemental Compensation Plan 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, together with interest 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. No grants of units have been made under this Plan since 1983.

During the years 1984 through 1986, under units previously granted, benefits became fully vested in the amounts of $2,533,116 for each of Mr. Murphy and Mr. Burke; $2,026,493 for Mr. Sias; $1,417,666 for Mr. Doerfler; $11,005,779 for all executive officers as a group; and $26,347,724 for all employees as a group. During the years 1984 through 1986, all executive officers as a group and all employees as a group were paid $1,101,831 and $7,158,514, respectively, under this Plan.

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 the years 1984 through 1986, the following units were granted at the following average dollar floors: Mr. Murphy, 17,500 at $121.43; Mr. Burke, 17,500 at $121.43; Mr. Sias, 17,500 at $121.43; Mr. Mallardi, 9,000 at $150.00; Mr. Doerfler, 12,500 at $130.00; all executive officers as a group, 97,800 at $121.37; and all employees as a group, 324,200 at $150.99.

Supplementary Compensation Agreements. Under supplementary compensation agreements entered into in 1977, Messrs. Murphy, Burke and Sias at the end of 1986 had vested benefits earned in previous years which totaled $1,884,885, $1,570,738 and $1,256,590, respectively. These amounts, together with additional interest from the beginning of 1987 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 employees, including executive officers (except Mr. Mallardi and two other executive officers), except certain employees of the Northwest Publishing Group for whose benefit the Company maintains a separate profit sharing plan (the "Northwest Plan"); those employees of ABC, and those other subsidiaries and divisions of the Company which were previously a part of or affiliates of ABC, who are covered by the ABC Retirement Plan described below; and certain other employees.

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.

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 limitation 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.

During the years 1984 through 1986, there were accrued the following aggregate amounts of benefits under the Profit Sharing Plan and the Supplemental Profit Sharing Plan (inclusive of deferred compensation amounts for 1986 set forth in the compensation table above): Mr. Murphy, $250,252; Mr. Burke, $239,226; Mr. Sias, $218,155; Mr. Doerfler, $168,447; all executive officers as a group, $1,334,000; and all employees as a group, $14,084,000.

Messrs. Murphy, Burke, Sias, Doerfler 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 benfit 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, Doerfler or to any other executive officers covered by the Supplemental Pension Plan.

Capital Cities Publishing Pension Plan. Employees of the Fairchild and Belleville 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, are covered by the Capital Cities Publishing Pension Plan (the "Publishing Pension Plan"). The Publishing Pension Plan excludes certain employees, such as hourly paid employees at some divisions. Under the Publishing Pension Plan, a participant receives, upon retirement at age 65, a pension benefit equal to 1⅔% of his compensation for each year of his benefit service during which he was a participant, less the product of 1½% of his Social Security benefit multiplied by his aggregate number of years of benefit service. For the purpose of this computation, the Publishing 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 Publishing Pension Plan after they complete 10 years of employment. As a result of the limitation of Section 415, the estimated annual benefits payable to participants upon retirement at normal retirement age 65 may not exceed $90,000.

ABC Savings & Investment Plan. Employees of ABC, or employees of other subsidiaries or divisions of the Company which were previously a part of or affiliates of ABC, may participate in the ABC Savings & Investment Plan (the "SIP"). The SIP is available to nonunion staff employees, certain talent employees and employees represented by a union that has a collective bargaining agreement pursuant to which the SIP is available. The SIP permits each eligible employee upon completion of one year of service to contribute not more than 5% of his regular compensation, with such contribution being 50% matched by his employer. Each employee's contributions are made, as elected by him, to a fund for the purchase of the Company's Common Stock, a diversified equity fund, or a guaranteed income fund, or a combination thereof. Matching employer contributions are invested in the fund for the purchase of the Company's Common Stock. The amount to the credit of each employee's account which is attributable to matching employer contributions allocated to the employee's account for each plan year vests as follows: (a) 33⅓% at the end of the plan year for which the contributions were made; (b) an additional 33⅓% at the end of the plan year immediately following the plan year for which the contributions were made; and (c) an additional 33⅓% at the end of the second plan year following the plan year for which the contributions were made. In addition, each employee who has completed 10 years of service is fully vested in all amounts to the credit of his account which are attributable to matching employer contributions. If the employee's service terminates prior to his 65th birthday for any reason other than retirement, disability or death, the amount to the credit of his account which is vested is distributable to him and the balance is forfeitable unless he returns to service within 5 years. In lieu of making regular after-tax contributions, employees may elect to reduce their taxable compensation and have tax-deferred contributions made under the SIP in the amounts of such reductions. However, each employee's tax-deferred contributions are limited to $7,000 per year. Such tax-deferred contributions are subject to the same terms set forth above with respect to both employee and employer contributions. In 1986 matching employer contributions were made under the SIP in the amount of $5,865,644 for all employees as a group and $11,447 for those executive officers who participated in this plan, including $8,338 for Mr. Mallardi.

