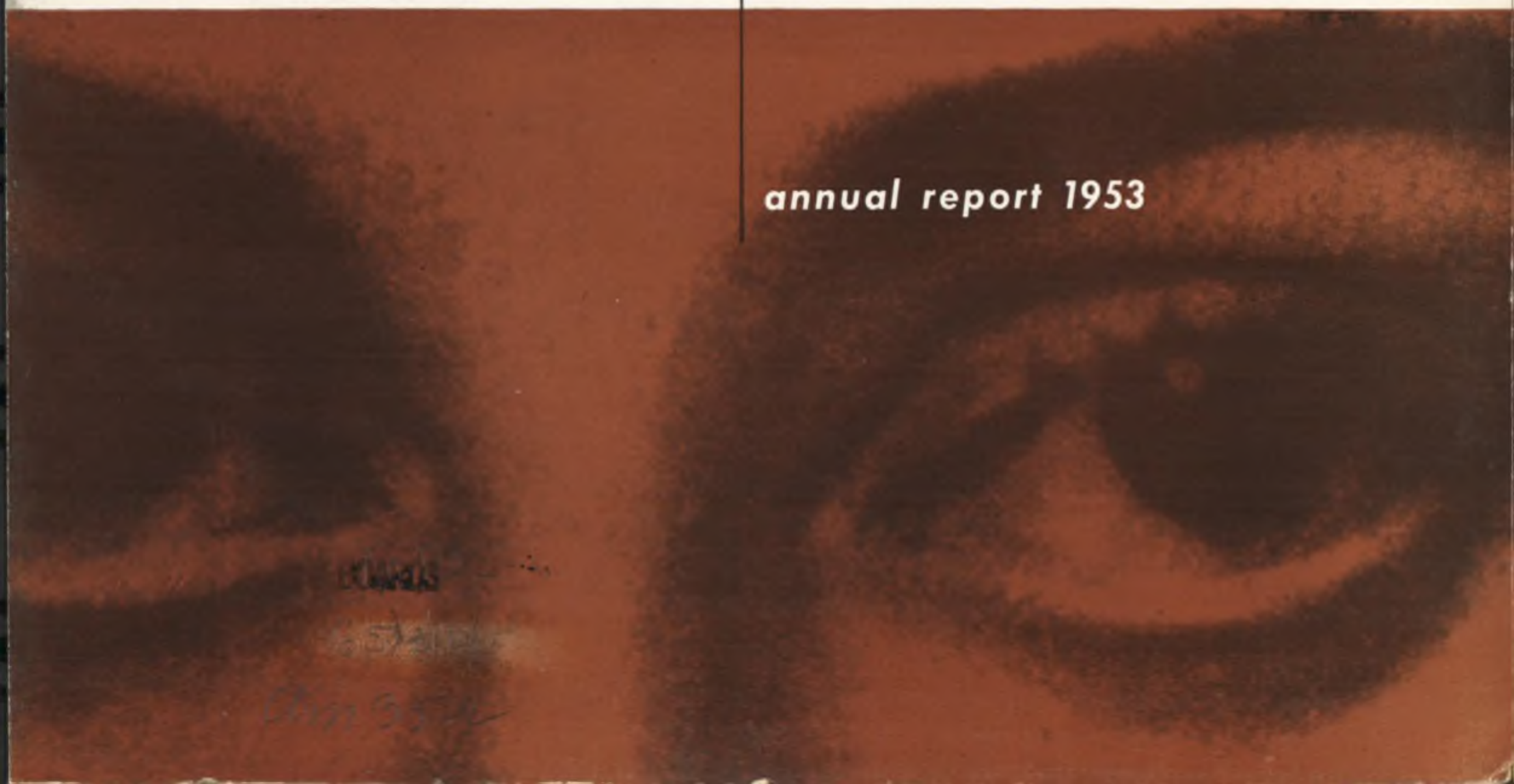
AMERICAN BROADCASTING | PARAMOUNT THEATRES, INC.



annual report 1953

AMERICAN BROADCASTING—
PARAMOUNT THEATRES, INC.

annual report 1953

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EXECUTIVE OFFICES
1501 Broadway, New York 36, N. Y.

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THE YEAR IN BRIEF

The amounts shown below with respect to the year 1952, except as otherwise noted, are taken from pro forma statements which are based on the combined 1952 accounts of the two merged companies after giving effect to the following which occurred at the time of the merger on February 9, 1953: (1) exchange of stock, (2) sale of television station WBKB, Chicago, and (3) prepayment of $7,662,000 debt of American Broadcasting Company, Inc. (See pages 32-34).

		1953		1952 (pro forma)	
INCOME	Total, including:		$172,196,000		$167,417,000
	Theatres operated at January 2, 1954	$113,823,000		$112,172,000	
	Theatres disposed of in 1952 or 1953	1,103,000		3,455,000	
	Total theatre operating income	$114,926,000		$115,627,000	
	ABC operating income	54,758,000		49,734,000	
	Dividends from affiliated companies	177,000		280,000	
	Other income	2,335,000		1,776,000	
EXPENSES	Total, including:		$167,819,000		$162,869,000
	Operating and general expenses	$148,987,000		$144,037,000	
	Interest	1,451,000		1,552,000	
	Depreciation	7,466,000		7,053,000	
	State, local and payroll taxes	5,498,000		5,370,000	
	Federal income tax	4,417,000		4,857,000	
NET PROFIT	Operations:		$4,480,000		$4,548,000
	Less preferred dividends	$488,000			
	Net applicable to common		$3,992,000		
	Per share common		$1.00		
	Capital gains		$4,516,000		$1,379,000
	Per share common		$1.14		
	Combined profit applicable to common		$8,508,000		
	Per share common		$2.14		
DIVIDENDS PAID	Total:		$4,455,000		$4,127,000*
	Per share preferred		$ .89½		
	Per share common		$1.00		$1.25*
	Number of preferred shares outstanding		533,624		
	Number of common shares outstanding		3,967,511		3,300,822*
FINANCIAL POSITION	Working capital		$25,462,000		$28,090,000
	Fixed assets (net)		79,152,000		80,014,000
	Long term debt		40,512,000		42,881,000
	Net worth		78,574,000		79,993,000
	Less par value preferred	$10,672,000		$12,161,000	
	Applicable to common		$67,902,000		$67,832,000
	Per share common		$17.11		$17.10

* Actual for United Paramount Theatres, Inc.

PRESIDENT'S LETTER TO STOCKHOLDERS

This is the first annual report of American Broadcasting-Paramount Theatres, Inc. (AB-PT), the company resulting from the merger on February 9, 1953 of American Broadcasting Company, Inc. with United Paramount Theatres, Inc.

A financial summary of the year's operations is shown on the opposite page. For comparative purposes, the 1952 operating statement and balance sheet have been computed on a pro forma basis. These pro forma figures are summarized in the table "The Year in Brief" and are set forth in detail with the 1953 AB-PT statements on pages 26-31 of this report. The adjustments made in arriving at the pro forma figures as well as the 1952 statements for United Paramount Theatres, Inc. and American Broadcasting Company, Inc. are shown on pages 32-34. We believe that in this way we have shown on a comparative basis the many changes in corporate structure and otherwise as a result of the merger.

Theatre operations in 1953 were better than in 1952. Total theatre operating income, as shown in "The Year in Brief," does not reflect the improvement because we had fewer theatres and the 1953 fiscal year included one less week of operations than in 1952. Operating income and earnings were higher on a theatre-by-theatre basis and over a comparable period of time. The advent of CinemaScope and other technical developments have done much to stimulate the public's interest in movies. The improved earnings reflect not only increased grosses, but also reduced operating costs except for film rentals. The film rentals increased in 1953 by an amount greater than the gain in theatre grosses due largely to the continued shortage of pictures. We are hopeful that production will be increased as conditions in the industry stabilize and as the better pictures continue to show strength at the box office.

