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ANNUAL REPORT **1973**

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ANNUAL MEETING

Thursday, April 18, 1974, 11 a.m.
Time & Life Building
Rockefeller Center, New York, N.Y.

CORPORATE HEADQUARTERS

Time & Life Building
Rockefeller Center
New York, N.Y. 10020

TRANSFER AGENT

The Chase Manhattan Bank, N.A.
One Chase Manhattan Plaza
New York, N.Y. 10015

REGISTRAR

Chemical Bank
20 Pine Street
New York, N.Y. 10015

(Time Inc. stock is traded on the
New York Stock Exchange. Symbol: TL)

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FINANCIAL HIGHLIGHTS*	1973	1972
Revenues	$728,266,000	$608,558,000
Income before discontinued operations and extraordinary items	49,920,000	38,295,000
Discontinued operations	—	(3,446,000)
Income before extraordinary items	49,920,000	34,849,000
Extraordinary items	(2,400,000)	(3,000,000)
Net income	47,520,000	31,849,000
Per share:		
Income before discontinued operations and extraordinary items	$4.81	$3.69
Discontinued operations	—	(.33)
Income before extraordinary items	4.81	3.36
Extraordinary items	(.23)	(.29)
Net income	4.58	3.07
Dividends	1.90	1.90
Working capital	$187,164,000	$168,954,000
Additions to property and equipment	51,331,000	21,631,000
Depreciation, amortization, depletion	20,679,000	20,819,000
Unearned portion of paid subscriptions	68,911,000	67,053,000
Long-term debt	110,208,000	104,015,000
Shareholders' equity	356,266,000	325,859,000
Shareholders' equity per share	$34.32	$31.43
Average shares outstanding	10,380,000	10,373,000
Number of shareholders	10,440	10,735

*Restated to include the accounts of Temple Industries, Inc. accounted for as a pooling of interests.

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REVENUES BY LINES OF BUSINESS

	1973	%	1972	%
 Publishing	$430,069	59	$362,902	60
 Forest products	199,203	27	159,963	26
 Developmental activities[1]	2,275	—	951	—
Other operations[2]	96,719	14	84,742	14
Total revenues	$728,266	100	$608,558	100

INCOME (LOSS) BY LINES OF BUSINESS—BEFORE TAXES

 Publishing	$ 51,532	56	$ 37,290	54
 Forest products	42,114	46	28,297	42
 Developmental activities[1]	(6,042)	(6)	(3,319)	(5)
Other operations[2]	5,692	6	6,338	9
Income from broadcasting properties sold	—	—	2,611	4
Unallocated corporate administrative costs and financial income and mortgage banking	(1,976)	(2)	(2,755)	(4)
Total income before taxes, discontinued operations, and extraordinary items	$ 91,320	100	$ 68,462	100

[1] Developmental activities consist of Cable TV and Pay TV.

[2] Other operations include the sale of products and services to the graphic arts industry, the marketing of information relating to the movement of grocery products, radio and TV broadcasting, film production and distribution, furniture manufacturing, and commercial and industrial contracting.

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LETTER TO SHAREHOLDERS

February 21, 1974

Dear Shareholder:

As shown by the Financial Highlights table on the first page of this report, 1973 was a very good year for Time Inc. The net income of $47.5 million was the highest in the history of the Company.

All figures in this report reflect the August acquisition of Temple Industries, Inc. in exchange for approximately 3.1 million shares of Time Inc. stock. As this was accounted for as a pooling of interests, all 1973 figures include the results of Temple's operations for the full year, and 1972 figures have been restated.

Revenues for the Company were $728.3 million in 1973, an increase of 20% over 1972 revenues of $608.6 million. Income before extraordinary items was $49.9 million, or $4.81 per share, compared with $34.8 million in 1972, or $3.36 per share. Net income after extraordinary items was $47.5 million in 1973, compared with $31.8 million in 1972, or $4.58 per share compared with $3.07.

The 1973 extraordinary loss of $2.4 million reflects a net reserve of $3.7 million for possible losses on future disposition of certain cable television properties, offset in part by an extraordinary gain of $1.3 million from the sale of certain cable properties.

The table opposite this page shows revenues and income before taxes by lines of business and reports increases in the principal categories.

Publishing, which includes both magazine and book publishing, enjoyed an outstanding year, led by the all-time-high revenues and earnings of Time and Sports Illustrated magazines, which were aided by certain promotional benefits derived from the suspension of Life. Book publishing showed continued vitality, buoyed by improved earnings of the international operation and the success of The Best of Life. This single-volume publication contributed approximately $4.4 million in pre-tax profit to the Company.

Temple-Eastex, the Company's forest-products subsidiary, achieved record-breaking results. Despite limitations imposed on prices by the Cost of Living

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Council during Phase 3 and Phase 4, profits from paper operations reached all-time highs and production exceeded all prior records. Building materials also established new highs in revenues and profits, although some softening of demand occurred in the fourth quarter, coinciding with a downturn in housing starts.

The Company also benefited in 1973 by the absence of losses of $3.4 million after taxes incurred in 1972 from operations discontinued in that year (principally Life and the purchase of paper for Life from St. Francisville at costs in excess of market prices). The Company did not materially benefit from the impact of inflation on inventories or foreign currency fluctuations.

* * *

As separate entities, Temple and Eastex achieved excellent records in their fields in terms of earnings growth, productivity, origination of new product lines and beneficial product mixes. Together as Temple-Eastex, they can make an important contribution to the long-term prosperity of the Company through their efficient use of more than a million acres of timberland ideally located in southeast Texas and ideally suited as raw material for the production of industrial and consumer products in constant demand.

Our additional large investment in the forest-products area does not change the essential character of the Company. Time Inc. has evolved, by choice, into a company whose principal pursuits are in two essential fields: the production of magazines and books for man's enlightenment, and the conversion of a renewable natural resource into products for man's convenience. The acquisition of Temple advances us significantly on one front, and the publication of a new magazine, People, takes us a step forward on the other.

* * *

Early in 1974, Time Inc. announced that it would repurchase, from time to time on the open market, up to 500,000 shares of its own stock. At the time this report went to press, 141,100 shares had been acquired in this manner at an average price per share of $34¾. These shares, and others purchased within the limit, will be available for contributions to employee benefit plans, stock option plans, and for future acquisitions.

* * *

At this writing there is a great deal of uncertainty regarding the economic outlook for 1974. However, unless the economy is more adversely affected than many economists are currently forecasting, we believe the Company's 1974 earnings could be among those of our better years.

This optimism about prospects for the Company rests in very large part on our confidence in the 12,700 employees of Time Inc. worldwide. We would like to express here our pride in, and gratitude for, their work in 1973.

You will want to join us, we're sure, in welcoming the 2,439 former shareholders of Temple Industries who voted overwhelmingly to join us last August. We would also like to welcome in print, as we have long since done in person, the following four gentlemen to the Board of Directors of Time Inc.: Mr. Arthur Temple, President and Chief Operating Officer, Temple-Eastex Inc.; Mr. W. Temple Webber, a member of the Board of Directors of Temple-Eastex Inc., and former Chairman of the Board, Temple Industries, Inc.; Mr. Richard B. McKeough, Vice President-Finance, Time Inc.; and Mr. Louis Banks, Visiting Professor, Harvard Graduate School of Business Administration, and former Editorial Director of all Time Inc. publications.

For the Board of Directors

Andrew Heiskell James R. Shepley

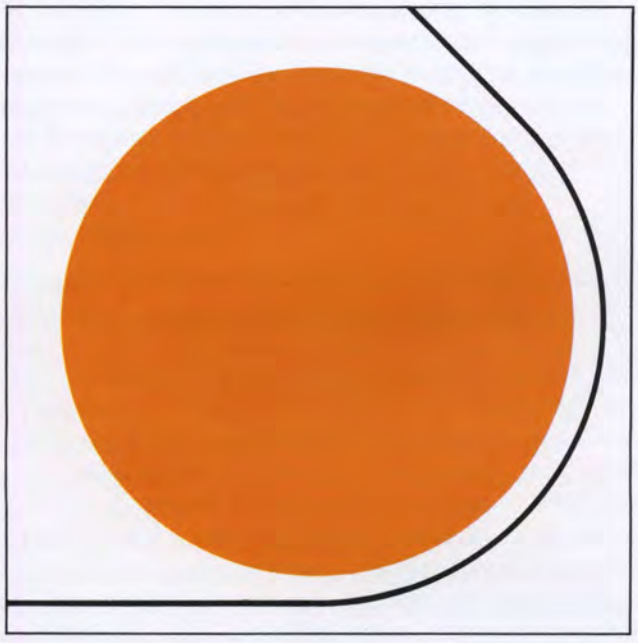


ANDREW HEISKELL
Chairman of the Board and
Chief Executive Officer



JAMES R. SHEPLEY
President and
Chief Operating Officer

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REVIEW OF PUBLISHING ACTIVITIES

I. MAGAZINES The magazines of Time Inc. produced record earnings in 1973. Advertiser confidence in our magazines reached a new high, as evidenced by the tables at lower right. As the tables show, total worldwide advertising revenues of Time Inc. magazines, excluding Money, increased 16.2% in 1973 over 1972, and Time Inc.'s share of advertising dollars invested in general magazines in the U.S. rose by 7.9% last year.