ABC Retirement Plan. Employees of ABC, or employees of other subsidiaries and divisions of the Company which were previously a part of or affiliates of ABC, are entitled to receive benefits under the ABC Retirement Plan upon retirement after completion of 10 years of credited service or after attaining age 65. Contributions to the ABC Retirement Plan are made only by the employer and are computed on a group basis, with no specific amount paid, set aside or expensed for the account of any participant. Participants are entitled, for each year of credited service, to an annual retirement benefit equal to 1.6% of their average annual compensation for the highest 60 consecutive months during the final 120 months of credited service, less 1/70 of their primary Social Security benefits. Compensation for pension purposes consists of the participant's base salary, commissions, any profit participation based upon written agreement, 50% of amounts paid to the participant under incentive compensation plans and 100% of the participant's overtime and extended workweek compensation, in each case before giving effect to elections by participants to reduce their taxable compensation and have tax-deferred contributions made under the SIP in the amounts of such reductions. The maximum number of years of service which may be credited to a participant is 40 years. Participants qualify for early retirement after attaining age 55. Participants who retire after attaining age 62 are entitled to receive their full accrued benefits. Benefits payable to a participant who retires earlier are subject to a 4% reduction for each year prior to age 62. Mr. Mallardi participates in the ABC Retirement Plan and his 1986 compensation for pension purposes was $406,031. He is presently credited for pension purposes with 17 years of service.

The following table sets forth estimated annual pensions under the ABC Retirement Plan based on indicated levels of average annual compensation assuming retirement at age 65.

Average annual compensation on which retirement benefits are based	Estimated annual pension based on years of credited service indicated			
	10 years	20 years	30 years	40 years
$100,000	$ 14,648	$ 29,296	$ 43,944	$ 58,592
200,000	30,648	61,296	91,944*	122,592*
300,000	46,648	93,296*	139,944*	186,592*
400,000	62,648	125,296*	187,944*	250,592*
500,000	78,648	157,296*	235,944*	314,592*

* Represents aggregate benefits under the ABC Retirement Plan before application of the Section 415 limitation. Under Section 415 a participant's annual pension cannot exceed $90,000.

Certain employees of ABC, or employees of other subsidiaries and divisions of the Company which were previously a part of or affiliates of ABC, who participate in the ABC Retirement Plan or in the SIP are entitled to participate in an unfunded Benefit Equalization Plan (the "BEP"). Under the BEP, participants are to be paid those amounts which would have been allocated to them under the SIP or accrued for their benefit under the ABC Retirement Plan, but for the limitation of Section 415. Participants' benefits accrued under the BEP on account of the Section 415 limitation on ABC Retirement

Plan benefits are generally payable in accordance with the terms and conditions applicable to participants' benefits under the ABC Retirement Plan. Participants' benefits accrued under the BEP on account of the Section 415 limitation on SIP benefits are generally payable in accordance with the terms and conditions applicable to participants' benefits under the SIP.

Other plans. Certain subsidiaries maintain plans for the benefit of their employees, who do not participate in the above profit sharing plans and pension plans.