In broadcasting, a firm foundation is being established to build a strong competitive operation. Although gross income was ahead of 1952, the ABC Division did not show a profit for 1953, due to the high costs of program development, increased advertising, improvement of physical facilities and the difficulty of clearing stations to carry the network programs. The programming structure has been broadened and the new programs have attracted wider audiences and additional sponsors. The physical facilities of both the network and the five owned radio and television stations have been improved and the operation of these stations has been decentralized to give local management greater autonomy and control.

With the merger consummated and with the approaching completion of our extensive theatre reorganization program, the Company is entering into a new stage of its development. We are broadly diversified in the entertainment industry and as you will note from our year-end statement, we continue to be in a strong financial position.

On behalf of the Board of Directors, I would like to thank our stockholders for their support and confidence throughout the year and the more than 20,000 employees of our Company and its subsidiaries for their continued efforts during this period of transition.

BY ORDER OF THE BOARD OF DIRECTORS

Leonard H Goldenson
President

March 15, 1954

OPERATING AND FINANCIAL REVIEW

net profit

The earnings of American Broadcasting-Paramount Theatres, Inc. for 1953, as shown in the table below, reflect an increase in theatre earnings over the previous year and a loss for the ABC Division. Television station WBKB in Chicago was sold upon the consummation of the merger on February 9, 1953 as required by the Federal Communications Commission's regulations. Accordingly, in order to show the balance sheet and operating earnings for 1952 and 1953 on a comparable basis, the earnings of WBKB for 1952 have been excluded from the 1952 pro forma statement. WBKB's earnings for 1953 prior to its sale on February 9th are shown separately in Table 1.

Capital gains in 1953 were principally due to the sale of station WBKB. Capital gains from the sale of theatre properties, which comprise the balance of capital gains shown for the year, continue to decrease as we approach the end of our theatre divestiture program. Earnings from partly-owned, non-consolidated affiliates are reported as income only to the extent of dividends received.

TABLE 1

net earnings after taxes

		1953	1952 (pro forma)
Operations		$4,377,000	$4,548,000
WBKB		103,000	—
		$4,480,000	$4,548,000
Capital gains		4,516,000	1,379,000
Total		$8.996,000	$5.927.000
Less: preferred dividends paid	$488,000		
Net applicable to common		$8,508,000	
Per share common:			
Operations		$1.00	
Capital gains		1.14	
Combined		$2.14	

income and operating costs

Theatre operating income in 1953 of $114,926,000 was down slightly from 1952 due to the fact that we had fewer theatres in 1953 and that the 1953 fiscal year covered one less week of operations. Adjusting for the theatres disposed of, however, theatre income in 1953 for comparable theatres increased to $113,823,000 as against $112,172,000 in 1952. We were able to control and reduce operating costs in 1953 except for film rentals. The increase in film rentals over the previous year exceeded the increase in grosses for the same period. The net effect of these changes was an improvement in theatre earnings for 1953.

Gross income for the ABC Division increased from $49,734,000 to $54,758,000 an increase of $5,024,000 over 1952. This was not reflected in earnings because of the heavy expenditures in program development, advertising and the improvement of physical facilities. The results of these expenditures did not show until late in the year in connection with the important Fall programming period. The plan for strengthening the ABC Division is detailed in the Broadcasting Section.

taxes

In 1953, the Corporation and its subsidiaries provided for payment of Federal Income Taxes amounting to $6,014,000 and also paid or provided for payment of real estate, personal property, State franchise and income taxes, payroll and miscellaneous taxes in the amount of $5,498,000. Table 2 below sets forth these various taxes in detail.

TABLE 2

taxes

	1953
Federal income	
Operations (including WBKB)	$4,539,000
Capital gains	1,475,000
Real estate, personal property and State franchise	3,626,000
State income	187,000
Payroll taxes	1,001,000
Sales, gross receipts, etc.	684,000
Total	$11,512,000

During the year we collected for and paid over to the governmental taxing authorities approximately $21,450,000 in admission taxes. As we reported to you last year, we have long felt that admission taxes are unfair and discriminatory. In 1953 Congress voted for the repeal of the 20% Federal tax. This tax measure, however, was vetoed by the President, although he did hold out promise of some relief in 1954. We are hopeful that this relief will be enacted through legislation by the present session of Congress and we urge our stockholders to give their full support to the repeal of this tax.

dividends

Dividends paid during the year 1953 amounted to $4,455,000 as compared with dividends of United Paramount Theatres, Inc. (UPT) of $4,127,000 in 1952. American Broadcasting Company, Inc. did not pay any dividends in 1952. The merger resulted in increased dividend requirements by reason of the issuance of 608,046 shares of preferred stock and 666,717 additional shares of common stock on February 9, 1953. During the year 1953 AB-PT declared and paid dividends on its preferred stock of

$.89½ per share and dividends on its common stock of $1.00 per share. It should be noted by the terms of our Loan Agreement, dividends may be paid only from earned surplus arising from operations of UPT since the start of business on January 1, 1950 and of the ABC Division since February 9, 1953. Under the agreement, earnings from capital gains are excluded for dividend purposes.

On the basis described above, earned surplus of $3,916,000 at the 1953 year end, plus future operating earnings must accommodate the future retirement of the preferred stock as well as payment of dividends. By the sinking fund requirements of our Certificate of Incorporation, 24,322 shares of preferred stock must be retired each year. During the year we purchased on the open market for sinking fund purposes and retired 74,422 shares of our preferred stock at an average price of $16.12 per share, thus taking care of our sinking fund requirements through 1955 and also to the extent of 1,456 shares for 1956.

capital gains

As stated above, the capital gains realized in 1953 resulted principally from the sale of station WBKB in Chicago with the balance from the disposition of theatre assets. Our theatre divestiture program is described in the Theatre Section.

TABLE 3

capital gains

	1953	1950-52
Sales proceeds	$7,602,000	$16,837,000
Less: expenses of sales	24,000	71,000
Net sales proceeds	$7,578,000	$16,766,000
Capital gains	$5,991,000	$10,150,000
Less: applicable Federal tax	1,475,000	2,457,000
reserve for losses on collections	—	200,000
Capital gains, net	$4,516,000	$ 7,493,000

proceeds of sales

	1953	1950-52
Cash (less expenses of sales)	$7,048,000	$ 9,549,000
Notes	530,000	4,246,000
Equity in properties acquired	—	2,486,000
Stocks in affiliated companies	—	445,000
Other assets	—	40,000
Total proceeds	$7,578,000	$16,766,000

The unpaid balance of notes received over the four year period in these transactions is reflected in the 1953 balance sheet at $2,549,000 after reserve of $200,000 provided in 1952. This unpaid balance represents approximately 10% of the total proceeds.

source and application of funds

The year 1953 was unusual from the standpoint of the Company's cash requirements. The consummation of the merger entailed the sale of WBKB and the prepayment of ABC funded debt, as well as the making of substantial physical improvements in the ABC facilities. Theatre-wise, the quick development of new motion picture exhibition techniques and methods necessitated the rapid expenditure of large sums for sound, screen and projection equipment. Market conditions also presented favorable opportunities availed of by the Company to make open market purchases of its preferred stock. Despite the heavy cash outlays made, the Company's working capital decreased only $1,572,000 in 1953 from the working capital position of UPT at the year end 1952. Table 4 below records the details of these changes.