Revenues from subscribers and newsstand buyers increased by 10.6% in 1973, due largely to higher subscription prices and to increased single-copy sales of our publications.

Money magazine, not included in the results shown above, ran 550 pages of advertising in 1973—one of the best first-year performances of a monthly magazine in the last ten years. Money also increased its advertising rate base from 225,000 to 300,000 in 1973, and has announced a new rate base of 450,000 effective April 1, 1974.

In 1973, paper, printing, postal, editorial and other costs all showed increases, and these costs are expected to continue to rise in 1974. We anticipate that our long-term relationships with paper suppliers and printers will enable us to meet our projected requirements in 1974.

Postal costs, in particular the second-class charges to us by the U.S. Postal Service for delivering our magazines to subscribers, continue to rise at what Time Inc. considers an unreasonable rate, and represent an increasingly unfair burden on our subscribers.

Total mailing costs for our magazines in 1973 were $10.1 million, up $1.8 million, or 22%, from 1972.

In 1971, the U.S. Postal Service increased rates for all classes of mail. The second-class rate was increased 154%, by far the largest increase for any class, to be spread over a five-year period ending in July, 1976. An additional increase of 40% in this rate has been proposed, and the first of three annual steps of this additional increase is scheduled for March, 1974 on a temporary basis, pending review by the Postal Rate Commission.

Time Inc. is vigorously continuing a program to persuade legislators that the concept of a public

ADVERTISING REVENUES

	1972	1973	% Change
TIME (WORLDWIDE)	$142,500,000	$163,100,000	+14.5
FORTUNE	19,500,000	21,300,000	+ 9.2
SPORTS ILLUSTRATED	58,900,000	72,200,000	+22.6
TOTALS	$220,900,000	$256,600,000	+16.2

The above amounts are before commissions and discounts, as reported by Publishers Information Bureau (PIB) for U.S. editions, and publisher's estimate for international editions.

SHARE OF MAGAZINE ADVERTISING IN THE U.S.

	1972	1973	% Change
TOTAL, TIME INC. MAGAZINES	$ 189,400,000	$ 220,800,000	+16.6
TOTAL, ALL OTHER GENERAL MAGAZINES	1,020,700,000	1,086,600,000	+ 6.5
TIME INC. SHARE OF MAGAZINE ADVERTISING	15.7%	16.9%	+ 7.9

The amounts above (also from PIB) do not include Life, which suspended publication in 1972, and Money, which had only three issues in 1972.

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service appropriation should be restored. We also continue, through adjustments in our subscription prices, to attempt to minimize as much as possible the impact of these increased costs on our operating results.

The first issue of People, our new weekly, will appear nationwide on newsstands and in supermarkets in late February. One of the publishing considerations in the decision to launch this new venture was the ability, at the outset, to use a distribution system other than the U.S. Postal Service.

All our magazines are in good positions to retain and even improve their shares of print-media advertising. The income, education and age characteristics of our readers are superior to most others: our magazines command the attention of many million citizens who have better education, better jobs, more disposable income and more trend-setting influence than the population at large.

We believe that People, a heavily pictorial magazine focused on individual personalities, will prove to be an important editorial addition. Its audience is expected to include a higher percentage of women than is the case with our other publications. People's audience should thus broaden our advertising base, with a strong appeal to advertisers of consumer goods and services ranging from automobiles and other durables to a wide variety of nondurables such as food, personal-care products, tobacco and liquor.

People starts with advertising rates based on an anticipated circulation of 1,000,000. Increases in advertising rates of 4% in March and 3% in September have been announced for both Time and Sports Illustrated, subject to Cost of Living Council approval.

Though Life was suspended as a weekly at the end of 1972, it has since appeared in two special issues. The first, in May, 1973, examined Israel on its 25th anniversary as a state, and carried no advertising. The second, in January, 1974, was a pictorial review of 1973, and included a single advertiser. Both special issues were well received. For 1974, two special issues are planned: one at some time during the year on a subject yet to be decided, and the other, at year-end, on the happenings of 1974. Our Magazine Development Group, which was organized in 1973 and which researched and developed People and the two special issues of Life, will continue to work on other magazine possibilities.

1973 MAGAZINE HIGHLIGHTS

TIME celebrated its 50th anniversary in March . . . published its first editorial in November . . . achieved the highest advertising revenue gain of any magazine for the year . . . attained a worldwide circulation of 6,052,000 . . . ran more "hard news" covers (31 on Nation, six on Business or Energy, five on World) than during any previous year . . . won acclaim for using the newsmagazine format to bring orderly summary as well as investigative reporting to the year's turbulent events . . . launched a new Energy section . . . added a special Europe section to its Atlantic edition.

FORTUNE reduced production and mailing costs—and made itself readable in bed—with its smaller trim size . . . started a national debate with its article, Congress Should Be a Stronger Partner in National Policy . . . briefed readers in advance of the headline news on a variety of problems, from medical costs to the farm program to multinational corporations . . . introduced a new editorial section on executive life-styles called On Your Own Time . . . prepared to launch a major series on The New Questions About the U.S. Economy.

SPORTS ILLUSTRATED began a substantial increase in full-color coverage of events within days of their happening . . . published a wide-ranging report on sport in the People's Republic of China and a three-part series on women in sport . . . published excerpts from two bestselling fiction works, The Great American Novel by Philip Roth and Ninety-Two in the Shade by Thomas McGuane . . . produced its largest-ever issue (158 pp.) on October 15 . . . achieved the highest advertising page gain of all consumer weeklies for the year.

MONEY continued with its lively, authoritative articles on family finance . . . carried 550 pages of advertising in its first year, one of the best performances of a monthly magazine launched within a decade . . . announced an advertising rate base of 450,000 effective April 1, 1974.

PEOPLE, a weekly magazine which will focus on the world's personalities, was tested in 1973 on newsstands and in supermarkets . . . will begin appearing in late February, 1974 . . . is expected to have an initial circulation of one million.

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II. BOOKS In our financial reporting by lines of business, the activities of our various book-publishing operations are combined with our magazine activities under the category of Publishing. Taken separately from magazines, the dozen or so components of the Books group had combined revenues for 1973 of $141 million, approximately half the revenues of our magazines.

The spectrum of our book publishing is as broad as life and as wide as the world. Time-Life Books itself, by far the largest contributor in dollar terms, specializes in series of informational and instructional books which combine the knowledge of experts and the grace of professional writers and photographers. In 1973 Time-Life Books sold, primarily by mail order, more than 15 million volumes in six languages, before counting books sold under license in 20 other languages, including Chinese. Highlights of 1973 included The Best of Life and the launching of two new series, The Old West and The Art of Sewing, both well received. The Family Creative Workshop, introduced in January, 1974, appears to be off to a successful start.

The Best of Life, a single-volume publication, within six months sold more than 700,000 copies in English at prices ranging from $15 to $20 (attaining leading Bestseller lists), plus 25,000 copies in Spanish and in Japanese. The book was created by former editors of Life under the aegis of the editors of Time-Life Books. Translations into Japanese and Spanish were arranged, and foreign printing supervised, by the publishing group of Time-Life Books and the Corporate Production Department. Trade distribution in the United States was handled by Little, Brown, foreign distribution by licensees and associated publishers.

Little, Brown and Company, a wholly owned subsidiary, brings the experience of its 137 years (of which 1973 was the best profit year) to the preparation of general college texts and career education books (notably in law and medicine), and brings pleasure to the leisure hours of adults through the books of its distinguished authors of fiction and political and cultural comment. General Learning Corporation (our joint venture with the General Electric Company) provides textbooks and other educational materials which range in purpose from the evocation of wonder in a child at a day-care center to the development of a healthy curiosity in the mind of a high-school senior. General Learning's basic textbook business enjoyed another good year in 1973.

The primary market for our books is the United States, where, in addition to those mentioned earlier, units like Alva Museum Replicas, Time-Life Records and



The broad spectrum of reading matter produced by Time-Life Books and affiliates encompasses texts for grade through graduate schools, novels and critiques, how-to books and informational series for family enjoyment.

the New York Graphic Society help fulfill the intellectual and cultural appetites of the world's most affluent people. Activities abroad, though, are becoming increasingly significant. During 1973, the first volumes created specifically for foreign audiences by our own foreign editorial staffs were published. In France, Germany, Mexico and Spain, the four book-publishing enterprises in which we hold minority interests realized increases in both revenues and profits.