The International Medical News Group Profit Sharing Plan (the "IMNG Plan") is maintained for the benefit of the employees of the International Medical News Group of Media's Fairchild Publications 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 IMNG Plan for each year is divided among the active participants in that 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 Institutional Investor Employee Savings Plan (the "Savings Plan") is maintained by Institutional Investor, Inc. ("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 (but not more than $7,000 per year), 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 IMNG Plan earnings on such amounts, become vested and non-forfeitable 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-forfeitable 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 the IMNG Plan and the Savings Plan are paid out to the participants in installments or in lump-sum distributions following their retirement or other termination of employment.

The Institutional Investor Employees Pension Trust (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 that 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 non-forfeitable.

The Times Leader Pension Plan (the "Times Leader Plan") is maintained for the benefit of the employees of the Wilkes-Barre Times Leader, a division of Media. Under that 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 that plan after they complete 10 years of employment.

For the years 1984 through 1986, contributions were made to qualified profit sharing plans in the amounts of $5,173,000, $5,774,000 and $5,295,000, respectively, and in connection with noncontributory pension plans the amounts of $1,628,000, $831,000 and $6,198,000, respectively, were expensed.

Stock Options

ISO Plan and 1972 Plan. For a description of the Incentive Stock Option Plan (the "ISO Plan"), amendments to which are being submitted to shareholders for approval, see "Proposed Amendments to the Incentive Stock Option Plan" herein.

Under the 1972 Employee Stock Option Plan (the "1972 Plan") 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 6, 1987, options granted pursuant to the ISO and 1972 Plans prior to January 1, 1984 were outstanding to purchase the following shares at the following average per share exercise prices: Mr. Murphy, 10,000 at $61.50; Mr. Burke, 10,000 at $61.50; Mr. Sias, 7,500 at $61.50; Mr. Doerfler, 6,536 at $73.14; Mr. Fairchild, 1,400 at $141.00; Mr. Dougherty, 5,000 at $61.50; all executive officers as a group, 43,380 at $69.67; and all employees as a group, 140,553 at $91.11. The table below sets forth options granted and/or exercised between January 1, 1984 and December 28, 1986.

	T. S. Murphy	D. B. Burke	J. B. Sias	R. J. Doerfler	J. B. Fairchild	All executive officers as a group	All employees as a group
Options Granted							
Number of shares of Common Stock	1,340	1,340	1,340	800	750	6,370	23,355
Average per share exercise price	$186.38	$186.38	$186.38	$186.38	$186.38	$186.38	$179.58
Options Exercised							
Net value (market value less exercise price)	$3,341,657	$3,084,188	$2,839,595	$167,885	$840,250	$11,165,752	$37,295,609

PROPOSAL TO RATIFY AN AMENDMENT TO THE COMPANY'S BY-LAWS REGARDING INDEMNIFICATION OF DIRECTORS, ELECTED OFFICERS AND CERTAIN OTHER PERSONS

The Board of Directors is seeking shareholder ratification of an amendment to the Company's By-laws adopted by the Board of Directors on November 13, 1986. The By-law amendment added an Article VIII, entitled "Indemnification of Directors, Officers and Others" (hereinafter "Article VIII"). Article VIII is designed to reduce the exposure of the Company's directors and elected officers and certain other corporate personnel to personal liability arising out of actions taken in performing services on behalf of the Company. The purpose of obtaining shareholder ratification is to provide persons for whom indemnification may be available with a defense against any claim that their indemnification was not within the power of the Company to grant or that Article VIII is invalid and unenforceable. Accordingly, if Article VIII is ratified a shareholder could be estopped from claiming that Article VIII is invalid. One or more directors may personally benefit from shareholder ratification of Article VIII at the potential expense of shareholders.

The provisions of Article VIII are described in greater detail below. The text of Article VIII is set forth as Exhibit A to this proxy statement, and the description herein of such Article is qualified in its entirety by reference to Exhibit A.