TABLE 4

source and application of funds

		1953
Working capital at January 3, 1953		
United Paramount Theatres, Inc.		$27,034,000
American Broadcasting Company, Inc. (per pro forma balance sheet)	$1,220,000	
Less: Additional provision for prior year taxes	500,000	720,000
Combined		$27,754,000
Source of funds		
Net income from operations (incl. station WBKB to Feb. 9, 1953)	$4,480,000	
Provision for depreciation	7,477,000	
Cash proceeds from capital gains transactions, less provision for Federal capital gains tax	5,573,000	
Collection of notes receivable	649,000	
Other—net	366,000	18,545,000
		$46,299,000
Application of funds		
Dividends paid—Preferred	$ 488,000	
Common	3,967,000	
Fixed asset additions and replacements—		
Theatres (including $3,621,000 for stereophonic sound, wide screen and 3-D)	6,837,000	
ABC Division	1,344,000	
Payments and prepayments of funded debt—		
To three banks under "Metropolitan" loan agreement	1,750,000	
ABC debt paid .... $8,201,000 (less $3,000,000 classified as current at January 3, 1953)	5,201,000	
Theatre notes and mortgages	37,000	
Cost of 74,422 shares of preferred stock purchased and retired	1,213,000	20,837,000
Working capital at January 2, 1954		$25,462,000

fixed assets and investments

Consolidated fixed assets, after reserves for depreciation and amortization, amounted to $79,152,000 for 1953 as compared with $80,014,000 in the 1952 pro forma statement.

By the end of 1954, we estimate that approximately $6,000,000 will be spent to equip about 260 theatres for 3-D and wide screen (such as CinemaScope) presentations together with stereophonic sound. Of this amount, approximately $3,621,000 was spent in 1953.

Capital expenditures for the ABC Division amounting to $1,344,000 related to the initial stages in the installation of facilities for increasing the transmitting power of the five owned TV stations, the first steps in the renovation of the Eagles Building in San Francisco, and other physical improvements. We estimate that ABC capital expenditures for 1954 will be approximately $3,500,000.

TABLE 5

changes in fixed assets	*1953*
Additions and replacements	$8,181,000
Less: sales of properties	(1,426,000)
other changes	(140,000)
Net increase in fixed assets before depreciation	$6,615,000
Less: depreciation	7,477,000
Net decrease in fixed assets	$ (862,000)

During the year there was no change in investments in capital stocks of affiliated theatre companies. The increase as shown by the comparative balance sheet represents investments in and advances to non-theatre operating companies.

long term debt

The Company continued to stay one year ahead of the maturities under its term credit with three banks and Metropolitan Life Insurance Company. During the year, two additional maturities, amounting to $1,750,000 were prepaid on the 2½% notes outstanding under the Company's loan agreement, leaving a balance of $38,000,000. This loan, which originally amounted to $45,000,000 is described in the footnotes to the financial statement on page 30.

Following the merger and during the course of the year $8,201,000 of the $10,567,000 ABC debt was retired. Payments of $37,000 were also made on theatre mortgages. All told, as shown in the section Source and Application of Funds, $9,988,000 was applied in 1953 to the retirement of term debt.

book value of common stock

Table 6 reflects the changes in the book value of the common stock. After the issuance of new preferred and additional common stock as a result of the merger, the book value per share of the common stock was $15.91. Additions to earned surplus in 1953 and the retirement of 74,422 shares of preferred stock, less minor charges to capital surplus, caused the book value per share of the common stock to increase to $17.11 at the year end.

TABLE 6

analysis of change per share common stock equity

		Total	Per Share Common
Equity at beginning of year (UPT)—3,300,822 shares		$61,254,719	$18.56
Giving effect to merger:			
Net assets of ABC at January 1, 1953	$14,519,208		
Less: reserve provided for additional prior year taxes	500,000		
	$14,019,208		
Preferred stock issued — par value	12,160,922		
Equity for common stock acquired, against which 666,717 additional shares of common stock were issued		1,858,286	
Equity after giving effect to merger (AB-PT)—3,967,539 shares		$63,113,005	$15.91
Additions during 1953:			
Consolidated earnings ..	$ 8,995,697		
Less: dividends paid	4,454,995	4,540,702	1.14
Discount on 74,422 preferred shares purchased and retired..	$ 275,488		
Charges to capital surplus	(27,182)	248,306	.06
Equity at end of year (January 2, 1954)		$67,902,013	$17.11


PARAMOUNT
WORLD PREMIERE
PARAMOUNT
IN PERSON

THEATRES

theatre rearrangements

Under the terms of the Consent Judgment entered into on March 3, 1949, the Company was required to reorganize its theatre assets by terminating all of its theatre joint ownerships (other than with investors) and to reduce the number of wholly owned theatres or theatres owned jointly with investors to a maximum of 651. The present date for completion of this program is September 3, 1954.

The changes and reductions effected in our theatre holdings in the past four years are shown below. During 1953 we divested ourselves of a net of 35 wholly owned and 2 partially owned theatres. Two theatres owned jointly with investor interests were also divested. Thus, by the end of the year we divested ourselves of a net total of 39 theatres and we had a whole or partial interest in 669 theatres.

To complete the requirements of the Consent Judgment, we still had, at the year end, to divest ourselves of 29 wholly owned theatres and terminate our joint interest in another 41 houses of which 5 may be retained as wholly owned theatres.

In the course of this reorganization we have also disposed of a number of theatres which we were not required to dispose of under the Consent Judgment. While we will end up with less than the maximum of 651 theatres permitted by the Consent Judgment, the Company will have a much sounder theatre portfolio. Upon final termination of the remaining joint interests not held with investors, the Company will be in a position to acquire new theatres in profitable markets, subject to obtaining Court approval.

theatre divestiture program

	Wholly Owned	*Partly Owned*	*Owned Jointly with Investors*	*Total*
March 3, 1949........	449	955	20	1,424
January 1, 1950.......	558	716	24	1,298
January 1, 1951.......	708	284	27	1,019
January 1, 1952.......	683	169	15	867
January 1, 1953.......	651	43	14	708
January 1, 1954.......	616	41	12	669

industry trends

In the year 1953, there were dramatic developments in the motion picture business which have revitalized the motion picture industry and the interest of the public in movies. During the course of the year we witnessed great technological advances in picture presentation — three dimensional movies, wider screens, stereophonic sound and special processes like Cinema-

Scope; an emphasis in film production on fewer but more expensive and higher quality pictures; and a continued rebound in theatre attendance in areas where television had reached a high saturation point.

The technological developments in picture presentation within the short space of one year have been greater than any changes since the advent of sound. Three dimensional movies sparked this development. The box office success of the first 3-D picture, BWANA DEVIL, as we reported earlier, encouraged producers to rush into the production of these pictures. Unfortunately, most of these early 3-D pictures were lacking in story and cast values and did not properly use the medium. As a result, the novelty of 3-D was insufficient to sustain the interest of the public in these pictures.

Toward the latter part of the year, however, several pictures in three dimension were released which were better adapted to the medium and were of high technical standards. These later releases, such as Metro's KISS ME KATE and Warner's HONDO, in conjunction with an improvement in the quality of the glasses required to view such pictures, have shown good results at the box office. Additional pictures in 3-D are expected to be released in 1954.

In addition to, and of greater importance than 3-D, technological research has centered in the size of picture screens and the improvement of sound. The success of "Cinerama", which utilizes a large panoramic screen and directional sound, led to extensive experimentation with wider screens and multiple sound tracks on film. Although the producers have been unable to arrive at a standard screen size, and have been making pictures in differing ratios of width to height, it is now evident from the public's reaction that wider and larger screens definitely enhance the presentation of most pictures. In the absence of an accepted industry standard for size, we have equipped our theatres, wherever warranted, with large, all-purpose screens which can be adapted to the showing of pictures in any of the existing size ratios.

The high point of 1953 was the introduction of the CinemaScope process by Twentieth Century-Fox. This process utilizes a special anamorphic lens which gives greater breadth to the picture on a much wider screen and also uses a multiple track sound system to give improved reproduction, as well as directional sound. The exceptionally well-planned promotion of the CinemaScope process by Fox created wide-spread interest for its initial presentation, THE ROBE, which proved to be a great box office success. The subsequent CinemaScope pictures have also done well at the box office, and most of the major studios have made and are planning to make a number of pictures in this process.

