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TIME INCORPORATED



First Billion-Dollar Year

Profits Set New Record

Stock Is Split Two for One

ANNUAL REPORT 1976

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In appreciation of the trees

We own just over one million acres of timberlands in East Texas. It's our most valuable physical asset, a resource we go to great lengths to protect. Each compartment within Temple-Eastex lands is given individual care and treatment by the Forests Division according to the nature of the soil, the elevation and the water supply. For every tree we harvest to manufacture Temple-Eastex building products, pulp and paperboard, we plant ten in return. That's why we call these lands "perpetual forests," a term appreciated by East Texans. Ever since the company was founded in Diboll in 1893, our employees and neighbors have had free access to most of our forests for hiking, camping, hunting and fishing. We want to be good neighbors and to demonstrate our appreciation of the forest *and* the trees.

Temple-Eastex Forests

DIVISION OF TEMPLE-EASTEX INCORPORATED

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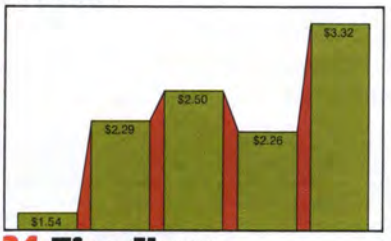
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Financial Highlights

(in thousands of dollars except for per share data and number of shareholders)

	1976	1975
Revenues	**$1,038,242**	$910,659
Net income	**67,093**	45,051
Per share		
Net income*	**$3.32**	$2.26
Dividends*	**1.075**	1.00
Working capital	**$ 284,249**	$201,707
Purchase of property and equipment	**41,100**	60,738
Depreciation, amortization, depletion	**29,840**	25,543
Unearned portion of paid subscriptions	**97,046**	83,830
Long-term debt	**138,249**	118,176
Shareholders' equity	**450,448**	397,573
Shareholders' equity—per share*	**$22.20**	$19.88
Average shares outstanding (000)*	**20,192**	19,949
Number of shareholders	**8,959**	9,214

*Adjusted for 1976 two-for-one split.

TIME INCORPORATED

OFFICERS AND OPERATING EXECUTIVES

Chairman of the Board & Chief Executive Officer, Andrew Heiskell

President & Chief Operating Officer, James R. Shepley

Editor-in-Chief, Hedley Donovan

Vice Chairman of the Board, Roy E. Larsen

Group Vice Presidents, Charles B. Bear *(Other Activities & Secretary);* Arthur W. Keylor *(Magazines);* Joan D. Manley *(Books);* J. Richard Munro *(Video);* Arthur Temple *(Forest Products)*

Vice President-Finance, Richard B. McKeough

Vice President-Corporate and Public Affairs, Donald M. Wilson

Vice Presidents, Ralph P. Davidson; Joe C. Denman Jr.; Robert P. Fisler; Charles L. Gleason Jr.; Clifford J. Grum; Felix M. Hammack; Peter S. Hopkins; Gerald M. Levin; Henry Luce III; John A. Meyers; N.J. Nicholas Jr.; Bruce L. Paisner; E. Gabriel Perle; Herbert D. Schutz; Ira R. Slagter; Robert M. Steed; Kelso F. Sutton; Arthur H. Thornhill Jr.; J. Garry Valk; John A. Watters; Barry Zorthian

Financial Officers, Edward Patrick Lenahan, *Treasurer;* Olga Curcio, *Assistant Treasurer;* J. Winston Fowlkes, *Assistant Treasurer;* William E. Bishop, *Comptroller & Assistant Secretary;* Kevin L. Dolan, *Assistant Comptroller;* Eugene F. Farro, *Assistant Comptroller;* P. Peter Sheppe, *Assistant Secretary*

Magazine Executives, Arthur W. Keylor, *Group Vice President;* Ralph Graves, *Corporate Editor;* Kelso F. Sutton, *Vice President-Magazines;* Ralph P. Davidson, *Publisher, Time;* Henry Anatole Grunwald, *Managing Editor, Time;* Clifford J. Grum, *Publisher, Fortune;* Robert Lubar, *Managing Editor, Fortune;* John A. Meyers, *Publisher, Sports Illustrated;* Roy A. Terrell Jr., *Managing Editor, Sports Illustrated;* John U. Crandell, *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;* Philip B. Kunhardt Jr., *Editor, Magazine Development Group;* James J. McCluskey, *Director of Manufacturing and Distribution;* Ira R. Slagter, *Director of Subscription Service;* Lawrence M. Crutcher, *Director of Circulation*

Book Executives, Joan D. Manley, *Group Vice President, Chairman Time-Life Books Inc.;* John D. McSweeney, *President, Time-Life Books Inc.;* Jerry Korn, *Managing Editor, Time-Life Books Inc.;* Zachary P. Morfogen, *Managing Director, Books and Arts Associates;* Herbert D. Schutz, *President, New York Graphic Society Ltd.;* Arthur H. Thornhill Jr., *Chairman & President, Little, Brown and Company (Inc.)*