In recent years, directors and officers of corporations have increasingly been subjected to the risk of expensive and time-consuming litigation pertaining to their performance on behalf of the corporations they serve. To protect their directors and officers in some measure against such exposure, corporations have furnished liability insurance to their directors and officers. In the last two years the market for such insurance has been affected by significantly increased premiums and reduced coverage. On January 19, 1987 the Company renewed its directors' and officers' liability insurance policy with Federal Insurance Company for the one-year period at a total cost of $650,000. The policy insures up to an aggregate of $10,000,000 (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 the insurance company under this policy or the prior policy as of the date hereof. The continued availability of such insurance to the Company at a reasonable cost is uncertain. To the extent the Company fails to maintain such insurance or an indemnification claim under Article VIII exceeds the insurance coverage maintained, the assets and equity of the Company, and thus potentially the shareholders' investment, could be at risk.

Responding in part to the developments in the area of director and officer liability generally, New York in July 1986 enacted substantial changes in the provisions of its Business Corporation Law (the "New York BCL") governing the indemnification of directors and officers by New York corporations such as the Company. Prior to these amendments, New York law provided for limited mandatory indemnification, and all rights to indemnification were exclusively contained in the statute. The amendments permit a corporation to provide its directors and officers with more extensive indemnification rights, if such additional rights are contained in or authorized by the certificate of incorporation or by-laws.

The New York Governor's memorandum in support of the New York BCL amendments stated that the principal objective of the statutory changes was to "encourage capable and experienced persons to serve in corporate management by providing reasonable indemnification of the directors and officers of public corporations for their defense of both third-party and derivative actions." Although the Company has not experienced any difficulty in attracting and keeping able and well-qualified persons as directors and officers, the Board of Directors' adoption of Article VIII is intended to ensure that the Company will continue to be able to attract and keep such persons by assuring that the Company will hold them harmless when they act on behalf of the Company in good faith and not on the basis of self-interest. The Board did not adopt Article VIII in response to any expressed intention on the part of any director or officer to resign if Article VIII were not adopted. To the extent not prohibited by law, Article VIII would be applicable retroactively to events, if any, occuring prior to the adoption of Article VIII. To the Company's knowledge, however, there is no pending or threatened suit or claim against any director, officer or other corporate personnel alleging a breach of duty, nor any other matter for which indemnification would be provided by Article VIII for which such person would not have been entitled to indemnification prior to the adoption of Article VIII. There is pending a legal proceeding against one officer in his capacity as a trustee of a union pension fund, for which the Company is providing liability insurance coverage; such indemnification would have been permitted under the New York BCL even prior to the adoption of Article VIII.

New York Statutory Provisions for Indemnification

The New York BCL, as amended, now provides that a corporation *may* (but is not required to) indemnify a director or officer against judgments, fines, amounts paid in settlement and reasonable expenses of litigation (other than in an action brought by the corporation against such person or by shareholders against such person on behalf of the corporation), even if the director or officer is not successful on the merits, if he acted in good faith and for a purpose he reasonably believed to be in (or not opposed to) the best interests of the corporation (and, in criminal actions or proceedings, had no reason to believe his conduct was unlawful). In addition, a corporation *may* (but is not required to) indemnify a director or officer against amounts paid in settlement and reasonable expenses of an action brought against him by the corporation or by shareholders on behalf of the corporation, even if he is not successful on the merits, if he acted in good faith and for a purpose he reasonably believed to be in (or not opposed to) the best interests of the corporation. However, no indemnification is permitted in an action by the corporation, or shareholders on behalf of the corporation, in connection with the settlement or other disposition of a threatened or pending action or in connection with any claim, issue or matter as to which a director or officer is adjudged to be liable to the corporation, unless a court determines that, in view of all of the circumstances, he is entitled to indemnity for such portion of the settlement amount and expenses as the court deems proper. In addition, the New York BCL provides that a director or officer *shall* be indemnified if such person is successful in the litigation on the merits or otherwise.

Permitted indemnification as described above may only be made if it is determined that indemnification is proper because the applicable standard of conduct has been met. This determination may be made by a quorum of disinterested directors, independent legal counsel or the shareholders. Upon application of the person seeking indemnification, a court may also award indemnification upon a determination that the standards outlined above have been met. A corporation's board of directors may also authorize the advancement of litigation expenses to a director or officer upon receipt of an undertaking by him to repay such expenses if it is ultimately determined that he is not entitled to be indemnified for them.