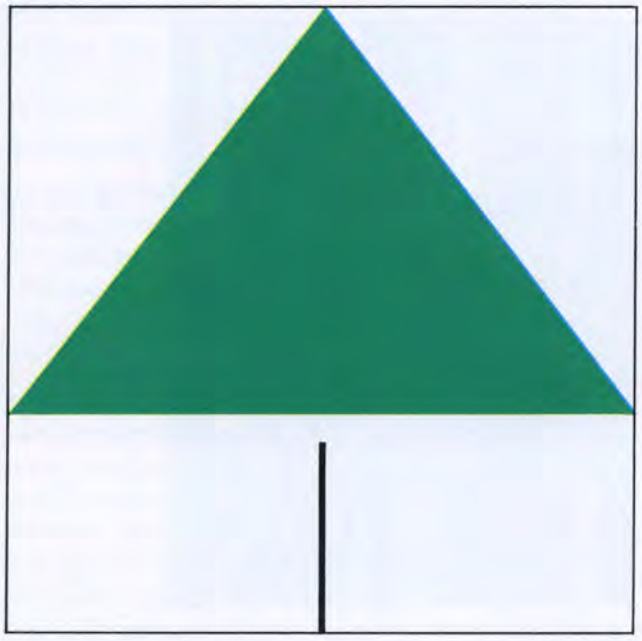
Economies of scale work nicely for us in foreign book publishing, as they do at home. Considerable money is saved, for instance, by printing our heavily illustrated books in one massive run, stopping periodically to insert appropriate translations of text and caption material.

In sum, book publishing in 1973 continued as an important aspect of our publishing activities.

* * *

Through a subsidiary, Pioneer Press, Inc., the Company operates a chain of 17 weekly newspapers in the suburbs north and west of Chicago. Producing handsome, locally oriented newspapers and commercial printing, Pioneer showed record, though modest, earnings for the year despite sharply higher prices for newsprint.

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REVIEW OF FOREST PRODUCTS ACTIVITIES

Until August, 1973, the Company's interest in forest products was centered on Eastex Incorporated, a wholly owned subsidiary for 18 years, which owned some 585,000 acres of timberland in southeast Texas and manufactured various grades of bleached paperboard at its mill in Evadale.

In August, 1973, Time Inc. acquired Temple Industries, Inc. Temple is primarily a manufacturer of building materials—an endeavor complementary to Eastex' paper operations. Temple owned more than 450,000 acres of timberland adjacent to those of Eastex and for many years had exchanged timber and wood residues with Eastex.

In the third quarter of 1973, Temple-Eastex Inc. was organized to combine the operations of Eastex and Temple, creating one of the larger Southern pine forest-products complexes in the United States. The revenue and profit figures shown for forest products on page two of this Report therefore include, pro forma, a full year's results from Eastex and Temple combined. As those figures show, forest products accounted in 1973 for 27% of Time Inc.'s total revenues and 46% of Time Inc.'s income before taxes.

1973 was a record year for our forest-products operations in both production and profitability. Our paper mill achieved a 7% increase in tonnage produced (461,000), and production of plywood, fiberboard, particleboard and gypsum wallboard set new records. This was the fifth consecutive year in which new highs in sales and operating income were achieved by the paper segment; the building-products segment had the most profitable of its 71 years in business.

On page 10 is a map of our million acres of timberland, showing their geographic relationship to major cities in southeast Texas and the locations of our mills.

The growth of timber on our lands will continue to be managed under a long-term plan to increase our forest inventory until maximum economic stocking is achieved. In the meantime, we intend to continue to cut less than the growth from our own lands each year and supplement our timber cuttings with purchases from other tree farmers.

In 1973 we used approximately 200 million feet (International scale) of saw timber in our building-materials operations, and the equivalent of 800,000 cords of pulpwood at our paper mill. Approximately 46% of our total pulpwood requirements was supplied through low-cost wood residues, chips, sawdust and shavings from local sawmills, including our own operations.

Although both Eastex and Temple have been efficient users of timber, the merging of their forest operations should further increase revenues and profits from conversion of timber. New production facilities are planned at strategic locations to convert timber to lumber and plywood, with the residues (those portions of the tree which are either a by-product of conversion or unusable for lumber) becoming additional low-cost raw material for the paper mill. Even tree tops and limbs (formerly left in the woods after logging) will be utilized as fuel, thus decreasing dependence on natural gas in some of our mills. To meet further its energy requirements, Temple-Eastex is expanding exploration for natural gas and petroleum under its 300,000 "mineral acres." Many of these acres are in the general area of commercial production, both past and present, and we believe chances of success more than justify the accelerated drilling program.

The accompanying table shows net sales and production of our principal forest products for the last four years.

The paper mill end-products include stock for hot and cold drink cups, plates, bakery board, folding cartons, file folders, tag, index, bristol board, paper for shipping bags and coated board and pulp. Three company-owned folding-carton plants in Memphis, Tennessee, Charlotte, North Carolina and Madison, Wisconsin use a small portion of the production of

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our paper mill; the remainder is sold to a wide group of customers, with the largest accounting for less than 7% and the top ten less than 40% of 1973 production.

In 1973, the combined forest-products operations invested more than $26 million in expansion of new facilities and additions to existing ones. An additional $35 million is budgeted for 1974, including the completion of a new particleboard mill in Thomson, Georgia, with an annual capacity of 100 million square feet (¾ inch), the modification of the fiberboard mill in Diboll to increase annual capacity by 30 million feet, and a new plywood plant in Pineland, Texas, designed to increase capacity by 120 million square feet per year.

An 18,000 tons-per-year expansion of the paper mill is planned to be operational in the early part of 1975. Consideration of an additional 200,000 tons-per-year expansion, costing approximately $100 million, has been set aside for a number of reasons, including additional studies relating to long-term energy supply. A feasibility study for a 55,000 tons-per-year expansion, which would not require the use of significant additional energy, is in progress. A final decision on this possibility is expected within the next several months. If approved, the expansion would be scheduled to become operational in 1976.

In addition to expenditures directly connected with expansion of production facilities, Temple-Eastex continued its ongoing program to upgrade all existing environmental controls of plant emissions and discharges. Some of the major accomplishments in 1973 included:

. . . At the paper mill in Evadale: installation of new "air scrubbers" (precipitator units) on all chemical-recovery boilers and new particulate collection systems on the lime kilns. Improvements to the waste-water treatment system included additional aerators in the effluent holding basin and additional storage capacity for spent pulping liquors before disposal in the chemical recovery boilers.

(For its continuing efforts over the years, Eastex received in May, 1973 the statewide Environmental Improvement Award.)

. . . At the fiberboard division in Diboll: a new clarifier to reduce effluent discharge to the irrigation field, which itself is in the process of being expanded and improved. In the plywood and gypsum plants, dust collection systems have been installed, and aerators are being placed in the impounding area of the plywood mill.

In 1974, Temple-Eastex plans to spend an additional $2 million on environmental improvements.

Temple-Eastex is also active in furniture manufacturing, mortgage banking and land development, as well as commercial and industrial contracting.

* * *

The Big Thicket National Preserve Bill passed by the House of Representatives and awaiting Senate action provides for the preservation of an ecologically unique area in which the flora and fauna of the temperate and subtropical zones meet and mingle as nowhere else on the North American continent. Some 25,000 to 30,000 acres of Temple-Eastex timberlands are included in the Preserve as described in the House Bill. We expect to receive fair compensation for acreage taken under condemnation proceedings—and will be on the lookout for comparable land as a replacement.

* * *

Demand for paper products continued to outstrip mill capacity in 1973, and 1974 should be another very

NET SALES	1970	1971	1972	1973
(In thousands of dollars)				
Pulp, Paper, Paper Products and Timber	$88,716	$91,580	$96,805	$113,575
Lumber	11,970	15,887	16,242	16,568
Plywood	2,960	6,328	7,803	7,754
Particleboard	625	3,360	8,274	12,020
Fiberboard	6,669	10,426	12,475	15,900
Gypsum Wallboard	2,853	4,777	7,533	11,620
Decorative Wall Panels	4,761	6,190	7,151	8,203
PRODUCTION				
Pulp, Paper and Paperboard (In thousands of tons)	408	432	431	461
Lumber (In millions of board feet)	132	154	142	132
Fiberboard*	229	313	298	311
Particleboard*	8	47	107	111
Plywood*	38	84	87	90
Gypsum Wallboard*	105	151	221	312
Decorative Wall Paneling*	25	35	40	42