Video Executives, J. Richard Munro, *Group Vice President;* Gerald M. Levin, *Chairman, Home Box Office, Inc.;* N. J. Nicholas Jr., *President, Home Box Office, Inc.;* Bruce L. Paisner, *President, Time-Life Films, Inc.;* Willard Schroeder, *President, WOTV;* E. Thayer Bigelow, *President, Manhattan Cable Television, Inc.*

Executives of Other Activities, Charles B. Bear, *Group Vice President;* Robert J. Edmondson, *President, Printing Developments, Inc.;* George W. Hoyt, *President, Pioneer Press Inc.;* Peter S. Hopkins, *Vice President-Real Estate;* John A. Watters, *President, Selling Areas-Marketing, Inc.*

Forest Products Executives, Arthur Temple, *Group Vice President, Chairman & President, Temple-Eastex Incorporated;* Joe C. Denman Jr., *President, Temple Division;* Felix M. Hammack, *President, Eastex Division;* David H. Dolben, *Vice President-Finance;* Kenneth Nelson, *Vice President-Land and Timber;* William D. Binder, *President, Woodward, Inc.;* Gex P. Condit, *President, Eastex Packaging, Incorporated;* W. Ray Frye, *President & Chairman, AFCO Industries, Inc.;* Wayne W. McDonald, *President, Lumbermen's Investment Corporation*

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1977: The most colorful year in TIME's history. What a time to subscribe!

This year, TIME adds a new dimension to your enjoyment of the news. Because this year, TIME is adding more color pages than ever before. More than *any* other newsmagazine. TIME is lighting up all its sections — from Science to Show Business — with compelling color photographs of important world events and personalities ... faraway places and changing fashions ... new movies and plays ... art treasures ... archaeological finds — the entire spectrum of weekly news coverage.

What a time to subscribe! For only 50¢ an issue — half the newsstand price of $1 — you'll get more color than you'll find in any other newsmagazine. And you can order a full year of TIME for only $26 — that's 52 issues, all filled with outstanding color photographs and equally colorful writing. To order The World's Most Colorful Newsmagazine, use the TIME subscription card bound into this report. Or call toll-free, 800-621-8200 (in Illinois, 800-972-8302).



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LETTER TO SHAREHOLDERS

We are happy to report that in 1976, Time Inc.'s revenues exceeded $1 billion for the first time in our 54-year history. Net income was also at a record high, rising by 49 per cent, to $67 million after taxes. Since our stock was split two for one in August 1976, earnings amounted to $3.32 per share, up from $2.26 on a split basis in 1975. While we are pleased with this performance, we see it primarily as a challenge for 1977, a year that we have begun with sustained optimism in all areas of our business.

Our publishing operations, which contributed 56 per cent of Time Inc.'s pretax income last year, achieved a 43 per cent increase in earnings over 1975. Magazines had a proportionately greater gain in income than Books, although Books enjoyed another record year. Revenues for Books were $228 million in 1976. Our magazines (Time, Fortune, Sports Illustrated, Money and People) increased their advertising revenues by 17 per cent in 1976 to $302 million.* Equally significant was the 22 per cent rise in circulation revenues, to $147 million. This increase in revenues from readers of our magazines not only affirmed the editorial quality of our publications but also raised the proportion of our revenues and earnings coming from circulation rather than advertising.



James R. Shepley Andrew Heiskell

People, our newest magazine, continues to grow faster than any other major weekly. Its advertising revenues rose 172 per cent to almost $23 million in 1976, its second full year of publication. Recently we announced People's new advertising rate base of 2 million, effective this coming July, which is double its circulation at launch in 1974. We expect People's contribution to our magazine income to continue to grow and to be increasingly substantial.

Our Company was organized to publish one magazine —Time. We now produce five and, along the way, we have discovered how to use this expertise for other products as well, most notably Time-Life Books. Initially an appendage of our magazines, it became a division in 1961, and last year moved as a wholly-owned subsidiary to handsome new quarters in Alexandria, Virginia. Among the advantages of this move are reduced costs and the extensive editorial-research resources of the Washington, D.C. area.

Our Books Group, which also includes Little, Brown and Company and the New York Graphic Society, again achieved record profits. International book operations also improved again in 1976. Expertise in the sale of books through direct mail has allowed us to merchandise other publishers' books and even art objects. The Company anticipates further expansion of such activities in the years to come.

Our Forest Products Group, Temple-Eastex, increased its profits by 24 per cent in 1976 and contributed 41 per cent of our consolidated pretax income. When we acquired Temple Industries in 1973, we had two basic objectives—an increase of our timberland base and an expansion of our pulp-and-paperboard operation into an integrated forest-products complex.

Temple-Eastex earnings increased in 1974, with paperboard operations accounting for all of the increase. In 1975, paperboard earnings declined slightly but building materials in both years were severely affected by the low level of residential construction.

In 1976 start-up and operating costs in connection with the completion of the $64-million expansion of our paperboard mill reduced income from the Company's paper operations. The reduction was more than offset by our building-materials profits, which rose rapidly as the housing cycle began to turn upward. We are confident, moreover, that our added paperboard capacity will allow us to participate fully in an enlarged market for paper products in 1977.

In addition to providing new capacity, the $64-million expansion program included, as well, improvements throughout the existing mill. The result is that less energy, labor, water and waste products are associated with each ton of production than before. We plan to continue taking advantage of new technological developments that will permit us to improve the production efficiency of our plants.