Indemnification as Provided by Article VIII

The purpose of Article VIII is to provide greater rights of indemnification and thus take advantage of the New York BCL's present provisions allowing for expansion upon the statutory indemnification provisions. Prior to the adoption of Article VIII, neither the Company's Certificate of Incorporation nor its By-laws contained any provisions concerning indemnification.

Mandatory Indemnification. Prior to the adoption of Article VIII, unless any director or officer involved in litigation had been successful, on the merits or otherwise, the Company could have chosen not to provide indemnification in any particular case (although a person denied such indemnification could have applied to a court therefor). Article VIII provides that the Company *shall* indemnify a director or elected officer to the fullest extent permitted by law.

Standard of Conduct. Prior to the amendment to the New York BCL, a person seeking indemnification was required to show that his acts were committed in good faith, for a purpose he reasonably believed to be in (or not opposed to) the best interests of the corporation (and, in criminal actions or proceedings, had no reason to believe his action was unlawful). Under Article VIII, a director or elected officer seeking indemnification will be indemnified *unless* there is a judgment or other adverse final adjudication establishing (i) that the acts involved were taken in bad faith or were the result of active and deliberate dishonesty and were material to the cause of action so adjudicated, or (ii) that the director or officer personally gained a financial profit or other advantage to which the person was not legally entitled.

Indemnification of Directors and Elected Officers. Under Article VIII, the Company is obligated to indemnify directors and elected officers against any liability incurred in connection with any proceeding in which such person may be involved as a party or otherwise by reason of the fact that the person is or was serving as a director or elected officer of the Company, except as expressly prohibited by law. Such liabilities may include, without limitation, judgments, fines, penalties, punitive damages, excise taxes assessed with respect to an employee benefit plan, amounts paid in settlement, costs and expenses of any nature (including attorneys' fees). Prior to the amendment of the New York BCL and the Board of Director's adoption of Article VIII, the Company could indemnify a director or officer made a party to an action brought by the Company or by shareholders on behalf of the Company only against amounts paid in settlement and reasonable attorneys' fees. Moreover, if such a proceeding were settled, or if the director or officer were adjudged to have been liable to the Company in such a proceeding, the director or officer could have been indemnified only to the extent permitted by a court.

Article VIII by its terms will also indemnify directors and elected officers against liabilities incurred under the federal securities laws. However, the Securities and Exchange Commission and some courts have taken the position that a corporation may not provide indemnification against such liabilities. Other state or federal statutes may raise similar issues.

Article VIII provides that the term "elected officer" shall include only a person who shall have been elected, designated or appointed to act as an officer of the Company by the Board of Directors but shall not include any person designated or appointed an officer of the Company, or any of its divisions or operating units, by an individual whether acting under authority delegated by the Board of Directors or in any other manner.

Indemnification of Other Corporate Personnel. Article VIII also provides indemnification protection to other corporate personnel for actions or proceedings arising out of their service to the Company or to another organization at the Company's request if such personnel acted in good faith and in the best interests of the Company, as determined by the President of the Company or his designee. Article VIII also provides that the Company may indemnify any other person to whom the Company by applicable law is permitted to provide indemnification or advancement of expenses, whether pursuant to the statute or by a resolution of shareholders or directors or an agreement providing for such indemnification. Such other corporate personnel may include, but need not be limited to, any person serving at the request of the Company as a director, officer, fiduciary or trustee of another corporation, partnership, joint venture, trust, employee benefit plan or other entity or enterprise. New York law formerly permitted indemnification of such persons.

General. The Board of Directors without further shareholder approval has the authority to amend, modify, expand or rescind the Company's By-laws as necessary or appropriate to reflect any future developments concerning indemnification of directors and officers.

In the event the shareholders do not ratify Article VIII, the Board of Directors does not intend to rescind its adoption of Article VIII.

The Board of Directors recommends a vote **FOR** ratification of By-law Article VIII.

PROPOSED AMENDMENTS TO THE INCENTIVE STOCK OPTION PLAN

The Board of Directors is seeking shareholder approval of proposed amendments to the existing ISO Plan.