* In millions of square feet

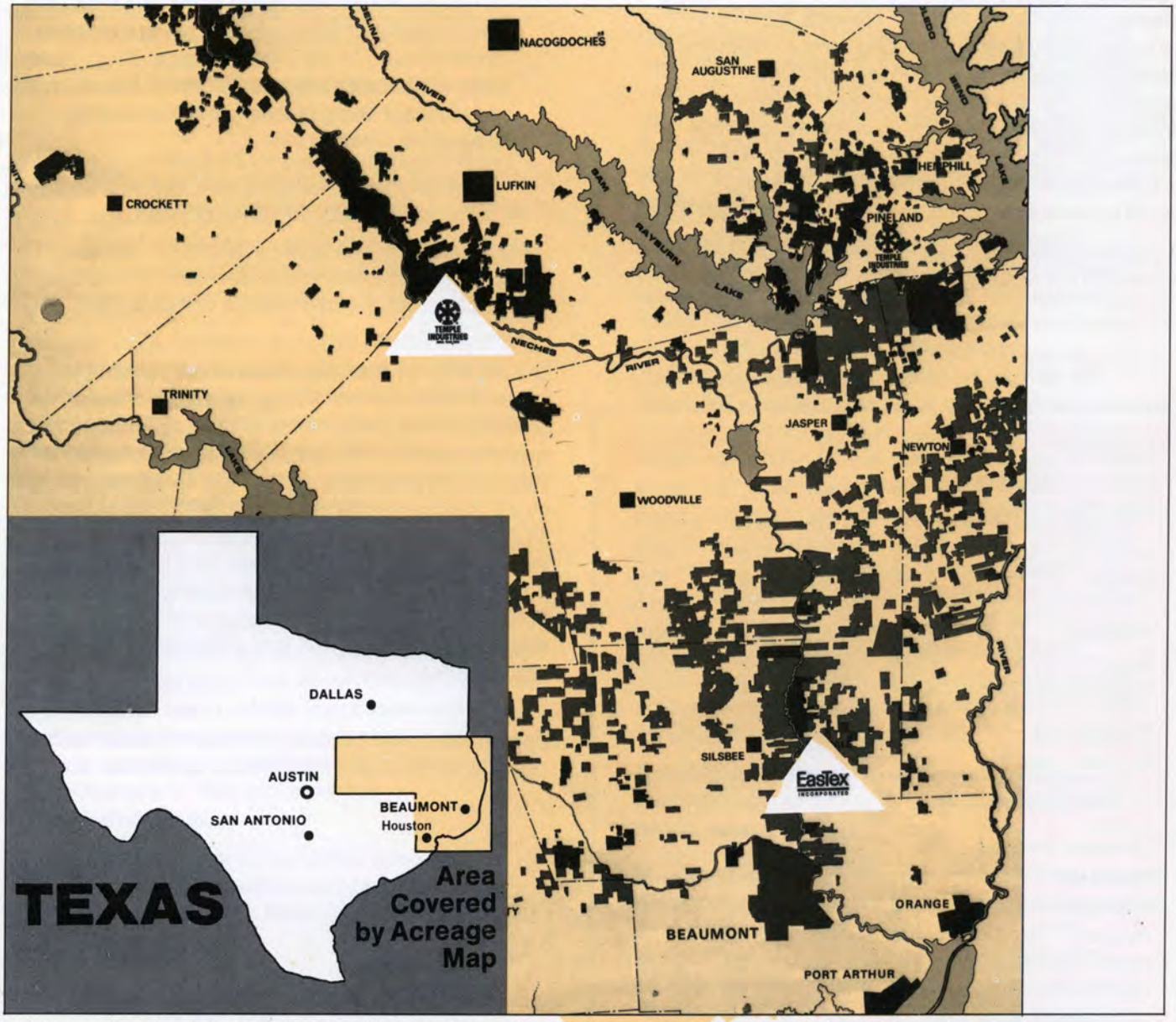
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good year. Many of the products manufactured from paper stock compete with plastic containers. The energy shortage may adversely affect the cost of production of plastic products, thus further increasing demand for bleached-paper products.

The market for building materials is much more uncertain at this time, with most economists predicting a dramatic reduction of residential housing starts in the first half of the year and a modest housing recovery after mid-year. Total housing starts in 1974 will probably be at least 20% below the level achieved in 1973.

Building-material profit margins will probably decline in 1974 as the level of housing declines, but additional production may serve as a partial offset to this down-turn. If building activity in the South and Southeast continues to outpace the national average, our strategic location near these markets will be a decided advantage against competing manufacturers from the West Coast.

There is a definite need for a high level of residential building in the next ten years. Houses not built in 1974 must be added to backlog and completed in future years. This demand will create a great opportunity for our building materials as new capacity allows us to serve expanding markets.



Stretching north and south for 110 miles, the million-acre forests of Temple-Eastex perpetually produce timber and by-products for the lumber, plywood, particleboard, fiberboard and paper mills they surround.

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REVIEW OF DEVELOPMENTAL ACTIVITIES

The development of new businesses and products is necessary to insure continued growth of our Company. In many companies, research and development is carried on almost exclusively by scientists and other specialists. In our forest-products operations, we too conduct conventional research, but in other areas our experiments are not necessarily along conventional lines.

For example, a successful subsidiary named SAMI emerged some years ago, in part, from the suggestion that the talents and computers of our Subscription Service might be useful to other companies needing fast and accurate reports on product movements. SAMI (Selling Areas-Marketing, Inc.) was thus organized to report the movement of food products from warehouses to retailers, providing manufacturers and distributors with a useful aid for inventory control and more precise marketing. To this basic service, which can be used for other retail operations, will soon be added SARDI (SAMI Retail Distribution Index), a complementary service which will report the actual availability of brand products on food-store shelves, thus providing a further measure of distribution.

Because we are large users of printed material, we maintained for many years a printing research laboratory, out of which came some important developments. In 1950, we organized Printing Developments, Inc. (PDI) to market some of them. PDI has grown through the years and now manufactures and markets a number of important products for the printing trade. One of the most important is an integrated system of color correction and separation equipment for four-color printing. Designed around its electronic color scanner, the highly sophisticated equipment "reads" original color film or reflective art copy, separates and corrects each color, and produces balanced sets of continuous-tone or screened film separations ready for platemaking.

The PDI system offers the advantages of speed, consistent quality and overall economy. In that connection, PDI supplies services to the trade from color center operations in the United States, England, Germany, Italy, The Netherlands, Sweden and Yugoslavia, and leases equipment directly to printers and trade houses in Japan. PDI also markets in various parts of the world offset printing plates, chemicals, automatic processing equipment and printing-press blankets from its manufacturing facilities in continental United States and Puerto Rico.

Both SAMI and PDI have progressed beyond the development stage and are properly classified as important parts of our business. Both enjoyed increased revenues and profits in 1973.

As reported in the Publishing section, we are continuing our research into, and development of, new magazine and book possibilities. We are also investigating how we can apply our expertise to other facets of communications.

Our expansion into other communication areas has usually been through investment in other companies. For example, we have invested in Computer Television Inc., which is testing a system for providing movies in hotel rooms. Profits from such operations may not be forthcoming for some time.

Over some 20 years, we invested in broadcasting properties, including radio and TV stations and CATV

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systems. Although in most cases these proved to be viable entities, we finally determined that they were not necessary for our primary objective, the creation and marketing of program material rather than its technical transmission. Therefore, about three years ago we began to liquidate our interest in these broadcasting companies. We have realized a satisfactory profit from these liquidations.

Our only remaining over-the-air TV property is WOTV in Grand Rapids, Michigan. The only CATV system which we currently operate is Sterling Manhattan Cable Television, Inc., the largest cable system in the United States, which serves approximately 60,000 subscribers on the southern half of Manhattan island.

Prior to 1973, we owned a controlling interest in Sterling Manhattan's parent corporation, and in 1973 we acquired its assets. Although Sterling has been unprofitable, and will remain so in 1974, we believe that the long-term potential of this cable system justifies further investment for development. In February, 1974, the City of New York approved an increase in the basic charge to subscribers from $6 per month to $9, which should improve operating results.

Through the acquisition of Sterling, Home Box Office (HBO) became a wholly owned subsidiary of the Company. HBO has developed a "Pay TV" program network in 21 Pennsylvania and New York State communities, including three in the Greater New York area. HBO subscribers pay a fee in addition to that for normal cable service for a package of current motion pictures, sports events and a variety of special-interest programs. Home Box Office's sports programs include college and professional basketball, hockey, boxing, track and other events from Madison Square Garden as well as other American and National Basketball Association games.

The current marketing network of Home Box Office is still a test area. In about two years we should have sufficient data to evaluate its future.

In addition to the activities mentioned above, we engage or invest in several other operations, notably documentary films and video cassettes, which we consider to be still in the start-up stage. Each year all such activities are reviewed to determine not only if they offer profit potential, but whether they promise to be important facets of our business in the long term.

1973 PICTORIAL

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Experiments during the development of People magazine included five "dummy" issues. Four got very limited distribution, but the fifth (lower left) was actually sold in 11 different cities to test consumer acceptance.



For its sixth Newstour, Time brought leading Japanese businessmen to meet their American counterparts.





The great resource of our newest and largest subsidiary, Temple-Eastex Inc., is more than a million acres of Southern pine. Practically every portion of the tree, including bark, is used to manufacture paper products and building materials.



Objets d'art, like these from the Smithsonian (left) and Whitney museums, are faithfully duplicated by our Alva Museum Replicas for home and office decoration. Alva has arrangements with 50 museums for sculpture duplication and with almost 100 for jewelry.

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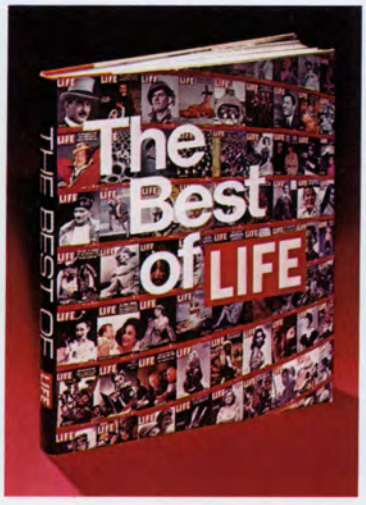
Subscribers to our Home Box Office in 21 Pennsylvania and New York communities can see first-run movies or live sports events via cable TV.