In 1976 we consolidated our various television and film operations into one "Line of Business." Included are the profitable operations of Time-Life Films, television station WOTV in Grand Rapids and Manhattan Cable, our cable system in New York City. Also included is Home Box Office, our pay-cable programing network, which operated at a loss in 1976. In developing any new business as revolutionary as HBO, it is hard to determine when profitability will be achieved. We had anticipated that HBO would become profitable in the fourth quarter of 1976. However, expenses incurred as a result of the rapid growth of the network to some 600,000 subscribers, and the higher costs of improved programing, have delayed HBO's contribution to income.

**Publishers Information Bureau figures used for domestic revenues and Rome Report and MAC data used for foreign revenues, except in the Financial Review and the Consolidated Financial Statements.*

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In many segments of our Company, internal growth comes not from the usual brick-and-mortar investment but from a new product such as People magazine or a new venture such as HBO. Thus new ventures—even small ones—are not diversionary for us; they serve as research-and-development for future growth. Those operations that do not meet our growth criteria are weeded out; others bear fruit and become new businesses. One such venture, SAMI (a computerized marketing service for grocery-product manufacturers), is growing rapidly and is already making a significant contribution to the Company's profits.

Capital outlays for the year totaled $41 million, well below our internally generated cash flow from operations of $107 million. In August, cash dividends were increased by an annual rate of 15 per cent and our stock was split two for one. We will continue to review our dividend policy on a regular basis.

In June 1976, a 20-day strike by the Newspaper Guild of New York failed to interrupt the publication or distribution of our books and magazines. The main issue, in the Company's view, was whether salary increases should be based in significant part on merit. We maintained that they should be—and held to that position. The strike had no significant effect on our earnings.

Five important management appointments were made during the year. Joe C. Denman Jr. and Felix M. Hammack, Presidents respectively of the Temple and Eastex Divisions of Temple-Eastex Incorporated, were elected Vice Presidents of Time Inc. Kelso F. Sutton, former Corporate Circulation Director, was named to the new post of Vice President-Magazines; Lawrence M. Crutcher replaced him as Director of Circulation. Ralph Graves, former Managing Editor of Life and most recently Associate Publisher of Time magazine, was appointed Corporate Editor of all Time Inc. publications.

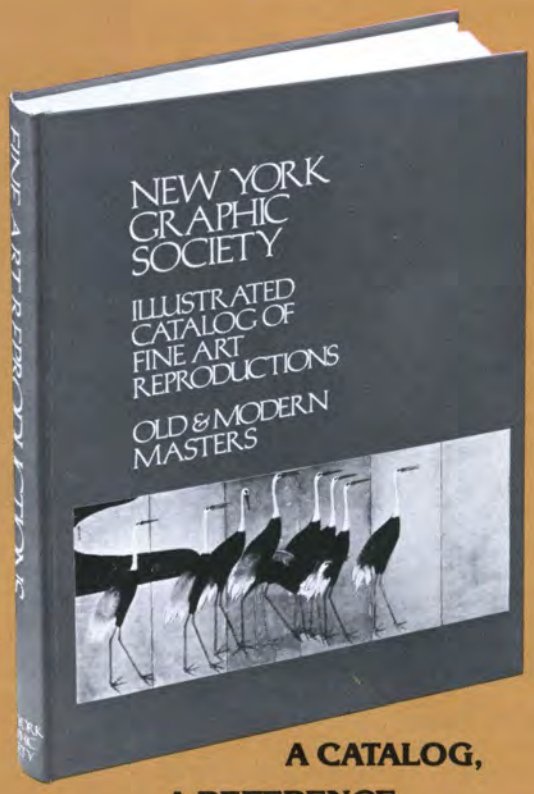
For each of the past two years, we have written in our letter to shareholders that our Company would fully participate in the nation's economic recovery. To date we have considerably outperformed the nation-wide recovery and we would like to thank our 12,500 employees for making that possible. We would also like to assure our shareholders that we believe records exist to be broken and that we remain confident that our Company will continue to prosper in the year ahead.

March 1, 1977

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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MAGAZINES

1976 was a banner year for magazine publishing, and Time Inc.'s worldwide advertising revenues reached a peak $302 million, up $43 million from 1975. Circulation revenues of $147 million were up a healthy 22 per cent over 1975. As a result, the Magazine Group recorded its biggest year-to-year profit gain to date.

The main contributors to the increase in earnings were People magazine, which is distributed primarily through newsstands, and the international editions of Time. Significantly, neither of these activities depends, to any large extent, upon the U.S. Postal Service. As a matter of fact, in order to cushion the effect of steep postal-rate increases in recent years, we have repeatedly raised the cover and subscription prices of Time Inc.'s magazines. The short-term reaction of our readers to these price increases has been highly encouraging. However, the longer-term effects are still unknown.

The impact of the Postal Reorganization Act of 1970 on the cost of delivering our magazines has been severe. The Act created two apparently incompatible goals: full recovery of postal costs, and the continued provision of traditional services. A recent court decision on the rate-setting procedure, moreover, could prohibitively increase the cost of delivering magazines via the Postal Service.