Background

For a number of years, the Company has strongly emphasized incentives for its executives and key employees. The Board of Directors believes that this policy benefits shareholders by providing motivation to its executives and key employees and attracting people of quality in competitive job markets. Accordingly, in recent years the Company has provided a stock option program. At the Company's annual meeting of the shareholders held on May 12, 1982, the shareholders adopted the ISO Plan (the "Plan") which authorized the granting to key employees of options to purchase an aggregate of 300,000 shares of Common Stock.

The Board of Directors has carefully evaluated the operation of the Plan and has concluded that it, together with predecessor stock option plans in force from time to time, have been successful in attracting and motivating executives and key employees. However, the Board of Directors is aware that the Tax Reform Act of 1986, by reducing the marginal income tax rate on ordinary compensation income while increasing the tax rate on capital gains income, has significantly diminished the tax advantages of incentive stock options and the tax disadvantages of non-qualified options. The effect of this, coupled with certain other considerations, may be that a non-qualified stock option could well furnish a superior incentive to executives and key employees than does an incentive stock option. Additionally, the exercise of a non-qualified stock option would give the Company a tax deduction which it would not obtain upon the exercise of an incentive stock option.

Amendments to the Plan

Subject to shareholder approval, the Board of Directors has adopted amendments to the Plan which provide that:

(i) An additional 300,000 shares of Common Stock are to be reserved for the grant of options to key employees and executives under the Plan.

(ii) Either incentive stock options or non-qualified options may be granted to executives or key employees. (See "Tax Consequences" below for a description of the difference between incentive stock options and non-qualified options.)

(iii) An optionholder may pay for the shares to be acquired upon exercise of his option either in cash or by the exchange of shares of Common Stock previously held by him at their fair market value. (Previous to this amendment, those optionholders who are directors or officers of the Company were not able to pay the exercise price of an option granted under the Plan by the exchange of shares of previously held Common Stock without incurring liability to the Company under Section 16(b) of the Securities Exchange Act of 1934 for profits realized by them on such exchange; now such persons will not incur Section 16(b) liability, and all optionholders will be entitled to make payment by the exchange of shares.)

(iv) There are to be automatic adjustments in the number of shares of Common Stock available for the grant of options upon the occurrence of a future stock dividend, stock split or other change in the structure of the Company's Common Stock.

(v) The name of the Plan is to be changed to the Employee Stock Option Plan.

Tax Consequences

Under the Plan, as amended, options may be granted which are (i) incentive stock options within the meaning of Internal Revenue Code Section 422A(b) or (ii) other than incentive stock options (*i.e.*, non-qualified options).

The federal income tax consequences of an incentive stock option are as follows: An employee realizes no income upon the grant of an option to him. An optionee who has held his shares for two years after the grant of the option and for one year after he receives the shares upon its exercise will not incur any federal income tax liability at the time of exercise of the option (except to the extent that the spread between the fair market value of the stock at the time of exercise and the option exercise price is an item of tax preference) and will realize taxable long-term capital gain upon a subsequent sale of his shares at a price greater than the option price. No deduction will be allowable to the Company for federal income tax purposes in connection with the grant or exercise of such an option. However, if the optionee sells his shares without complying with the above holding periods, he will have ordinary compensation income in the year of sale equal to the difference between the option price and the value of the stock when the option was exercised (or, in certain cases, the sale price, if lower). The Company would be entitled to a federal income tax deduction in the amount of such income.

An employee will also realize no income upon the grant to him of a non-qualified option. However, the general rule is that the holder of a non-qualified option will realize taxable ordinary income at the time of the exercise of his option in an amount equal to the excess of the fair market value of the shares acquired at the time of such exercise over the option exercise price, and such amount will be deductible by the Company for income tax purposes. Any gain or loss realized by the optionee upon a subsequent sale of his shares will be a capital gain or a capital loss, and such gain or loss will be long-term or short-term depending upon the length of time the optionee held the stock after he acquired it.