All these technical improvements have been a great stimulant to the industry and to moviegoers everywhere. We can expect further improvements as research continues. Tests are being conducted in the use of wider lenses in production to give even greater scope and a greater feeling of audience participation. There is also great promise in the use of stereophonic sound, but the industry still must learn how to use it to best advantage.

It is too early to predict what the final outcome of these technical advances will be. It has been our policy to equip our key theatres so that we can exhibit pictures in any process and still be flexible for further changes that may develop. We recognize, of course, that the public response and taste will dictate the standards which will ultimately be used and accepted.

We believe, neverthless, that these technical developments, important as they are, are no panacea in and of themselves. It is the story and the performance that are vital and will always remain as the most important "dimension" to the creative people in the industry.

This emphasis by the producers on story content, and their hesitancy in deciding upon which screen technique to use, are reflected to a great degree in the fewer, although better pictures that were released in 1953. Both producers and exhibitors have become aware that today's movie patrons are much more discriminating and selective than in the past, but that they will turn out in ever-increasing numbers to see the better pictures. Although these better pictures are showing excellent box office results, this shortage of pictures has intensified competition among theatres for product and has resulted in a scarcity value which is reflected in sharply increased film rentals. While in 1952 and in 1953 we were able to keep operating costs in line except for film rentals, these rentals were even higher in 1953 than in the previous year.

We are, of course, concerned about this shortage of feature films and we have tried to impress upon the producers the need to increase their production schedules if the industry is to progress and grow. With the improved grosses in 1953, we are hopeful that there will be an increased production of "box office" pictures to insure a greater supply of product to our theatres throughout the year.

A most encouraging factor has been the continued rebound in our theatre business in certain of the larger television saturated markets where the novelty of television has worn off and the period of installment payments for TV sets has been completed. As we mentioned to you in our last Annual Report, this up-turn in business was especially evident in our Chicago and Detroit theatres. In 1953 theatres in these areas continued to show further improvement and we have noted a similar improvement in our theatres in other metropolitan markets such as Boston, Buffalo, Minneapolis and San Francisco. A number of our theatres in the smaller towns, particularly in the South, are now feeling the effects of television for the first time and their grosses are being adversely affected. Based on our experience in other areas as mentioned above, we feel that as the novelty of television wears off, a like upward trend will take place in these areas as well.

We have always felt that television, like radio, can serve the theatre industry as an excellent merchandising and selling medium. Television is ideally suited to advertising movies because it offers an opportunity to bring a sample of the product directly into the potential buyer's home. Sampling is a most effective method of advertising movies as we have learned in our use of coming attraction trailers in theatres. With television we can reach a tremendous audience in millions of homes, preferably by special trailers tailored to the television medium. Many motion picture companies

Paramount Theatre — New York

Chicago Theatre — Chicago

Michigan Theatre — Detroit

Center Theatre — Buffalo

Radio City Theatre — Minneapolis

Metropolitan Theatre — Boston

Palace Theatre — Dallas


new 70′ x 27′ wide screen — Fox Theatre, Atlanta

have already used television with great success to advertise their forthcoming releases. In addition, the appearance of movie stars on television programs has gained favorable publicity for their pictures. We still have much to learn as to how best to use television advertising, but results to date have been very encouraging. We feel that in this area alone television can be a tremendous asset to theatres.

As we look to the future, one factor which seems to hold great promise for the growth and expansion of the theatre business is the significant change in the age distribution of our population in the last decade. As a result of the increased post-war birth rate there will be a greater proportion of younger people in our population than was the case in the 1940-50 period which was affected by the low birth rate in the depression years. Since theatre attendance is proportionately higher in the younger age groups, the motion picture business should gain an increasing potential market as these youngsters come of movie-going age in the next few years.

There were only two major attractions during the year in the field of closed circuit theatre television. The Marciano-LaStarza championship fight was telecast to 45 theatres including 12 of our theatres and was a profitable venture. The second attraction, the Notre Dame football games, was shown in fewer theatres and the public reaction varied, depending on the importance of the particular game being televised.

Recently there has been a heightened interest in theatre TV for off-hour commercial use. In the month of January, 1954, three major companies — the Sealtest Division of the National Dairy Products Corporation, the Dodge Division of the Chrysler Corporation and the Ford Motor Company — telecast their sales meetings and introduced their new product lines to selected audiences in a number of theatres throughout the country. The Ford program, for example, was shown in 32 theatres in a like number of cities, including 12 of our theatres.

The success of these programs will, we hope, encourage other large companies to utilize this communications medium as an effective and economical method of reaching selected audiences. Since the theatres do not usually show motion pictures in the morning hours, business meetings at that time of day will not conflict with normal theatre operations, and therefore will be a source of additional revenue.

Theatre operations of the merged company continue to be conducted on a decentralized basis by regional subsidiary operating companies. These major companies are:

ALABAMA THEATRES, INC.
ARIZONA PARAMOUNT CORPORATION
BALABAN AND KATZ CORPORATION
FLORIDA STATE THEATRES, INC.
INTERMOUNTAIN THEATRES INC.
INTERSTATE CIRCUIT, INC.
MINNESOTA AMUSEMENT COMPANY
NEW ENGLAND THEATRES, INC.
NORTH CAROLINA THEATRES, INC.
NORTHIO THEATRES CORPORATION
PARAMOUNT GULF THEATRES, INC.
PARAMOUNT PICTURES THEATRES CORPORATION
PENN PARAMOUNT CORPORATION
TENARKEN PARAMOUNT CORPORATION
TEXAS CONSOLIDATED THEATRES, INC.
TRI-STATES THEATRE CORPORATION
UNITED DETROIT THEATRES CORPORATION


ABC

BROADCASTING

With the consummation of the merger, ABC commenced operating as a self-contained division of American Broadcasting-Paramount Theatres, Inc.

In addition to retiring the major portion of its term debt, as described in the Financial Section, substantial amounts of working capital were and will be made available to the Division for expanded operations and improvements to its physical facilities. The latter include a commitment of two million dollars to increase the transmitting power of the five owned television stations, and $1,300,000 for the renovation of the Eagles Building in San Francisco to house the offices and studios in one building.

television

Inasmuch as the improved revenue and earnings of the network and its stations depend primarily on the development of better programs, plans were formulated to broaden the programming structure, particularly in television, for the important Fall season. Several programs were showcased in the Spring as part of the ABC ALBUM. From one of the programs in this series, the present network television show, JAMIE, starring Brandon de Wilde, developed. Steps were taken to attract to ABC proven star talent. Danny Thomas, Ray Bolger, George Jessel and Paul Hartman, among others, were signed in the Spring and Summer of the year. Other types of programming were readied to commence with the Fall season — new dramatic shows including the U.S. STEEL HOUR, the MOTOROLA TV HOUR, the KRAFT TELEVISION THEATRE, CAVALCADE OF AMERICA and the PEPSI-COLA PLAYHOUSE, expanded news coverage with John Daly, and sports programs including films of the Notre Dame football games and a daily sportscast by Bill Stern. These new shows, augmenting such established ABC personalities and programs as Ozzie and Harriet Nelson, Stu Erwin, Walter Winchell, Paul Whiteman, Smilin' Ed McConnell, SUPER CIRCUS, THE LONE RANGER, THE NAME'S THE SAME, SPACE PATROL and YOU ASKED FOR IT, resulted in a substantial increase in the number of hours of commercial programming, the addition of new sponsors and increased audiences.