We are responding to the rising costs of delivering our publications through the mails in three ways. First, as noted, we are raising the circulation prices as rapidly as practicable. Second, we are continuing to explore alternative methods of distribution. Third, we are participating in rate cases that are presented to the Postal Rate Commission. We believe Congress should again become more involved in postal matters, should develop guidelines for setting postal rates, and should participate in the review and approval process. In addition, we strongly believe that the public-service obligations of the Post Office should be clearly defined by Congress, and be funded accordingly.



Time magazine capped its coverage of another exciting year with the inauguration of Jimmy Carter and its own increased use of late-closing color photos.

Time

Time, The Weekly Newsmagazine, once again led all magazines in worldwide advertising revenues. Its $168 million of revenues in 1976 made it the top magazine for the seventh successive year. Time's circulation revenues worldwide also reached a peak in 1976, up 20 per cent from the previous year.

In April 1976, Time adopted a basic U.S. subscription price of 50¢ per issue ($26 per year), thus becoming the first major weekly to set such a high basic subscription price. The single-copy price was also raised last year, to $1, which represented a doubling in less than two years. Despite these price increases, Time was able to maintain its advertising rate base of 4,250,000 in the U.S.

1976 was an especially exciting news year for Time. The Middle East, the Presidential campaigns and national elections, the Olympics and the Bicentennial celebrations all received thorough and lively coverage. Two editorial efforts were especially noteworthy: A Bicentennial issue recreating the events of 1789 was the second-best selling issue in the magazine's 54-year history. A special publication devoted to the American Presidency also won wide acclaim.

Early this year, Time undertook an ambitious new editorial project. Although it has in the past used four-color photography extensively for feature articles, its late-closing photographs have usually been black-and-white. In the coming year, Time will sharply increase its use of color photography in its coverage of current news events. In fact, as recent issues attest, it has already begun to do so.

A measure of Time's editorial excellence was the fact that last year the magazine and its editors won 35 editorial awards—more than any other publication.

Last year Time launched a promotion campaign directed toward both readers and advertisers fea-

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Sports Illustrated's Jerry Cooke and Walter Iooss Jr. were right there when world-record high jumper Dwight Stones set a meet mark at the Millrose Games.



turing a series of humorous radio announcements. The plastic record attached at the back of this report offers a sampling of these award-winning commercials.

As previously noted, Time International contributed more to the magazine's profits in 1976 than ever before. Last year Time also introduced Time Euro-Executive, the first demographic edition of a general-circulation weekly ever offered in Europe. Its reception in the advertising markets there has been very enthusiastic.

Fortune

1976 was Fortune's best year ever. Advertising revenues rose 22 per cent to $26.7 million. The Fortune 500 issue in May of last year carried over $3.8 million in advertising — a record for any single issue of Fortune. Sparking this revenue growth has been greater advertiser recognition of the quality of Fortune's subscribers: the very high level of both their education and income. As a result, it has attracted many new advertisers, especially marketers of quality consumer products. This rise in consumer advertising follows a five-year trend.

Convincing evidence of Fortune's editorial strength was the fact that although the subscription price was upped to $18 a year in January 1977, Fortune was able to increase its advertising rate base from 600,000 to 625,000 at the same time.

Fortune's editorial excellence was also recognized by a number of awards. Among the recipients were Carol Loomis and Wyndham Robertson, who received several citations for their financial articles. Associate Editor Gene Bylinsky was recognized for his outstanding science writing over the past 10 years. The 1976 Gerald Loeb Memorial Award, considered the Pulitzer of business writing, was given to John McDonald for his contributions during his 25-year career with the magazine.

One of Fortune's monthly features is the 'Business Roundup,' an economic summary and forecast prepared by Fortune economist Sanford Parker and his staff. Roundup has a remarkable record of accuracy in predicting future business trends. A condensation and update of the latest forecast appears on page 9.

Sports Illustrated

For S.I., of course, the big event of 1976 was the Olympics. The magazine's superb coverage of both the Winter and Summer games boosted newsstand sales 25 per cent during Olympic weeks. S.I. also continued to offer the fastest-closing color photography of any weekly. A "first" in the hitherto male-dominated pantheon of sport was S.I.'s naming of tennis champion Chris Evert as its top athlete of 1976.

Both S.I.'s advertising and circulation revenues reached new peaks in 1976. Ad revenues of $78.3 million were up 16 per cent over 1975 and circulation revenues rose 11 per cent, aided by an increase in the magazine's cover price from 75¢ to $1. In line with Time Inc.'s corporate policy of looking increasingly to readers for direct support, S.I.'s basic subscription price was raised from $16 to $20 in January 1977.

During 1976, S.I. derived ancillary profits from Sports Illustrated Enterprises, which undertakes business ventures in association with outside firms, utilizing the Sports Illustrated name. Among Enterprises' projects last year was the publication of "how to" books, art prints, games and posters. Another Enterprises venture, S.I. Tennis, man-



Money staffers interviewed stage and screen director Mike Nichols for an article on his unusual, avocational investment field—breeding Arabian horses.