The favorite reproduction among nationwide customers of our New York Graphic Society in 1973 was Primavera by Ida Pellei. More than 10,000 reproductions of this painting were sold.

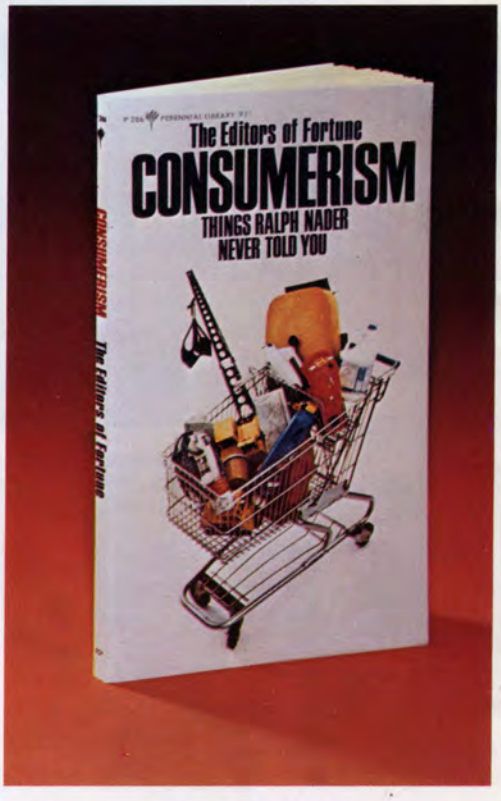


Thirty-six years as seen through the lenses of Life photographers appealed to more than 700,000 buyers of The Best of Life, published in English, Spanish and Japanese.





To launch The Old West series last June, Time-Life Books staged a reception for booksellers on the western movie lot at Universal Studios in Universal City, California.



Consumerism: Things Ralph Nader Never Told You is the 72nd book of articles which appeared first in Fortune.

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Opened in April, 1973 at the Smithsonian Institution in Washington, D.C., the Henry R. Luce Hall of News Reporting is a permanent audio-visual chronicle of the evolution of American journalism.



Time for August 6 had three different covers in different parts of the world, though basic content was the same.



Most voted by mail, but quite a few shareholders of Time Inc. appeared at the formal meeting in August to authorize overwhelmingly the acquisition of Temple Industries, Inc.

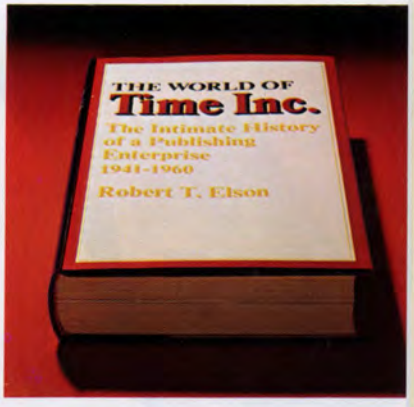




This plastic greenhouse comes unassembled through the post from sunny California via our Haverhill's, which specializes in unusual high-quality mailorder items.



Time-Life Films and the BBC cooperated to produce America, written and narrated by Alistair Cooke, and shown twice on commercial TV networks.



Robert T. Elson's second and final volume of the history of Time Inc. to 1960 was published in March and won considerable praise.

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Time celebrated its 50th anniversary with dinner at the Waldorf Astoria in New York. Similar staff dinners occurred around the world.



Life lived again in two special issues, one with advertising, and both were well received. Two more special issues are planned for 1974.



In Boston, Atlanta, Chicago, Los Angeles and Washington, Time sponsored luncheons and dinners at which Congressmen, businessmen and scholars discussed the role of Congress in the era of the "imperial presidency."





The Vernon Review, latest in a chain of weekly newspapers published by our Pioneer Press in the suburbs north and west of Chicago, attained 50% of projected circulation after only three months of publication.



Writers, researchers and artists actually perform all the "How-To" steps in their own sewing room for Time-Life Books' newest series, The Art of Sewing.



Besides nontheatrical films and filmstrips, the multimedia division of Time-Life Films produces video cassettes of special interest to businessmen.

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CONSOLIDATED STATEMENT OF INCOME

Time Incorporated and Subsidiaries

	Year Ended December 31, 1973	Year Ended December 31, 1972
Revenues	$728,266,000	$608,558,000
Costs and Expenses		
Editorial, production, manufacturing and distribution	428,435,000	358,210,000
Selling, administrative and general	213,818,000	189,065,000
	642,253,000	547,275,000
Operating Income	86,013,000	61,283,000
Other Income—Net	5,307,000	7,179,000
Income before Taxes, Discontinued Operations and Extraordinary Items	91,320,000	68,462,000
Taxes on Income	41,400,000	30,167,000
Income before Discontinued Operations and Extraordinary Items	49,920,000	38,295,000
Discontinued Operations, net of income tax credits of $3,573,000	—	(3,446,000)
Income before Extraordinary Items	49,920,000	34,849,000
Extraordinary items, net of income tax credits of $900,000 in 1973 and $5,848,000 in 1972	(2,400,000)	(3,000,000)
Net income	$ 47,520,000	$ 31,849,000
Per Share of Common Stock:		
Income before Discontinued Operations and Extraordinary Items	$4.81	$3.69
Discontinued Operations, net of income tax credits	—	(.33)
Income before Extraordinary Items	4.81	3.36
Extraordinary Items, net of income tax credits	(.23)	(.29)
Net Income	$4.58	$3.07

The accompanying notes are an integral part of this financial statement

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CONSOLIDATED BALANCE SHEET

Time Incorporated and Subsidiaries

Assets	December 31, 1973	December 31, 1972
Current Assets		
Cash	$ 31,709,000	$ 27,521,000
Marketable securities—at cost:		
U.S. Government and other short-term securities (approximately market)	44,303,000	32,846,000
Preferred and common stocks—quoted market prices $31,800,000 in 1973 and $32,000,000 in 1972	27,236,000	26,887,000
Receivables, less allowances of $18,243,000 in 1973 and $14,903,000 in 1972	91,695,000	94,126,000
Notes receivable	4,875,000	4,875,000
Inventories—at the lower of cost or market:		
Work in process and finished goods	47,885,000	47,641,000
Paper and other materials	23,819,000	12,716,000
Prepaid expenses and other	30,513,000	26,070,000
Total Current Assets	302,035,000	272,682,000
Investments		
Unconsolidated subsidiaries—at equity	8,044,000	7,289,000
Companies 20% to 50% owned—at equity	28,731,000	39,664,000
Other—at cost less allowances of $10,497,000 in 1973 and in 1972	18,079,000	11,972,000
	54,854,000	58,925,000
Property and Equipment—on the basis of cost		
Buildings	76,119,000	76,402,000
Machinery and equipment	257,421,000	225,052,000
Leasehold improvements	18,014,000	17,040,000
Construction in progress	15,797,000	5,725,000
	367,351,000	324,219,000
Less allowances for depreciation and amortization	159,782,000	141,751,000
	207,569,000	182,468,000
Timber and timberland, less depletion	36,616,000	37,198,000
Land	9,170,000	8,300,000
	253,355,000	227,966,000
Excess of Purchase Prices over Net Tangible Assets of Acquired Properties	20,189,000	20,489,000
Notes Receivable	29,250,000	34,125,000
Other Assets	30,431,000	26,283,000
Total Assets	$690,114,000	$640,470,000

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Liabilities and Shareholders' Equity	December 31, 1973	December 31, 1972
Current Liabilities		
Accounts payable and accrued expenses	$ 74,627,000	$ 83,726,000
Employee compensation and profit-sharing contributions	11,820,000	8,858,000
Federal and foreign taxes on income	19,762,000	3,856,000
Loans and current portion of long-term debt	8,662,000	7,288,000
Total Current Liabilities	114,871,000	103,728,000
Unearned Portion of Paid Subscriptions	68,911,000	67,053,000
Long-Term Debt	110,208,000	104,015,000
Deferred Federal Income Taxes	34,185,000	32,601,000
Other Liabilities	5,673,000	7,214,000
Shareholders' Equity		
Common Stock—$1 par value; authorized 12,500,000 shares;		
issued and outstanding, 10,381,000 shares in 1973	10,381,000	10,368,000
and 10,368,000 in 1972	48,235,000	47,580,000
Additional paid-in capital	297,650,000	267,911,000
Retained income	356,266,000	325,859,000
Total Liabilities and Shareholders' Equity	$690,114,000	$640,470,000

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CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