Summary of the Plan

The following is a summary of the principal provisions of the Plan, as amended:

Common Stock Subject to the Plan. A total of 600,000 shares of Common Stock (subject to adjustment for stock splits and other changes in the Company's capital structure) are reserved against the exercise of options granted and to be granted under the Plan. As of the date hereof, options for 504,555 shares of Common Stock are available for future grants. As of such date employees have purchased 15,202 shares upon exercise of options.

Administration. The Plan is administered by the Compensation Committee of the Board of Directors. The Compensation Committee consists of three non-employee directors, all of whom are (and for at least one year have been) ineligible to participate in the Plan or in any other plan of the Company which provides for the acquisition by its participants of shares of Common Stock, stock options or stock appreciation rights. The Compensation Committee, subject to the express provisions of the Plan, has authority, in its discretion, to determine the individuals who are to receive options, the kind of options to be granted, the times when options are to be granted and the number of shares to be subject to each option; to prescribe, amend and rescind rules and regulations relating to the Plan; to determine the terms and provisions of option agreements (other than the required terms described below); to construe option agreements and the Plan; and to make all other determinations necessary and advisable for the administration of the Plan.

Participation. Options may be granted to key employees (including officers) of the Company and its subsidiaries. All key employees are eligible to participate in the Plan, and approximately 115 employees are at present participating in the Plan. The 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 an option, except that the aggregate fair market value (determined as of the time the option is granted) of Common Stock with respect to which incentive stock options are exercisable for the first time by an employee in any calendar year may not exceed $100,000. 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 Plan.

Option Agreements. Each option will be granted pursuant to an agreement with the optionee. Required terms of option agreements are as follows:

(a) The option price must not be less than 100% of the fair market value of the Common Stock at the time the option is granted.

(b) An incentive stock option may not be exercised more than 10 years from the date it is granted.

(c) A non-qualified option may not be exercised more than 11 years from the date it is granted.

(d) 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.

(e) Each option is to 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.

(f) 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 is on account of his death or disability), but only to the extent the option is otherwise exercisable on that date.

(g) An incentive stock option granted prior to January 1, 1987 may not be exercised while there is outstanding any other incentive stock option previously granted to the optionee.

(h) The exercise price of any option may be paid, at the optionee's election, either in cash or by his exchange of shares of Common Stock previously held by him at their fair market value.

Termination and Amendment. The Plan became effective on December 7, 1981, the date of its adoption by the Board of Directors, and it is to remain in effect until ten years from that date, unless it is sooner terminated by the Board. 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 issued under the Plan, change the class of employees who are eligible for the grant of options, reduce the option price, extend the termination date of the Plan, or increase the period of time during which options may be exercised. Neither termination of the Plan, nor any modification or amendment thereof, may adversely affect any rights under an option previously granted under the Plan without the consent of the optionee.

The Board of Directors recommends a vote FOR the proposed amendments to the ISO Plan.

SHAREHOLDER PROPOSAL CONCERNING ACCOUNTANTS

The Company has been informed that Evelyn Y. Davis, 2600 Virginia Avenue, N.W., Suite 215, Washington, D.C. 20037, the beneficial owner of 20 shares of Common Stock, intends to propose at the meeting the adoption of the following resolution:

Shareholder Resolution

"RESOLVED: That the stockholders of Capital Cities/ABC recommend that the Board of Directors take the necessary steps to have the Accounting Firm elected by ALL the shareholders each year."

The reasons given by the shareholder for such proposal are:

"REASONS: The great majority of New York Stock Exchange listed corporations elect their accountants each year.

"The many divisions the Corporation has in a great variety of businesses spread out in many parts of the world makes election of accountants especially desirable for Cap Cities ABC.

"If you AGREE, please mark your proxy FOR this resolution."

The Board of Directors recommends a vote AGAINST this proposal for the following reasons:

The purpose of this proposal, however couched, is to transfer the responsibility for the selection and approval of the Company's outside accounting firm from management and the Audit Committee of the Board of Directors into a decision to be reviewed by, and ultimately made by, the shareholders at the Company's annual meeting. This proposal is unnecessary—and indeed is counter-productive—to the goal of ensuring selection of the best qualified, most responsive outside accounting firm to assist the Company. Management recommends and the Audit Committee of the Board of Directors annually evaluates all relevant criteria in assessing the performance of the Company's accounting firm, including the quality of its audit work, its knowledge of the industry and the Company's affairs, its understanding of the Company's system of operational autonomy, the availability of its professional advice on a timely basis, and the reasonableness of its fees.