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Specials from Time-Life Television on NBC:



TIME LIFE TELEVISION

TIME & LIFE BUILDING
NEW YORK, N.Y. 10020
(212) 556-2275

...to be continued.

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aged and promoted the tennis facilities at six major vacation resorts from Caneel Bay in the Virgin Islands to Mauna Kea, Hawaii.

Earlier this year, Sports Illustrated published its first special extra issue, "A Year in Sports." This issue, priced at $2, went to all subscribers and appeared on newsstands in February 1977; it produced $1.8 million in advertising revenues.

Money

The smallest of our magazines in terms of revenue, Money continued to develop a loyal following of advertisers and readers. Ad revenues increased by 29 per cent to $6.4 million. In January, a subscription went from $6.95 to $9.75; in April the advertising rate base rose to 650,000 from 600,000. In November the newsstand price rose from $1 to $1.25. Both advertising rates and subscription prices were upped again in January 1977, subscriptions going to $11.95.

People

Our newest magazine continued its astonishing rise in the magazine field. In 1976, it jumped from 37th to 20th place in advertising revenues among

FORTUNE FORECAST

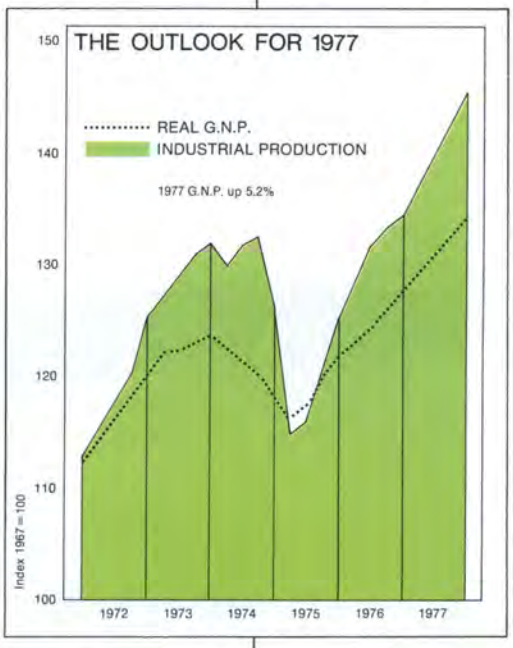
This condensed and updated version of Fortune's January issue forecast for 1977 was prepared by Fortune economist Sanford S. Parker.

Despite the severe winter that chilled the business recovery in January, the U.S. economy will expand quite vigorously during the balance of 1977. It should wind up the year with plenty of momentum left for further gains in 1978. The pace of the current advance, moreover, will be steadier than in recent months—which will help in business planning. The "real" Gross National Product—the total value of economic output corrected for inflation—should grow somewhat faster in 1977 than it did during the last three quarters of 1976. Averaging out, the total improvement for the year 1977 will be 5.2 per cent over the "real" 1976 G.N.P.

Taking inflation into account, the G.N.P. will rise about 11 per cent this year, only a little less than in 1976. This is because prices, which were up about 5 per cent in 1976, will rise a bit more this year, mainly resulting from higher farm and food prices. After declining during most of 1976, as cattle herds were liquidated, farm prices have begun turning around. Wages will again rise less than 8 per cent, with nearly half the increase offset by improving man-hour productivity. At the bottom line, therefore, corporate profits should be up about 15 per cent over 1976.

Any near-term speedup in inflation seems unlikely, but this will depend in large measure on government policies. The new administration has acknowledged that unemployment, lately running at 8 per cent, can be cut only gradually. But, if the economy is pushed too hard in an attempt to reduce unemployment, the use of plant capacity could get tight after next year and this would be inflationary. So far, the Carter Administration seems to be planning only moderate expansion of the federal deficit. Still, that deficit will top $70 billion this fiscal year, and it will have to be reduced eventually. Even more critical, the Federal Reserve Board, which allowed an 11 per cent growth in money supply in 1976, will have to restrict the monetary growth to that level this year, and hold it even lower later on.

Interest rates declined somewhat during 1976, as money grew faster and the economy slower than anticipated. Housing starts, consequently, moved up sharply in the closing four months of 1976. While the Carter Administration may apply further stimulus to housing activity, there could also be some dampening of construction activity resulting from rising interest rates later in the year. New starts should translate into a 25 per cent dollar volume increase in home building this year: following a 33 per cent rise last year.



Now that taxes are coming down a bit, consumer buying of goods (other than food) will again increase at about the same rate as last year—over 6 per cent in real terms and nearly 12 per cent in dollar volume. Total consumer expenditures will be up about 10 per cent in 1977.

With profits rising and utilization of equipment also up, business expenditures for new plant and equipment should advance almost 14 per cent in 1977, nearly half again as much as in 1976. But in "real" terms, after giving effect to price inflation, this rate of growth won't meet long-term needs, and capital spending will have to accelerate further in 1978 as plant utilization tightens again.

Several other segments of the economy, such as total government purchases of goods and services and net exports, will expand moderately in 1977. Inventory buying will grow less dramatically.

Looking further ahead, the potentials are beginning to accumulate for an acceleration in economic growth. Several lean years in the production of autos, housing and capital goods have all been building up backlogs of unmet needs that could stimulate surprising increases in demand just beyond the horizons of this forecast for 1977.