Time Incorporated and Subsidiaries

	Common Stock	Additional Paid-In Capital	Retained Income	Shareholders' Equity
Shareholders' Equity at December 31, 1971	$ 7,278,000	$ 23,479,000	$215,509,000	$246,266,000
Adjustment for acquisition of Temple Industries, Inc., accounted for as a pooling of interests	3,029,000	22,912,000	36,038,000	61,979,000
Shareholders' Equity as Restated at December 31, 1971	$ 10,307,000	$ 46,391,000	$251,547,000	$308,245,000
Net income—$3.07 a share	—	—	31,849,000	31,849,000
Stock options exercised, including stock options of Temple prior to acquisition	61,000	944,000	—	1,005,000
Awards under Temple stock bonus plan	—	245,000	—	245,000
Dividends paid:				
Time Incorporated—$1.90 a share	—	—	(13,839,000)	—
Temple prior to acquisition	—	—	(1,646,000)	(15,485,000)
Shareholders' Equity at December 31, 1972	$ 10,368,000	$ 47,580,000	$267,911,000	$325,859,000
Net income—$4.58 a share	—	—	47,520,000	47,520,000
Stock options exercised, including stock options of Temple prior to acquisition	13,000	437,000	—	450,000
Awards under Temple stock bonus plan	—	218,000	—	218,000
Dividends paid:				
Time Incorporated—$1.90 a share	—	—	(16,794,000)	—
Temple prior to acquisition	—	—	(987,000)	(17,781,000)
Shareholders' Equity at December 31, 1973	$ 10,381,000	$ 48,235,000	$297,650,000	$356,266,000

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CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Time Incorporated and Subsidiaries

	Year ended December 31, 1973	Year ended December 31, 1972
Sources of Working Capital		
From operations:		
Income before extraordinary items	$ 49,920,000	$ 34,849,000
Charges (credits) not affecting working capital:		
Depreciation, amortization, depletion	20,679,000	20,819,000
Deferred federal income taxes	(694,000)	1,045,000
Share of losses in 20%-50% owned companies	1,955,000	832,000
Net income from unconsolidated subsidiaries	(133,000)	(1,036,000)
Total from Operations Excluding Extraordinary Items	$ 71,727,000	$ 56,509,000
Extraordinary items	(2,400,000)	(3,000,000)
Charges (credits) not affecting working capital:		
Deferred federal income taxes	(1,562,000)	3,155,000
Provisions for losses on investments	5,300,000	22,061,000
Provisions for losses on property and equipment	—	4,653,000
Long-term notes received on sale of TV stations ($34,125,000) less noncurrent assets sold	—	(17,765,000)
Total from Operations	$ 73,065,000	$ 65,613,000
Increase in long-term debt	$ 36,140,000	$ 2,419,000
Dispositions of property and equipment	5,263,000	8,002,000
Dispositions of investments	12,729,000	2,752,000
Decrease in other assets	—	3,268,000
Decrease in notes receivable	4,875,000	—
Increase in deferred federal income taxes	3,840,000	6,334,000
Increase in unearned portion of paid subscriptions	1,858,000	—
Issuance of common stock	450,000	1,005,000
Miscellaneous	518,000	434,000
	$138,738,000	$ 89,827,000
Applications of Working Capital		
Dividends paid to shareholders	$ 17,781,000	$ 15,484,000
Purchase of property and equipment	51,331,000	21,631,000
Additions to investments	15,780,000	9,754,000
Increase in other assets	4,148,000	—
Repayment of long-term debt	29,947,000	23,093,000
Decrease in unearned portion of paid subscriptions	—	15,052,000
Decrease in other liabilities	1,541,000	513,000
	$120,528,000	$ 85,527,000
Increase in Working Capital	$ 18,210,000	$ 4,300,000

Details of increases and decreases in components of working capital are in the accompanying notes.

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NOTES TO FINANCIAL STATEMENTS

Summary of Significant Accounting Policies

The consolidated financial statements include the accounts of the Company and its significant majority-owned subsidiaries, except Lumbermen's Investment Corporation, which has not been consolidated since its mortgage banking and real estate investment operations are dissimilar to the other operations of the Company. Unconsolidated subsidiaries and companies 20% to 50% owned are reflected in the financial statements on the equity basis, and the Company's equity in their income before income taxes and net income respectively, is included in Other Income—Net.

Cost of inventories, amounting to $4,722,000 in 1973 and $4,355,000 in 1972, was determined by the last-in, first-out method. Cost of the remaining inventories was determined principally by the first-in, first-out method.

Depreciation of property and equipment is computed by the straight-line method over the estimated useful lives of the assets. Charges for depletion are based on the unit cost of timber harvested during the year.

Sales of subscriptions to magazines are credited to Unearned Portion of Paid Subscriptions at the gross subscription price at the time of sale. Accounts receivable resulting from charge sales have been deducted from Unearned Portion of Paid Subscriptions. As magazines are delivered to subscribers, proportionate shares of the gross subscription price are credited to revenues. All costs in connection with the procurement of subscriptions are expensed within the year incurred.

Promotion costs related to sales of book and record series are deferred and amortized over a 12-month period.

Excess of purchase prices over net tangible assets of acquired properties is not being amortized in the financial statements (except for $4,273,000 net of amortization of $244,000 that is being amortized over 20 years), because, in the opinion of management, there has been no decrease in the value of these businesses.

The accounts of foreign subsidiaries included in the consolidated financial statements have been translated into U.S. dollars at rates prevailing during the year for revenues, costs and expenses (except depreciation), and at year-end rates for assets and liabilities—except property and equipment, and related depreciation reserves, for which historical rates have been used. Net translation gains, not material in 1973 and 1972, are credited to income currently.

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Long-Term Debt	1973	1972
5⅜% sinking fund first mortgage bonds due 1985	$ 34,500,000	$ 36,000,000
5¾%-8½% mortgage notes due 1975-1997	25,427,000	24,561,000
Notes under revolving credit agreement at prime interest rate (10% at December 31, 1973) due 1975 to 1980	12,000,000	—
5¼% notes due 1975 and 1976	8,500,000	11,000,000
Notes under revolving credit agreement at prime interest rate plus ¼-½ of 1% due 1975-1977	6,508,000	—
Notes at 120% of prime interest rate plus ¼-¾ of 1% due 1975-1978	6,024,000	—
Notes at prime interest rate plus 1¼% due 1976	6,000,000	—
Lease obligations due 1975-1991	4,970,000	4,090,000
5% notes due 1975-1978	2,456,000	3,072,000
4½%-7% notes, some secured by property, timberlands and real estate, due 1975-1988	1,744,000	1,867,000
5¾% notes paid during 1973	—	12,000,000
Eurodollar loans paid during 1973	—	6,000,000
Other notes	2,079,000	5,425,000
	$110,208,000	$104,015,000

The Company has a revolving credit agreement with a group of banks for an aggregate credit of $50,000,000, of which $12,000,000 was outstanding at December 31, 1973, convertible on July 1, 1974, into a six-year term loan with a maximum interest rate over the term of the loan of 7⅞% per annum. The credit agreement requires maintenance of minimum consolidated net current assets (as defined) and imposes limits on payment of dividends. At December 31, 1973, net current assets were approximately $106,000,000 in excess of this requirement, and approximately $111,000,000 of retained income was unrestricted as to payment of dividends.

Temple Industries, Inc. has a revolving credit agreement with a group of banks for an aggregate credit of $15,000,000, of which $7,100,000 (including $592,000 classified as current) was outstanding at December 31, 1973, convertible on September 30, 1974, into a three-year term loan.

In connection with their long-term debts aggregating $59,000,000, Temple Industries, Inc., Eastex Incorporated and Eastex Packaging, Incorporated have agreed to observe restrictions with respect to payment of dividends, maintenance of working capital, prepayment of debt, incurring additional debt, etc. Payment of these debts is not guaranteed by the Company. However, until these debts are paid, the Company may not dispose of any portion of its investment in these subsidiaries without the consent of the lending institutions. Of the total net assets of these subsidiaries at December 31, 1973, approximately $139,000,000 (including $21,000,000 of net current assets) is effectively restricted to the securing of long-term debt and thus not available for distribution to the Company.

Aggregate maturities of long-term debt, including sinking fund requirements of first-mortgage bonds, during the next five years are as follows: 1974-$8,662,000; 1975-$13,610,000; 1976-$23,399,000; 1977-$10,855,000; 1978-$7,644,000.

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Retirement Plans

The Company and its subsidiaries have retirement plans covering substantially all employees, including those in foreign countries. Retirement plan expense was approximately $5,200,000 in 1973 and $4,700,000 in 1972. The Company's retirement plan is fully funded. Certain subsidiary retirement plans have unfunded past service costs aggregating approximately $1,900,000.

Acquisitions, Dispositions, and Discontinued Operations

On August 16, 1973, the Company acquired Temple Industries, Inc. for 3,082,000 shares of the Company's common stock in a transaction accounted for as a pooling of interests. Accordingly, the consolidated financial statements for 1973 include Temple Industries, Inc. for the entire year, and 1972 has been restated.