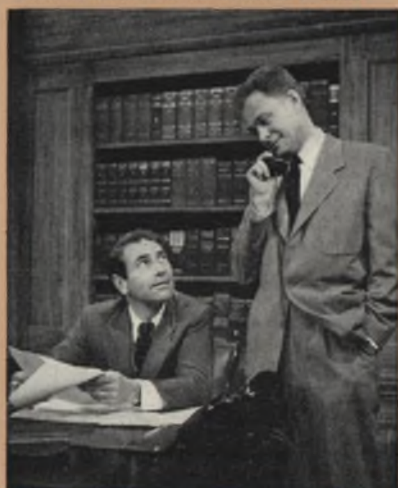
Creating and building an audience is not an easy task. It takes time for people to hear of good new programs. To stimulate the public interest in ABC programs, an intensive advertising, publicity and promotion campaign was launched with the beginning of the Fall programming. All factors considered, the new ABC programs have been well received. The ratings of many of these shows are now beginning to reflect their real potential. As the exposure of these programs continue, they should gain wider audiences.

Several programs have won critical approval for their excellence. The dramatic shows featuring the U. S. STEEL HOUR, the MOTOROLA TV HOUR and

drama on ABC television

"P.O.W. STORY" on the U. S. STEEL HOUR

"THIRTEEN CLOCKS" on the MOTOROLA TV HOUR



Scene from THE MASK melodrama series

Scene from a KRAFT TELEVISION THEATRE presentation

Arlene Dahl on the PEPSI-COLA PLAYHOUSE

Scene from a recent CAVALCADE OF AMERICA show the KRAFT TELEVISION THEATRE have been highly praised as being among the best dramatic shows on television. Several of their programs, notably the first U. S. Steel presentation, "THE P.O.W. STORY" and Motorola's "THE THIRTEEN CLOCKS" have been widely commended as two of the finest individual programs of the year. The U. S. STEEL HOUR received the Academy of Television Arts and Science's coveted citation as the best dramatic program of 1953 and shared the "best new program" award with the Danny Thomas Show, "MAKE ROOM FOR DADDY." The Thomas Show also received the Sylvania Award as the best new comedy program of the year and the National Association for Better Radio and Television Award as the best family situation program. The Sylvania Award was presented to the ABC-TV network for its excellent news coverage of the Coronation. In addition, the distinguished Freedom Foundation Awards were tendered to ABC-radio's AMERICA'S TOWN MEETING OF THE AIR, and to the television shows, CAVALCADE OF AMERICA and the U. S. STEEL HOUR. Other shows including THE BREAKFAST CLUB, THE LONE RANGER and OZZIE AND HARRIET, together with individual performers on ABC programs, such as Brandon de Wilde and Bill Stern, have also received special citations. The credit for the excellence of these shows as well as for others carried on the network, is due, in no small measure, to the sponsors themselves and their production associates.

The costs of developing and building new programs are unavoidably high. They involve not only commitments to talent, but also the price of facilities, promotion, and production. The programs must be good enough to induce advertisers to buy and station owners to clear them. Indeed, the purchase by the advertisers often depends upon the station clearances which can be effected. The whole problem is complicated by the fact that there is a basic shortage of TV stations in many markets.

Although the network presently has over 180 TV affiliates, which is a substantial increase over last year, the problem of clearing a sufficient number of stations to carry ABC programs is still a major one. This is especially true in the important cities where the other networks have long been entrenched and were able to affiliate with the existing stations at a much earlier date. It is in these one and two station markets that ABC has had a particularly difficult time in clearing its programs.

The Federal Communications Commission has concentrated its recent efforts in licensing stations in areas having no TV reception. As this is being accomplished, the FCC will be in a position to consider additional stations in the larger cities which already have one or more stations. As more stations begin to operate in these areas within the next two or three years, and as the network's programming gains wider appeal both for the public and for the stations, this problem of sufficient station clearance should become less acute.

ABC stars

Danny Thomas

Ray Bolger

Brandon de Wilde

John Daly

Elmer Davis

George Jessel

Paul Hartman

Paul Whiteman

Bill Stern

Stu Erwin

Don McNeill

Ozzie and Harriet Nelson

Art Baker

Walter Winchell

Dr. I. Q.

The Lone Ranger

radio

During the transition period of television's growth, it has become increasingly clear that TV is not displacing radio. The growth of television is no longer regarded as an index of radio's decline. It is now apparent that TV and radio are not exclusive alternatives, and that they can prosper side by side. Many advertisers and agencies are talking about the coming "second age of radio."

It is now clear that radio has successfully survived the new competition of TV and that it has an inherent vitality and indestructibility based upon its unique advantage of being able to reach people while they are doing other things. The exclusive role of radio as the only non-leisure medium is evidenced in many ways. For example, research shows that time spent in listening to the radio exceeds TV viewing, magazine and newspaper reading. This is because radio is the only medium which need not compete for leisure time. It fits into a schedule of work and routine activities about the house. Television's impact has changed radio from a family group, living room medium to a personal medium which reaches listeners via the multiplicity of radios now found in the typical home. This changed nature of radio is evidenced by the sale of 13 million radio sets (most of which were sold to television homes) in 1953.

Thus, a new pattern of radio listening is emerging. ABC's new programs are designed to fit this pattern. The ABC radio network is concentrating on programs designed to reach certain segments of the population while they are working. For example, ABC-radio's morning line-up is a block of drama programs which are most popular in homes with young housewives. ABC-radio's number one position in the young housewives' homes has met with satisfactory endorsement by many leading advertisers.

In the afternoon, the ABC radio network has deliberately launched the kind of radio programs which are most effective in television homes. Research surveys show that ABC-radio's new afternoon programming, the Martin Block program featuring records, is registering large audience gains in television areas.

The next step in ABC's radio program development is now being planned for the evening. Evening radio programs are being designed to reach the growing segment of TV homes by offering a type of entertainment no other medium can supply.

The new dimension of radio and the growing awareness of its vitality and ability to compete successfully with television indicate that it continues to remain a most effective medium.

film syndication

ABC has expanded its operation into the field of film syndication—the distribution of filmed TV programs to stations for showing on a spot basis. The newly-created ABC Film Syndication Division is now operating and the two properties distributed by it to date, RACKET SQUAD and the PLAYHOUSE Series, have already been sold to many stations. More properties will be acquired for syndication and this field holds promise for future profitable expansion.

owned stations

In addition to its network operation, ABC owns and operates five radio and television stations in New York, Chicago, Detroit, San Francisco and Los Angeles. The operation of these stations has been decentralized and the individual station managements have been given greater flexibility and autonomy than heretofore. Under the policy of localized responsibility and control, station operations have been strengthened, sales have increased, and at the same time, control over operating costs has been greatly tightened.

Further improvements have been made in these stations. The transmitting power has been substantially increased. In San Francisco, the offices and studios are being consolidated in a new building which should result in a more efficient, less expensive operation.

In Chicago, the ABC radio station WENR has shared time equally with radio station WLS by the terms of their respective licenses from the Federal Communications Commission. WENR has had largely the night-time hours for broadcasting, and WLS the daytime hours. With the changes that have come about in radio broadcasting since the advent of television, it has become increasingly more difficult to maintain a full operation on a half-time frequency. Consequently, in discussions with WLS, an agreement was consummated early in February, 1954 whereby a new corporation owned by the WLS interests and AB-PT will operate on a full time basis in place of the present WENR and WLS operations.

color television

There is a great potential in the effectiveness of television broadcasting through the use of color, not only for the increased enjoyment of the public, but also for many advertisers whose products are especially suited to color presentation.

The ABC management is closely following all developments in this field and will be prepared to engage actively in competition with other networks as the number of color TV sets in circulation increases.

MICROWAVE ASSOCIATES, INC.

For 1953, its third full year of activity, Microwave Associates, Inc., the electronics manufacturing company in which we have a 50% interest, showed a profitable and expanded operation as against the slight operating loss we reported to you for 1952. Its facilities, which were still being organized and staffed during 1952, were fully utilized in quantity production.

Microwave has continued to broaden and diversify its product lines and has been most successful in the field of semi-conductors. At the year end, it was producing against a backlog of government and commercial orders amounting to more than $1,200,000.