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People Contributing Photographer Harry Benson got close to his subject while shooting pictures for a story on ex-Beatle Paul McCartney's 1976 American tour.



general-circulation magazines. During People's second full year its advertising revenues rose to $22.7 million, and in January 1977, the advertising page rates went up 9.5 per cent.

Now the fifth largest magazine in unit sales on newsstands, People increased its advertising rate base twice in 1976, to 1.6 million in January, and again to 1.8 million in July. A further increase to 2 million has been announced for July 1977. Over 85 per cent of People's circulation last year, moreover, was in the form of single-copy sales through supermarkets, convenience stores, drug outlets and passenger terminals.

Because of the preponderance of female readers, the magazine has been attracting a considerable volume of advertising in categories which are not large revenue sources for Time Inc.'s other publications: cosmetics, toiletries, household furnishings and apparel.

Magazine Development

This division continues to oversee the publication of our newest magazines, People and Money, as well as Life Special Reports. In 1976, Life Special Reports published "The Year in Pictures" and "Remarkable American Women," both of which received wide critical acclaim.

The Development Group during 1976, continued to explore a wide variety of publishing and acquisition possibilities. While no specific plans to launch a new magazine or to acquire one exist at this time, the exploration is continuing in 1977.

Support Groups

Although Time Inc.'s magazines each has its own editorial, publishing and sales staffs, the Company realizes significant economies of scale—and, at the same time, benefits from a cross-pollination of ideas—by performing certain sales and support functions on a group or even a company-wide basis. Chief among these support groups are the Corporate Circulation Division, The Subscription Service Center, the Corporate Manufacturing and Distribution Division, and the Editorial Services Division.

CORPORATE CIRCULATION

All sales of Time Inc. magazines are carried out by Corporate Circulation. Our circulation revenues in 1976 were $147 million. This figure, while sizable, tends to understate total circulation sales, since many subscription sales made in 1976 will not be realized as income until future years.

To achieve its goals, the Circulation Division utilizes its proficiency in a number of specialized areas: direct mail, subscription renewal and billing techniques. It also uses almost all forms of selling and advertising—television, magazines, newspapers, and telephone. Circulation also manages magazine sales via agents and classrooms. A special Circulation Division subsidiary, Time Distribution Services, markets our magazines through grocery, drug and convenience stores, as well as through the traditional newsstand outlets. The Circulation Division also has a highly creative staff that develops promotional material, sometimes with the help of outside agencies.

SUBSCRIPTION SERVICE

This division is responsible for fulfilling the subscriptions to all Time Inc. magazines, books and records. It also collects data for Time Inc.'s subsidiary, Selling Areas-Marketing, Inc., and it prints and distributes SAMI's reports.

Last year Subscription Service handled some 29.1 million pieces of mail,



The Magazine Development Group has already launched the tremendously successful People. Here a task force studies another magazine-publishing possibility.

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and its Telephone Response Center received 530,000 calls. During the year, Subscription Service shipped a total of 17.5 million books and records.

MANUFACTURING AND DISTRIBUTION

This division, headquartered in New York, supervises the manufacture of some 615 million copies of Time Inc. magazines in 19 printing plants around the world. The 70,000 rolls of paper used in the process aggregate about 676,000 miles in length—enough paper to wrap around the world 27 times.

The division also expedites the delivery of Time Inc. publications via worldwide postal services. Except for People, most Time Inc. magazines are still distributed primarily by mail, and Manufacturing and Distribution assists in their prompt delivery by presorting over 95 per cent of Time Inc.'s magazines into specific postal-delivery categories and zip-code zones.

EDITORIAL SERVICES

The Editorial Services Division has four departments which provide support not only for Time Inc.'s five magazines, but for our other operating divisions as well:

The Library in the Time & Life Building in New York is one of the largest publishing libraries in the world. It contains over 80,000 books and half a million information folders on people, places and things. The staff handled 119,000 queries last year, and maintains an index of subjects covered in all Time Inc. magazines through a three-million card file.

The Picture Collection is unmatched (among corporate libraries) in size and quality. It cross-references and adds about 35,000 new prints and transparencies each year, and each month supplies our magazines with some 8,500 photographs and drawings from which to make their selections.

The Photo Lab, which operates seven days a week, processed 186,000 black-and-white prints and 26,000 rolls of color film last year.

Copy Processing provides computerized typesetting for the magazines. Editorial copy is transmitted over telephone lines to a high-speed cathode ray tube phototypesetter in Chicago, which produced 16,000 pages of copy for our magazines last year.

Basics and Best-Sellers for 140 Years



This year we at Little, Brown will celebrate the company's 140th anniversary. That's a long time to be happily married to America's reading interests. Each of the books above tells why. Dr. Jacob Bronowski's brilliant tracing of man's scientific discoveries, *The Ascent of Man,* was recently a hard cover and paperback best-seller. *James Beard's American Cookery* is recognized as *the* authoritative volume on cooking American-style. *The Winds of War* by Herman Wouk maintains its enviable position as one of America's favorite novels. *Bartlett's Familiar Quotations,* a classic to quote classics by, has always been alone in its field. John P. Marquand's *The Late George Apley* won the Pulitzer for fiction in 1938, and continues to sell briskly. *The Adams Chronicles,* the print companion to the most praised television event of the Bicentennial, was itself celebrated as a best-seller for several weeks last year. From science to cooking to fiction to reference to history, Little, Brown has been producing basics and best-sellers for 140 years. And, we intend to keep at it happily ever after.