Revenues and net income of the Company and Temple for the six months ended June 30, 1973 (unaudited), and the year 1972 (Temple had no extraordinary items during these periods) were as follows:

	1973 (First Half)		1972	
	Revenues	Net Income	Revenues	Net Income
	(in thousands of dollars)			
Company	$278,972	$14,772	$510,983	$22,407
Temple Industries, Inc.	60,462	6,960	99,599	9,613
Intercompany eliminations	(901)	(82)	(2,024)	(171)
Combined	$338,533	$21,650	$608,558	$31,849

In September, 1973 the Company acquired all the assets of Sterling Manhattan Cable Television in New York City and certain other properties in a transaction which was essentially an acquisition of the minority interest and dissolution of Sterling Communications, Inc. The net cost was $6,496,000 in cash, and the Company acquired the long-term assets of Sterling, approximately $26,000,000, and assumed the liabilities of Sterling, primarily bank loans aggregating $13,150,000. The Company's share of Sterling Communications' losses prior to dissolution was charged to Other Income—Net.

In August, 1973 the Company sold its investment in eleven cable television systems to American Television and Communications Corporation for a total consideration of approximately $10,000,000, resulting in a gain shown in Extraordinary Items.

Effective with the last issue of 1972, the Company suspended the publication of Life magazine. The results, together with certain other smaller discon-

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tinued activities, were included in Discontinued Operations, net of federal income tax credits.

In 1972, the Company sold four television and three radio broadcasting properties for cash and notes. Operating Income of these properties was included in Other Income—Net in 1972.

Extraordinary Items

Extraordinary Items in 1973, all net of income taxes, included a gain of $1,300,000 from the sale of cable television systems and a provision for possible losses on the Company's investment in Sterling Communications, Inc. of $3,700,000.

Extraordinary Items in 1972, all net of income taxes, included a gain of $26,347,000 from sale of broadcasting properties, a loss of $7,348,000 from the write-down of the Company's investment in MGM common stock to market value, a loss of $9,863,000 from the disposition of the Company's interest in the St. Francisville Paper Company, a loss of $8,268,000 from the discontinuance of Life, a loss of $1,182,000 on the disposal of buildings, plant and equipment, an increase in the reserve for discontinuance of the subscription-selling activities of Family Publication Services, Inc. of $1,924,000, and other losses of $762,000, principally increases in reserves for losses on foreign investments.

Other Income—Net

Other Income—Net in 1973 and 1972 consisted mainly of dividends of $2,230,000 and $1,585,000, interest income of $7,373,000 and $5,517,000, equity in income before income taxes of unconsolidated subsidiaries of $433,000 and $1,602,000, share of losses of companies 20% to 50% owned of $1,955,000 and $832,000, gains on sale of land of $1,593,000 and $1,843,000, income before income taxes of broadcasting properties sold of $2,611,000 in 1972 and interest expense of $7,666,000 and $7,510,000.

Stock Options

The table on page 26 shows changes during 1973 and 1972 in options granted to key employees, including options granted to employees of Temple Industries, Inc., which have been converted into equivalent stock options of the Company, to purchase shares of the Company's common stock. There were no shares at December 31, 1973, and 49,500 shares at December

Increases (Decreases) In Components of Working Capital

	Year Ended December 31, 1973	Year Ended December 31, 1972
Cash and marketable securities	$ 15,994,000	$ 5,332,000
Receivables	(2,431,000)	(551,000)
Notes receivable	—	4,875,000
Inventories	11,347,000	863,000
Prepaid expense	4,443,000	2,683,000
Increase in Current Assets	29,353,000	13,202,000
Accounts payable and accrued expenses	(9,099,000)	9,828,000
Employee compensation and profit-sharing contribution	2,962,000	(367,000)
Federal and foreign taxes on income	15,906,000	1,329,000
Loans and current portion of long-term debt	1,374,000	(1,888,000)
Increases in Current Liabilities	11,143,000	8,902,000
Increase in Working Capital	$ 18,210,000	$ 4,300,000

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31, 1972, available for the granting of options. Options granted by the Company are exercisable at various dates, but in no event later than five years from the date of grant. At December 31, 1973 and 1972, options for 336,697 shares and 261,968 shares, respectively, were exercisable. The option prices, which are not less than 100 per cent of the fair market value on the dates of grant, are payable in full at the time the options are exercised.

Shares Under Option

	Price Range per Share	Number of Shares 1973	1972
Balance at January 1	$19.34-$106.88	421,929	501,524
Options granted-1973	$29.88-$ 30.57	36,550	—
Options granted-1972	$47.50-$ 51.26	—	61,000
		458,479	562,524
Options exercised	$19.34-$ 52.57	(19,750)	(70,545)
Options terminated	$45.00-$106.88	(54,752)	(70,050)
Balance at December 31	$21.14-$ 52.57	383,977	421,929

Commitments and Contingent Liabilities

At December 31, 1973, the Company had commitments and contingent liabilities in connection with investments, purchases and sales of property and equipment, and long-term paper and printing contracts.

There were pending against the Company and subsidiaries lawsuits and claims arising in the regular course of business. In addition, two class actions have been commenced against the Company in the United States District Court for the Southern District of New York. One action asserts various violations of Federal Securities and Antitrust laws by the Company in connection with its acquisition of the minority interest in Sterling Communications, Inc. The other action makes similar charges against the Company in connection with its acquisition of Temple Industries, Inc. In the opinion of management, recoveries, if any, by plaintiffs or claimants that may result from all such litigation and claims will not be material in relation to the net worth of the Company and its subsidiaries.

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Leases

Total rental expense, including contingent rentals that were not material and reduced by sublease rental income of $2,414,000 and $2,370,000 for the years ended December 31, 1973 and 1972, amounted to:

	1973	1972
	(in thousands of dollars)	
Financing leases	$5,296	$4,762
Other leases	4,125	3,412
	$9,421	$8,174

The future minimum rental commitments, reduced by an aggregate of $13,301,000 for rentals to be received from existing noncancelable subleases at December 31, 1973, for all noncancelable leases are as follows:

		Financing Leases		Other Leases
	Total	Buildings	Machinery & Equipment	Office Space
		(in thousands of dollars)		
1974	$ 9,220	$ 3,697	$1,200	$ 4,323
1975	6,798	3,824	590	2,384
1976	6,364	4,134	450	1,780
1977	6,031	4,225	292	1,514
1978	5,957	4,306	216	1,435
1979-1983	27,641	23,095	463	4,083
1984-1988	24,623	23,562	—	1,061
1989-1992	421	—	—	421
	$87,055	$66,843	$3,211	$17,001

The estimated present values of the net fixed minimum rental commitments, computed after reducing total rental commitments by estimated amounts applicable to the lessor's payment of taxes, insurance and maintenance, for all noncancelable financing leases are summarized below:

	Average Interest Rate Used	As of December 31,	
		1973	1972
		(in thousands of dollars)	
Buildings	5.1%	$54,279	$56,960
Machinery and Equipment	19.1%	1,870	2,552
		$56,149	$59,512

The estimated present values of rentals to be received from existing noncancelable subleases amounted to $7,511,000 in 1973 and $8,696,000 in 1972.

The impact on net income for the years 1973 and 1972, if all financing leases had been capitalized, does not exceed 3% of the average net income for the most recent three years.

Taxes on Income

Taxes on income include federal, foreign, state and local taxes. The consolidated effective income tax rates in 1973 and 1972 were 2.7 per cent and 3.9 per cent lower than the federal income tax rate of 48.0 per cent. Of the total 1973 and 1972 variations, 3.4 per cent and 3.0 per cent were attributable to capital gains resulting mainly from the harvesting and sale of fee-owned timber. No other items were individually significant in the variations in 1973 and 1972.

The Company plans to continue to finance its operations in foreign countries by retention in such countries of a substantial portion of undistributed earnings of its foreign subsidiaries. The amounts of unremitted earnings considered permanently invested for such purpose at December 31, 1973, and at December 31, 1972, were approximately $14,000,000 and $12,000,000 respectively after reduction for available foreign tax credits.

Deferred federal income taxes (credits) of ($694,000) and $1,045,000 in 1973 and 1972 respectively, applicable to income before extraordinary items, have been provided because amounts for depreciation, amortization, bad debts, book-return expenses and certain other costs for financial reporting purposes differ from deductions in the federal income tax returns.

Investment tax credits, not material in 1973 or 1972, have been primarily accounted for by the flow-through method.

Investments in Unconsolidated Subsidiaries and Companies 20% to 50% Owned

The principal investments are Lumbermen's Investment Corporation (99% owned), General Learning Corporation (50% owned), Rock-Time, Inc. (45% owned) and Sterling Communications, Inc. (47% owned in 1972 and majority owned in 1973 to date of dissolution). At December 31, 1973 and 1972, the Company's investments in the capital stock of these companies, accounted for on the equity basis, exceeded its equity in their related net assets by approximately $3,000,000 and $4,000,000 respectively. This excess is not being amortized.

At December 31, 1973, the total assets of Lumbermen's were $41,275,000 and total liabilities were $35,990,000. Revenues for the years 1973 and

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1972 were $9,173,000 and $8,408,000 respectively, and its Income Before Income Taxes of $673,000 in 1973 and $941,000 in 1972 was included in Other Income—Net.

The Company's equity in the net income (losses) of the 20% to 50% owned companies (including Sterling for the full year 1972 and to date of dissolution in 1973) was included in Other Income—Net.