STOCKHOLDERS

At the year end, there were 26,130 registered holders of common stock, 497 registered holders of certificates of interest and 1,696 registered holders of preferred stock of this Company. A considerable number of additional individual owners have their stock registered in the names of brokerage firms and other nominees.

During 1953, a total of 222,245 shares were released from the Voting Trust, leaving at year end, a total of 108,456 shares still in the Trust. These withdrawals were facilitated by the substantial amendments to the Voting Trust provisions of the Consent Judgment which were obtained in January, 1953.

We urge the remaining holders of certificates of interest representing such stock held in the Trust, who are eligible to convert their certificates into common stock, to do so as soon as possible. We shall be pleased to render any assistance we can to such holders in effecting conversion of their certificates.

assets

	January 2, 1954	January 3, 1953 Pro Forma
CURRENT ASSETS:		
Cash	$ 20,273,883	$ 20,888,443
United States government securities (at approximate market or redemption value)	5,962,366	11,684,858
Accounts and notes receivable, less reserves:		
Accounts receivable, trade	9,040,405	6,469,543
Notes receivable from disposal of theatre interests since January 1, 1950	573,549	549,013
Affiliated companies	215,220	48,395
Officers and employees	85,567	65,277
Sundry notes and accounts	1,239,661	1,538,030
Broadcasting program rights and film costs, less amortization	1,503,859	451,931
Inventory of theatre merchandise and supplies, at cost or less	1,519,186	1,390,789
Total current assets	$ 40,413,696	$ 43,086,279
INVESTMENTS, LESS RESERVES (See Note A):		
Affiliated companies:		
Capital stocks	$ 1,282,762	$ 1,240,762
Advances	356,963	343,021
Notes receivable from disposal of theatre interests since January 1, 1950, due after one year	1,975,349	2,120,734
Other notes and accounts due after one year	432,630	334,866
Miscellaneous	1,665,637	1,511,960
	$ 5,713,341	$ 5,551,343
FIXED ASSETS (See Note B):		
Land	$ 22,808,027	$ 23,206,663
Buildings, equipment and leaseholds	115,120,920	113,474,466
Less — Reserves for depreciation and amortization	(58,776,771)	(56,667,341)
	$ 79,152,176	$ 80,013,788
INTANGIBLES, at cost	$ 8,756,620	$ 8,756,620
OTHER ASSETS:		
Deposits to secure contracts	$ 986,830	$ 987,332
Prepaid expenses and deferred charges	2,731,445	2,728,730
	$ 3,718,275	$ 3,716,062
	$137,754,108	$141,124,092

MERGER:

On February 9, 1953 American Broadcasting Company, Inc. was merged into United Paramount Theatres, Inc., the name of which corporation was thereupon changed to American Broadcasting-Paramount Theatres, Inc. The basis of conversion of shares of outstanding common stock of American Broadcasting Company, Inc. into shares of preferred and common stock of American Broadcasting-Paramount Theatres, Inc., and the effect on the capital stock and capital surplus accounts of the Company, is set forth in the Pro Forma Consolidating Balance Sheet at January 3, 1953, on pages 32-33 of this report.

Balaban & Katz Corporation, a subsidiary of the Company, pursuant to a contract made at the time of the merger negotiations in May of 1951 which was contingent upon the consummation of the merger, sold television station WBKB, Chicago, on February 9, 1953 for the sum of $6,000,000.

The business formerly conducted by American Broadcasting Company, Inc. and its subsidiaries is being conducted by the Company as "American Broadcasting Company, A Division of American Broadcasting-Paramount Theatres, Inc." The consolidated profit and loss account includes the operations of this division for the period from January 1, 1953 to January 2, 1954.

BASIS OF CONSOLIDATION:

Included are all subsidiary companies, wholly owned directly or indirectly by American Broadcasting-Paramount Theatres, Inc., and a few such companies in which the common stocks are owned in excess of 85%.

NOTE A—INVESTMENTS:

Investments in and receivables from affiliated companies not consolidated are carried (with the exception of the investment in one company carried at $1) at values adjusted to January 1, 1935, with subsequent additions at cost to the predecessor companies, Paramount Pictures Inc. and American Broadcasting Company, Inc., to American Broadcasting-Paramount Theatres, Inc., or to subsidiaries.

The miscellaneous investments include an aggregate amount of $969,843 in respect of certain sales of stock interests and properties since January 1, 1950 under contracts which provide for the payment of sales prices totalling $6,890,000, over a period of years. The uncollected balance of the sales prices at January 2, 1954 amounted to $6,668,886. The difference between the uncollected balance of the sales prices and the amounts carried under miscellaneous investments represents unrealized profit on the sales, which is being taken into the profit and loss account on a pro-rata basis as payments on account of the sales prices are received.

NOTE B—FIXED ASSETS:

The fixed assets, with minor exceptions, are carried at cost, less depreciation, to the predecessor companies, Paramount Pictures Inc. and American Broadcasting Company, Inc., to American Broadcasting-Paramount Theatres, Inc., or to subsidiaries. Three properties of a consolidated subsidiary carried at a book value of $358,100 are subject to a mortgage in the maximum amount of $373,333 pledged to secure performance under certain leases of such subsidiary.

NOTE C—NOTES ISSUED UNDER LOAN AGREEMENTS:

These notes comprise (1) $1,750,000 of 2½% serial notes, due $875,000 in two instalments on July 1, 1955 and January 1, 1956, (2) $36,250,000 of 3½% notes payable in semi-annual instalments of $1,208,000 each beginning July 1, 1956 and continuing to and including January 1, 1971, and (3) $1,000,000 of 3% notes due November 1, 1955.

NOTE D—RESERVE FOR CONTINGENCIES:

Reserve for contingencies was reduced during the year by $291,246 in respect of payments in settlement of certain litigation and costs in connection therewith. The reserve is intended to

Consolidated Balance Sheets

liabilities and capital

	January 2, 1954	January 3, 1953 Pro Forma
CURRENT LIABILITIES:		
Accounts payable and accrued expenses (including unremitted collections of admission and payroll taxes—January 2, 1954, $1,541,594)	$ 12,040,391	$ 11,240,761
Federal taxes on income, estimated	7,074,504	8,622,489
Less—U. S. Treasury notes	(4,282,456)	(4,943,265)
Notes and mortgages payable within one year	119,496	76,349
Total current liabilities	$ 14,951,935	$ 14,996,334
FUNDED DEBT DUE AFTER ONE YEAR:		
Notes issued under Loan Agreements (See Note C)	39,000,000	41,250,000
Other notes and mortgages	1,511,865	1,631,361
OTHER LIABILITIES:		
Advance payments, self-liquidating	1,118,059	395,999
Miscellaneous	238,670	135,163
Total liabilities	$ 56,820,529	$ 58,408,857
RESERVE FOR CONTINGENCIES (See Note D)	$ 2,106,017	$ 2,397,263
INTEREST OF MINORITY STOCKHOLDERS IN CAPITAL AND SURPLUS OF SUBSIDIARY COMPANIES	$ 253,067	$ 325,296
CAPITAL STOCK AND SURPLUS (See Note E):		
5% Preferred stock, authorized 533,625 shares, $20 par value Outstanding 533,624 12/100ths shares	$ 10,672,482	$ 12,160,922
Common stock, authorized 5,000,000 shares, $1 par value Outstanding 3,967,511 9/38ths shares	3,967,511	3,967,539
Capital surplus	43,286,838	43,038,504
Earned surplus	20,647,664	16,606,962
From sale of station WBKB, February 9, 1953		4,218,749
	$ 78,574,495	$ 79,992,676
CONTINGENT LIABILITIES (See Note F)		
	$137,754,108	$141,124,092