LB

Little, Brown and Company

34 Beacon Street, Boston, Massachusetts 02106

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BOOKS

The Time Inc. Books Group consists of three major publishing subsidiaries, as well as minority holdings in five foreign publishing firms. Time-Life Books Inc., the largest entity, was changed from a division of Time Inc. to a wholly-owned subsidiary in 1976. Acquired by Time Inc. in 1968, Little, Brown and Company, (Inc.), the second largest subsidiary, is the prestigious Boston-based publisher of trade, professional and educational books. The New York Graphic Society, Ltd., the third wholly-owned subsidiary, publishes fine-art prints; its subsidiary, Alva Museum Replicas, Inc., produces reproductions of museum artifacts.

All in all, it was a good year for the Books Group. Despite the relocation of the Time-Life Books operation and the foreign exchange loss resulting from the devaluation of the Mexican peso, the Books Group had its best revenue and profit year.

Time-Life Books Inc.

The big event of the year for Time-Life Books was its move from New York City to Alexandria, Virginia, in October. The move, which was made primarily to effect economies in taxes, rentals and operating costs, inevitably resulted in turnover of personnel, but operations were not significantly disrupted. In fact, three new book series were introduced during the year: Home Repair and Improvement, The Great Cities (created by the staff in London) and World War II. Early response indicates that the latter series may become one of Time-Life Books' best sellers. An advertisement for this series appears on page 48-49.



Time-Life Books Inc. moved its headquarters in October 1976 from the Time & Life Building in New York City to the attractive Atrium in Alexandria, Virginia.

The 12-volume series, Encyclopedia of Gardening, has become such a consistent best seller since its introduction in 1971 that this series is being expanded. Its original author, James Underwood Crockett, has been asked to help create additional books for the series. The first new volume, *Herbs,* will be published in March 1977. Another Books series that continues to sell extremely well is The Old West.

Time-Life Books also published and marketed five single volumes last year: *Photography Year 1976, Nature Science Annual 1977,* the *Time-Life Holiday Cookbook,* the *Time-Life Book of Needlecraft* and a high-priced ($150) limited edition of 10 Mathew Brady photographs from The Meserve Collection. Time-Life Books also produces phonograph records; its Great Men of Music series, introduced in 1975, sold so well last year that it has been further extended.

Mail-order sales, as always, accounted for the largest portion of Time-Life Books Inc.'s revenues in 1976, but other sales methods are increasingly being used. Fourteen telephone-sales offices, for example, are collectively handling an average of 14,000 new subscriptions per week.

Since its inception, Time-Life Books has published 516 book titles, and Time-Life Records has produced 84 phonograph albums. In 1976 a total of 15.9 million books and albums were sold in the U.S. and Canada, and 7.7 million in the rest of the world. International revenues reached an all-

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Books & Arts Associates members from Europe and the U.S. enjoyed a kimonoed hiatus at the International Publishers Association meeting held in Japan in 1976.



time high of $81 million in 1976 and accounted for 42 per cent of total Time-Life Books revenues.

Little, Brown and Company, (Inc.)

Although primarily known as a publisher of trade books (fiction and nonfiction marketed directly to the general public), Little, Brown has, in recent years, increased its sales of legal, medical and college books. In 1976, in fact, the Medical Division was a major contributor to Little, Brown's profits.

In 1976, Little, Brown once again had a number of best sellers on its trade-book list; for example *Scoundrel Time*, by Lillian Hellman, *The Adams Chronicles* by Jack Shepherd and *The Ascent of Man* by Jacob Bronowski. Signing a contract for the publication rights to all the past and future works of photographer Ansel Adams was a major 1976 achievement for Little, Brown, as of course was the acquisition of the rights to Henry Kissinger's memoirs, in early 1977.

New York Graphic Society, Ltd.

A relatively small but interesting segment of our Books Group operations is New York Graphic/Alva.

The 51-year-old New York Graphic Society, Ltd.—which is headquartered not in New York but in Greenwich, Connecticut—has long been the leading publisher of fine-art prints in the United States.

Acquired by Time Inc. ten years ago, New York Graphic celebrated 1976 not only by producing the highest profits in its history but also by acquiring the exclusive reproduction and distribution rights to selected paintings from the collection of artist Andrew Wyeth and his family.



Little, Brown President Arthur Thornhill Jr. scored a coup early in 1977 by acquiring rights to Henry Kissinger's memoirs.

Alva Museum Replicas, Inc.

Alva, a subsidiary of New York Graphic, is a producer and marketer of authorized replicas of sculpture and jewelry; it has exclusive rights of reproduction of hundreds of museum artifacts. Based on the success of its limited edition of the Chinese statue, "The Flying Horse of Kansu," in 1976, Alva has decided to market a pair of replicas from the same dynasty, "The Celestial Horses." This edition is limited to 950 copies of each statue and will be offered at $375 for a single statue or $700 for the two. (A special discount for Time Inc. stockholders appears on page 23 of this Report.)