ACCOUNTANTS' REPORT

To the Board of Directors and Shareholders of Time Incorporated

We have examined the consolidated financial statements of Time Incorporated and subsidiaries for the years ended December 31, 1973 and 1972. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of Temple Industries, Inc. and subsidiaries for the year ended December 31, 1972, which statements reflect total assets and revenues constituting 15% and 16% respectively of the related consolidated totals. These statements were examined by other auditors, whose reports thereon have been furnished to us and our opinion expressed herein, insofar as it relates to the amounts included for Temple Industries, Inc. and subsidiaries for the year ended December 31, 1972, is based solely upon the reports of the other auditors.

In our opinion, based upon our examinations and the reports of other auditors, the accompanying balance sheets and statements of income, shareholders' equity and changes in financial position present fairly the consolidated financial position of Time Incorporated and subsidiaries at December 31, 1973 and 1972, and the consolidated results of their operations, changes in shareholders' equity and changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Ernst & Ernst

New York, New York
February 21, 1974

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FIVE-YEAR FINANCIAL SUMMARY*

Time Incorporated and Subsidiaries

	1973	1972	1971	1970	1969
Income and Dividends (millions)					
Revenues	$728.3	$608.6	$544.5	$497.4	$461.2
Income before taxes, discontinued operations and extraordinary items	91.3	68.5	57.0	53.7	58.1
Income before discontinued operations and extraordinary items	49.9	38.3	32.6	31.0	31.1
Discontinued operations, net of taxes	—	(3.4)	(3.4)	(7.4)	(6.2)
Income before extraordinary items	49.9	34.8	29.2	23.6	24.9
Extraordinary items, net of taxes	(2.4)	(3.0)	0.9	(3.2)	3.6
Net income	47.5	31.8	30.1	20.4	28.5
Dividends paid					
Time Incorporated	16.8	13.8	13.8	13.8	16.7
Temple prior to acquisition	1.0**	1.6	1.4	1.4	1.4
Year-End Financial Condition (millions)					
Current assets	$302.0	$272.7	$259.5	$245.1	$242.8
Working capital	187.2	169.0	164.7	149.1	149.7
Total assets	690.1	640.5	639.7	633.1	624.8
Unearned portion of paid subscriptions	68.9	67.1	82.1	86.8	85.0
Long-term debt	110.2	104.0	124.7	133.9	135.5
Shareholders' equity	356.3	325.9	308.2	291.6	285.4
Amount Per Share					
Income before discontinued operations and extraordinary items	$ 4.81	$ 3.69	$ 3.16	$ 3.02	$ 3.04
Discontinued operations, net of taxes	—	(.33)	(.33)	(.72)	(.60)
Income before extraordinary items	4.81	3.36	2.83	2.30	2.44
Extraordinary items, net of taxes	(.23)	(.29)	.09	(.31)	.35
Net income	4.58	3.07	2.92	1.99	2.79
Shareholders' equity	34.32	31.43	29.90	28.42	27.84
Dividends paid					
Time Incorporated	1.90	1.90	1.90	1.90	2.30
Temple prior to acquisition	.16**	.28	.25	.25	.25

*Restated to include the operations of Temple Industries, Inc., accounted for as a pooling of interests

**Dividends were paid by Temple for only two quarters during 1973

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OFFICERS AND OPERATING EXECUTIVES

Andrew Heiskell
Chairman of the Board & Chief Executive Officer

Roy E. Larsen
Vice Chairman of the Board & Chairman of the Finance Committee

James R. Shepley
President & Chief Operating Officer

James A. Linen
Chairman of the Executive Committee

Rhett Austell
Group Vice President

Charles B. Bear
Group Vice President & Secretary

R.M. Buckley
Group Vice President

Arthur W. Keylor
Group Vice President

Richard B. McKeough
Vice President-Finance

Donald M. Wilson
Vice President-Corporate and Public Affairs

Ralph P. Davidson
Vice President

Robert P. Fisler
Vice President

Otto Fuerbringer
Vice President

Charles L. Gleason Jr.
Vice President

John L. Hallenbeck
Vice President

Peter S. Hopkins
Vice President

Lawrence E. Laybourne
Vice President

Edward Patrick Lenahan
Vice President

Henry Luce III
Vice President

Joan D. Manley
Vice President

John A. Meyers
Vice President

J. Richard Munro
Vice President

E. Gabriel Perle
Vice President

Herbert D. Schutz
Vice President

Ira R. Slagter
Vice President

Robert M. Steed
Vice President

Kelso F. Sutton
Vice President

Arthur H. Thornhill Jr.
Vice President

J. Garry Valk
Vice President

Barry Zorthian
Vice President

P. Peter Sheppe
Assistant Secretary

Clifford J. Grum
Treasurer

J. Winston Fowlkes
Assistant Treasurer

William E. Bishop
Comptroller & Assistant Secretary

Kevin L. Dolan
Assistant Comptroller

Eugene F. Farro
Assistant Comptroller

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CORPORATE EDITORIAL EXECUTIVE

Hedley Donovan
Editor-in-Chief

MAGAZINE EXECUTIVES

Arthur W. Keylor, Group Vice President

Ralph P. Davidson
Publisher, Time
Henry Anatole Grunwald
Managing Editor, Time
Edward Patrick Lenahan
Publisher, Fortune
Robert Lubar
Managing Editor, Fortune
John A. Meyers
Publisher, Sports Illustrated
Roy A. Terrell Jr.
Managing Editor, Sports Illustrated
Harry Steinbreder Jr.
Publisher, Money
William S. Rukeyser
Managing Editor, Money
Richard J. Durrell
Publisher, People
Richard B. Stolley
Managing Editor, People
J. Garry Valk
Publisher, Magazine Development Group
Otto Fuerbringer
Editor, Magazine Development Group

BOOK, TELEVISION AND FILM EXECUTIVES

Rhett Austell, Group Vice President

Ralph Graves
Corporate Editor, Film & Cable
Jerry Korn
Managing Editor, Time-Life Books/Records
Joan D. Manley
Publisher, Time-Life Books/Records
Zachary P. Morfogen
Managing Director, Books and Arts Associates
N. J. Nicholas Jr.
President, Sterling Manhattan Cable Television, Inc.
Bruce L. Paisner
President, Time-Life Films, Inc.
Herbert D. Schutz
President, New York Graphic Society Ltd.
Arthur H. Thornhill Jr.
Chairman & President, Little, Brown and Company, Inc.

FOREST PRODUCTS EXECUTIVES

R. M. Buckley, Group Vice President

Arthur Temple
President and Chief Operating Officer, Temple-Eastex Incorporated
Joe C. Denman, Vice President, Building Materials
David H. Dolben, Vice President, Finance
Felix M. Hammack, Vice President, Paper Products

EXECUTIVES OF OTHER ACTIVITIES

Charles B. Bear, Group Vice President

Robert J. Edmondson
President, Printing Developments, Inc.
Raymond J. Mitchell
President, Pioneer Press Inc.
John A. Watters
President, Selling Areas-Marketing, Inc.
Peter S. Hopkins
Vice President, Real Estate

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BOARD OF DIRECTORS

Date indicates year of election to the Board

Andrew Heiskell (1959)
Chairman of the Board and Chief Executive Officer, Time Inc.





Hedley Donovan (1962)
Editor-in-Chief of all publications, Time Inc.



James R. Shepley (1969)
President and Chief Operating Officer, Time Inc.



Arthur W. Keylor (1972)
Group Vice President, Time Inc.



James A. Linen (1959)
Chairman of the Executive Committee, Time Inc.



Roy E. Larsen (1933)
Vice Chairman of the Board, Time Inc.



Alexander Heard (1968)
Chancellor, Vanderbilt University.



Rudolph A. Peterson (1969)
Administrator, United Nations Development Programme; Chairman, Executive Committee, Bank-America Corp.



Rawleigh Warner Jr. (1967)
Chairman of the Board and Chief Executive Officer, Mobil Oil Corporation.

Louis Banks (1973)
Visiting Professor, Harvard Graduate School of Business Administration.





Frank Pace Jr. (1960)
President and Chief Executive Officer, International Executive Service Corps.



Arthur Temple (1973)
President and Chief Operating Officer, Temple-Eastex Inc.



Sol M. Linowitz (1969)
Senior Partner, Coudert Brothers.



Henry Luce III (1967)
Vice President, Time Inc.



Gaylord Freeman (1962)
Chairman of the Board, The First National Bank of Chicago.



Richard B. McKeough (1973)
Vice President-Finance, Time Inc.



W. Temple Webber (1973)
Member of the Board of Directors, Temple-Eastex Inc.

Artemus L. Gates, Paul G. Hoffman, Samuel W. Meek, Maurice T. Moore Advisory Directors

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TIME INC

Copies of Form 10K, which in effect is our "annual report" to the Securities and Exchange Commission, will be available April 30. Please write for your copy to P. Peter Sheppe, Assistant Secretary, Time Inc., Time & Life Building, Rockefeller Center, New York, N.Y. 10020. Phone: 212-556-2315.

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