CONSOLIDATED PROFIT AND LOSS AND SURPLUS ACCOUNTS

profit and loss account

	1953	1952 Pro Forma
INCOME:		
Theatre receipts and rentals	$114,925,683	$115,626,502
Television and radio time and program sales, less discounts, rebates and commissions to advertising agencies	54,757,958	49,734,386
Dividends from affiliated companies	176,985	279,863
Other income	2,335,020	1,775,842
	$172,195,646	$167,416,593
EXPENSES:		
Theatre and broadcasting operating, selling, general and administrative expenses, including film rentals, rents, real estate and other taxes	$154,471,443	$149,396,520
Interest expense	1,451,292	1,551,959
Depreciation and amortization of buildings, equipment and leaseholds	7,465,562	7,052,795
Profits applicable to minority holders of stocks of subsidiary companies	13,986	11,026
Federal income tax	4,416,737	4,856,590
	$167,819,020	$162,868,890
PROFIT FROM OPERATIONS, excluding station WBKB	$ 4,376,626	$ 4,547,703
ADD SPECIAL AND NON-RECURRING ITEMS:		
Net operating income from television station WBKB, Chicago, to date of sale on February 9, 1953, after applicable Federal income tax of $122,127, depreciation of $11,858 and minority interest	102,554	
Capital gains, net, after deducting applicable Federal income tax of $1,475,134 and minority interest (1952 Federal tax of $532,879 and reserve of $200,000 for losses on collections)—1953 amount includes $4,218,749 from sale of television station WBKB	4,516,517	1,378,980
PROFIT FOR THE YEAR	$ 8,995,697	$ 5,926,683

surplus accounts

	Earned	Capital
BALANCE AT BEGINNING OF YEAR		
United Paramount Theatres, Inc. and subsidiaries	$ 12,620,747	$ 45,333,150
American Broadcasting Company, Inc. and subsidiaries	3,986,215	8,843,976
	$ 16,606,962	$ 54,177,126
ADD or (DEDUCT)		
Provision for additional Federal income and other taxes of American Broadcasting Company, Inc. and subsidiaries for period prior to merger	(500,000)	
Excess of par value of shares issued pursuant to merger agreement over par value of shares of American Broadcasting Company, Inc. (see pro forma balance sheet)		(11,138,622)
Profit for the year (including $21,652 consolidated net profit of American Broadcasting Company, Inc. for period prior to merger)	8,995,697	
Dividends paid in cash:		
5% Preferred stock at $.89½ per share	(488,320)	
Common stock at $1.00 per share	(3,966,675)	
Excess of par value over cost of 74,422 shares of 5% preferred stock purchased and retired		275,488
Other changes		(27,154)
BALANCE AT END OF YEAR	$ 20,647,664	$ 43,286,838

PRICE WATERHOUSE & CO.

56 PINE STREET

NEW YORK 5

March 15, 1954.

To the Directors and Shareholders of American Broadcasting-
Paramount Theatres, Inc.:

In our opinion, the accompanying consolidated balance sheet and related statements of profit and loss and surplus, together with the explanatory notes, present fairly the position of American Broadcasting-Paramount Theatres, Inc. and consolidated subsidiary companies at January 2, 1954 and the results of their operations for the fiscal year (52 weeks) then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Our examination of these statements was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

PRICE WATERHOUSE & CO.

provide for additional Federal income taxes, if any, settlements of anti-trust litigation, and other contingencies, applicable to the period prior to December 31, 1949.

NOTE E—CAPITAL STOCK AND SURPLUS:

There were outstanding on January 2, 1954 option warrants issued to officers and employees under the Common Stock Option Plan which entitled the holders to purchase 212,835 shares of the Company at $16.63 per share on or before December 15, 1957. None of the options issued under the Plan were exercised during the year. Option warrants for an additional 35,000 shares permitted to be issued under the Plan remained unissued at January 2, 1954.

The Company is required in each year to set aside cash as a sinking fund for the redemption of 24,322 shares of 5% Preferred Stock. The sinking fund redemption price starts at $21 and reduces periodically until it becomes $20 after June 30, 1958. The Company may take credit, at the sinking fund redemption price, for any shares which it may have purchased or redeemed otherwise than through the sinking fund. To January 2, 1954 the Company had purchased and retired 74,422 shares in full satisfaction of sinking fund requirements through the year 1955 and partial satisfaction of requirements for the year 1956.

Under a Loan Agreement there are certain restrictions on the Company in declaring or paying dividends (otherwise than in shares of capital stock of the Company) or making, or permitting any subsidiary to make, any purchase, redemption, or retirement of, or any other distribution upon, any of the shares of capital stock of the Company (otherwise than in such shares). These restrictions had the effect of making the capital surplus and $16,731,796 (which includes all capital gains, less provision for taxes thereon) of the consolidated earned surplus at January 2, 1954, unavailable for dividends on the stock of the Company.

NOTE F—CONTINGENT LIABILITIES:

Guaranty of notes of an affiliated company, principal amount $70,000.

For indemnities given in connection with transactions consummated in the rearrangement of theatre assets, for additional Federal income taxes and for pending litigation, including anti-trust suits, to many of which a predecessor company, Paramount Pictures Inc., and other major motion picture companies are defendants (amount not determinable).

Under the Plan of Reorganization of Paramount Pictures Inc., United Paramount Theatres, Inc. (now American Broadcasting-Paramount Theatres, Inc.) assumed 50% of the expense and liability incurred in connection with anti-trust litigation where distribution and exhibition are involved and which is based upon occurrences prior to the dissolution of Paramount Pictures Inc. whether or not the litigation is commenced after such dissolution and whether or not the litigation is commenced against Paramount Pictures Inc., Paramount Pictures Corporation, United Paramount Theatres, Inc. (now American Broadcasting-Paramount Theatres, Inc.), or any subsidiary of them.

NOTE G—RENTALS UNDER LEASES OF REAL PROPERTY:

American Broadcasting-Paramount Theatres, Inc. and its consolidated subsidiaries were liable as of January 2, 1954 under 387 leases of real property expiring subsequent to December 31, 1956 under which the minimum annual rental was approximately $6,720,000. The minimum annual rentals stipulated in these leases which expire during the three five-year periods ending December 31, 1971 and subsequent to that date are as follows:

Leases expiring:	
During the 5 years ending:	
December 31, 1961	$2,426,000
December 31, 1966	1,613,000
December 31, 1971	778,000
Subsequent to December 31, 1971	1,903,000
	$6,720,000

NOTE H—CONSENT JUDGMENT:

The Consent Judgment dated March 3, 1949 entered in the anti-trust proceedings entitled United States of America v. Paramount Pictures Inc., et al, as amended by subsequent orders, requires the Company and its subsidiaries to dispose of certain wholly owned theatres and terminate joint interests in theatres (except with investors) not later than September 3, 1954. The effect on the Company's future operations is, of course, not now determinable.

assets

	United Paramount Theatres, Inc. and subsidiaries	*American Broadcasting Company, Inc. and subsidiaries*	*Adjustments (see Notes)*	*Pro Forma as at January 3, 1953*
CASH	$ 20,868,756	$ 1,682,012	$ 6,000,000 (C) (7,662,325) (D)	$ 20,888,443
UNITED STATES GOVERNMENT SECURITIES	11,684,858			11,684,858
ACCOUNTS AND NOTES RECEIVABLE, less reserves:				
Accounts receivable, trade	183,077	6,286,466		6,469,543
Notes receivable from disposal of theatre interests since January 1, 1950	549,013			549,013
Affiliated companies	48,395			48,395
Officers and employees	65,277			65,277
Sundry notes and accounts	1,538,030			1,538,030
BROADCASTING PROGRAM RIGHTS AND FILM COSTS, less amortization		451,931		451,931
INVENTORY OF THEATRE MERCHANDISE AND SUPPLIES	1,390,789			1,390,789
Total current assets	$ 36,328,195	$ 8,420,409	$ (1,662,325)	$ 43,086,279
INVESTMENTS, less reserves	5,551,343			5,551,343
FIXED ASSETS:				
Land	21,594,932	1,611,731		23,206,663
Buildings, equipment and leaseholds	97,988,079	16,043,431	(557,044) (C)	113,474,466
Less—Reserves for depreciation and amortization	(50,952,740)	(6,051,465)	336,864 (C)	(56,667,341)
INTANGIBLES, at cost		8,756,620		8,756,620
OTHER ASSETS:				
Deposits to secure contracts	987,332			987,332
Prepaid expenses and deferred charges	2,262,494	466,236		2,728,730
	$113,759,635	$ 29,246,962	$ (1,882,505)	$141,124,092