It is not practicable to present such a range of information to shareholders so that they can make an informed decision about the outside accounting firm's performance. It is for that reason that the Audit Committee is charged by the Board of Directors with the responsibility of annually evaluating the work of the outside accounting firm and approving the audit engagement each year. The Board of Directors believes that the present process for the selection of the outside accounting firm works well and both protects and is in the best interests of the shareholders and the Company.

The Board of Directors therefore recommends a vote AGAINST this proposal.

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.

VOTE REQUIRED AND OTHER BUSINESS

Directors will be elected by a plurality of the votes cast. Approval of amendments to the ISO Plan will require the vote of a majority of the outstanding shares of Common Stock entitled to vote. Approval of each other matter will require the affirmative vote of a majority of the votes cast thereon.

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" proposals 1, 2 and 3 and "against" proposal 4 as set forth in the proxy and described herein.

1988 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 1988 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 November 30, 1987.

By Order of the Board of Directors,

THOMAS S. MURPHY
Chairman

March 27, 1987

EXHIBIT A

ARTICLE VIII

Indemnification of Directors, Officers and Others

SECTION 1. The Corporation shall, to the fullest extent permitted by Section 721 of the New York Business Corporation Law, indemnify any director or elected officer who is or was made, or threatened to be made, a party to an action or proceeding, whether civil or criminal, whether involving any actual or alleged breach of duty, neglect or error, any accountability, or any actual or alleged misstatement, misleading statement or other act or omission and whether brought or threatened in any court or administrative or legislative body or agency, including an action by or in the right of the Corporation to procure a judgment in its favor and an action by or in the right of any other corporation of any type or kind, domestic or foreign, or any partnership, joint venture, trust, employee benefit plan or other enterprise, which any director or elected officer of the Corporation is serving or served in any capacity at the request of the Corporation, by reason of the fact that he, his testator or intestate, is or was a director or elected officer of the Corporation, or is serving or served such other corporation, partnership, joint venture, trust, employee benefit plan or other enterprise in any capacity, against judgments, fines, amounts paid in settlement, and costs, charges and expenses, including attorneys' fees, or any appeal therein; provided, however, that no indemnification shall be provided to any such director or elected officer if a judgment or other final adjudication adverse to the director or elected officer establishes that (i) his acts were committed in bad faith or were the result of active and deliberate dishonesty and, in either case, were material to the cause of action so adjudicated, or (ii) he personally gained in fact a financial profit or other advantage to which he was not legally entitled.

SECTION 2. Employees of the Corporation who are not directors or elected officers shall be indemnified to the fullest extent as now or hereafter provided by Section 722 of the New York Business Corporation Law in connection with any actual or threatened action or proceeding (including civil, criminal, administrative or investigative proceedings) arising out of their service to the Corporation or to another organization at the Corporation's request. Such indemnification shall be authorized by the President or his designee. The indemnification authorized by this Section 2 shall not be deemed to exclude any other rights of indemnification to which any employee may be entitled.

SECTION 3. The Corporation may indemnify any other person to whom the Corporation is permitted to provide indemnification or the advancement of expenses by applicable law, whether pursuant to rights granted pursuant to, or provided by, the New York Business Corporation Law or other rights created by (i) a resolution of shareholders, (ii) a resolution of directors, or (iii) an agreement providing for such indemnification, it being expressly intended that these by-laws authorize the creation of other rights in any such manner.

SECTION 4. For the purposes of this Article VIII, the term "elected officer" shall include only a person who shall have been elected, designated or appointed to act as an officer of the Corporation by the Board of Directors but shall not include any person designated or appointed an officer of the Corporation, or any of its divisions or operating units, by an individual whether acting under authority delegated by the Board of Directors or in any other manner.