Transactions given effect to:

(A) Shares of American Broadcasting-Paramount Theatres, Inc. (issuable upon conversion of common stock of American Broadcasting Company, Inc.):

	Shares	*Par Value*
5% preferred stock, par value $20 per share — 36/100ths of a share for each share of American Broadcasting Company, Inc. (1,689,017 x 36/100ths)	608,046 12/100ths	$12,160,922
Common stock, par value $1 per share — 15/38ths of a share for each share of American Broadcasting Company, Inc. (1,689,017 x 15/38ths)	666,717 9/38ths	666,717
Par value of shares issuable		$12,827,639
Par value of American Broadcasting Company, Inc. common stock converted — 1,689,017 shares at $1		1,689,017
Charge to capital surplus		$11,138,622

As at January 3, 1953

liabilities and capital

	United Paramount Theatres, Inc. and subsidiaries	*American Broadcasting Company, Inc. and subsidiaries*	*Adjustments (see Notes)*		*Pro Forma as at January 3, 1953*
ACCOUNTS PAYABLE AND ACCRUED EXPENSES	$ 7,446,132	$ 3,794,629			$ 11,240,761
FEDERAL TAXES ON INCOME, ESTIMATED	6,753,866	365,870	$ 1,502,753	(C)	8,622,489
Less—U. S. Treasury notes	(4,943,265)				(4,943,265)
NOTES AND MORTGAGES PAYABLE WITHIN ONE YEAR	36,843	3,039,506	(3,000,000)	(D)	76,349
Total current liabilities	$ 9,293,576	$ 7,200,005	$ (1,497,247)		$ 14,996,334
FUNDED DEBT DUE AFTER ONE YEAR:					
Notes issued under Loan Agreements	39,750,000	6,162,325	(4,662,325)	(D)	41,250,000
Other notes and mortgages	265,937	1,365,424			1,631,361
OTHER LIABILITIES:					
Advance payments, self-liquidating	395,999				395,999
Miscellaneous	135,163				135,163
RESERVE FOR CONTINGENCIES	2,397,263				2,397,263
INTEREST OF MINORITY STOCKHOLDERS	266,978		58,318	(C)	325,296
CAPITAL STOCK (prior to merger):					
Common, par value $1 per share, outstanding—					
United Paramount Theatres, Inc.—3,300,822 shares	3,300,822		(3,300,822)	(B)	
American Broadcasting Company, Inc.—1,689,017 shares		1,689,017	(1,689,017)	(A)	
CAPITAL STOCK (after merger):					
American Broadcasting-Paramount Theatres, Inc.:					
5% Preferred, par value $20 per share—					
Authorized 608,047 shares, outstanding 608,046 12/100ths shares			12,160,922	(A)	12,160,922
Common, par value $1 per share:					
Authorized 5,000,000 shares, outstanding 3,967,539 9/38ths shares			666,717	(A)	3,967,539
			3,300,822	(B)	
SURPLUS:					
Capital	45,333,150	8,843,976	(11,138,622)	(A)	43,038,504
Earned	12,620,747	3,986,215			16,606,962
From sale of station WBKB, February 9, 1953			4,218,749	(C)	4,218,749
	$113,759,635	$ 29,246,962	$ (1,882,505)		$141,124,092

(B) The outstanding shares of common stock of United Paramount Theatres, Inc. which continue as shares of American Broadcasting-Paramount Theatres, Inc.

(C) The sale, on February 9, 1953, by Balaban & Katz Corporation, a subsidiary of United Paramount Theatres, Inc., of television station WBKB, Chicago, for the sum of $6,000,000 in cash. Under contract entered into at the time of the merger negotiations such sale was contingent upon the consummation of the merger.

(D) The prepayment on February 13, 1953, as authorized by the Board of Directors of American Broadcasting-Paramount Theatres, Inc. on February 11, 1953, of $7,662,325 debt outstanding under loan agreements of American Broadcasting Company, Inc.

General:

Balance sheets of United Paramount Theatres, Inc. and subsidiaries and American Broadcasting Company, Inc. and subsidiaries included in the above pro forma balance sheet have been extracted from published annual reports of the companies for their 1952 fiscal years, and are subject to the notes to financial statements contained in such reports.

The pro forma balance sheet has not been adjusted to provide for additional Federal income and other taxes of American Broadcasting Company, Inc. and subsidiaries for the period prior to merger. (See surplus accounts on Page 28).

PRO FORMA CONSOLIDATING PROFIT AND LOSS ACCOUNT

year 1952

	United Paramount Theatres, Inc. and subsidiaries	*American Broadcasting Company, Inc. and subsidiaries*	*Adjustments (see Notes)*		*Pro Forma for year 1952*
INCOME:					
Theatre receipts and rentals	$115,626,502				$115,626,502
Television and radio time and program sales, less discounts, rebates and commissions to advertising agencies		$ 49,734,386			49,734,386
Dividends from affiliated companies	279,863				279,863
Other income	5,664,779	54.896	$ (3.943.833)	(A)	1,775,842
	$121,571,144	$ 49,789,282	$ (3,943,833)		$167,416,593
EXPENSES:					
Theatre and broadcasting operating, selling, general and administrative expenses, including film rentals, rents, real estate and other taxes	$102,972,448	$47,972,737	$ (1,548,665)	(A)	$149,396,520
Interest expense	1,421,213	415,072	(284,326)	(B)	1,551,959
Depreciation and amortization of buildings, equipment and leaseholds	5,658,270	1,532,591	(138.066)	(A)	7,052,795
Profits applicable to minority holders of stocks of subsidiary companies	25,798		(14,772)	(A)	11,026
Federal income tax	5,879,789	42,100	(1,218,835)	(A)	4,856,590
			153.536	(B)	
	$115.957,518	$ 49.962,500	$ (3,051,128)		$162,868.890
PROFIT FROM OPERATIONS, excluding station WBKB	$ 5,613,626	$ (173,218)	$ (892,705)		$ 4,547,703
ADD:					
Capital gains, net, after deducting applicable Federal income tax of $532,879 and $200.000 reserve for losses on collections	1.347,487	31.493			1.378.980
PROFIT FOR THE YEAR	$ 6.961,113	$ (141,725)	$ (892,705)		$ 5,926,683

Adjustments given effect to:

(A) To eliminate from the earnings of United Paramount Theatres, Inc. and subsidiaries the earnings of television station WBKB, Chicago (sold on February 9, 1953) and applicable Federal income tax and minority interest (see Note C to pro forma consolidating balance sheet).

(B) To eliminate from the expenses of American Broadcasting Company, Inc. and subsidiaries the amount of interest expense accrued during the year 1952 on $7,662,325 of debt outstanding under loan agreements of American Broadcasting Company, Inc. which was prepaid immediately after the merger (see Note D to pro forma consolidating balance sheet).

General:

Profit and loss accounts of United Paramount Theatres, Inc. and subsidiaries and American Broadcasting Company, Inc. and subsidiaries included in the above pro forma profit and loss account have been extracted from published annual reports of the companies for their 1952 fiscal years, and are subject to the notes to financial statements contained in such reports.

Loss of American Broadcasting Company, Inc. and subsidiaries has not been adjusted for the portion (estimated at $50,000) of the opening surplus adjustment (see page 28) which would be applicable to the year.

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