Minority Associates

In addition to these wholly-owned subsidiaries, the Group's Books and Arts Associates has minority interests in three large European publishing firms, one publishing firm in Mexico and one in Japan.

Rowohlt Taschenbuch Verlag is one of the most distinguished publishing houses in Germany. Time Inc. owns 33 per cent of this company, which is one of the largest publishers of paperbacks in that country.

Editions Robert Laffont, S.A., a very successful French publisher of trade books, is also active in the retail distribution, mail-order, and door-to-door book sales in France. Time Inc. owns 36 per cent of Laffont.

Salvat Ediclub is a mail-order book company in Spain owned jointly by Time Inc. and Salvat, the largest Spanish language publishing group in the world. Time Inc. owns 40 per cent of this joint venture.

Organizacion Editorial Novaro, S.A., in Mexico, publishes magazines, comic books, children's books and paperbacks. Time Inc. owns 20 per cent of this company.

Shingakusha-Time International markets cassette-tape educational products in Japan. Time Inc. owns 40 per cent of this firm.

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PROTECTORS OF THE GOOD LIFE

Try to think of a product you've bought recently that hasn't found its way into your home in protective paper packaging. But don't spend too much time because it's virtually impossible. Food and pharmaceutical products, household products, beverages, sporting goods, automotive accessories, toys, clothing—almost all of the products that add up to the good life are protected for you and your family by paper at some time during the distribution process. Paper packages also fulfill a number of other vital marketing functions. They contain and sanitize things. They dispense and unitize things. And they communicate product information between buyer and seller—which, in the end, saves everybody time.



EasTex

DIVISION OF TEMPLE-EASTEX INCORPORATED

At the Eastex mill in Evadale, Texas, we make paperboard used by a wide variety of packaging fabricators the world over, including our own packaging division. We also supply bleached and unbleached wood pulp to other paper manufacturers here and abroad. A major mill expansion recently brought on line enables us to offer increased capacity to the packaging industry. It's gratifying to know this will help to bring even more of the products of the good life to you safely, securely.

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VIDEO

Time Inc.'s involvement in the electronic communications media is both old and new. The March of Time went on radio in 1931, and Time Inc. has been active in radio, television and films ever since. Our newest electronic efforts are in the fields of cable and pay-TV. Time Inc.'s subsidiary Home Box Office has supplied pay-TV programing to cable systems by terrestrial microwave since late 1972, and in September 1975, HBO launched the first nationwide pay-TV programing network via satellite.

The Video Group is also active in program production and distribution and operates a cable system and a television station.

Time-Life Films

Time-Life Films, one of four operating subsidiaries of the Video Group, upped its operating profits 40 per cent in 1976. It has three departments:

TIME-LIFE TELEVISION

Time-Life Television produces and distributes programs to the commercial and public television markets. In 1976, T-L Television broke new ground by making the first sale to a commercial television network of shows based on Time Inc. publications. One was a three-hour special, Life Goes to the Movies and the other a People magazine program; both ran on NBC. T-L Television expects such programs, based on Time Inc. publications, to gain further network acceptance in 1977. It is presently negotiating the sale of a World War II special for airing next fall.

Time-Life Television continues to be the British Broadcasting Company's principal distributor and co-producer in the U.S. In 1976, it recruited several new corporate underwriters for its BBC programs, which will appear on public television this year, and Mobil Oil renewed its commitment to underwrite Masterpiece Theatre, the series which presents many BBC and BBC/Time-Life Films productions.

Time-Life Television also sells television films and series directly to individual television stations. Last year, for example, it sold via syndication such notable programs as The Rise of the Red Navy, The Onedin Line, and The Fight Against Slavery. Time-Life Films' most durable series, Wild, Wild World of Animals, is now in its fifth year of syndication.

In another new departure, Time-Life Television produced the two-and-a-half hour special program for President Carter's inauguration. This spectacle was televised domestically by CBS and viewed by more than 60 million people in the U.S. and abroad on inauguration eve.

TIME-LIFE MULTIMEDIA

Reduced government spending for educational audio-visual equipment and programing held down Multimedia's sales somewhat in 1976, but it continued as a large supplier of 16mm films and video cassettes to schools, libraries and government agencies.

TIME-LIFE TELEVISION BOOKS

Time-Life Films' newest department creates books directly related to its current television series. In its first year it published a multi-volume series based on the Wild, Wild World of Animals, and single books on three other programs: A Third Testament, Fall of Eagles and Ten Who Dared.

Home Box Office

Home Box Office made further progress in 1976 toward its goal of creating a national pay-television programing network. By year end, HBO was delivering motion pictures, sports and special-events entertainment to some 600,000 subscriber homes in 275 affiliated cable systems in 40 states. This was more than double the number of subscribers and systems served by HBO at the end of 1975.

Although more than half of the subscribers to the HBO service still receive their program service via ter-



Life Goes to the Movies was the first television program to be based on a Time-Life Book. The hosts were Liza Minnelli, Shirley MacLaine, and Henry Fonda.

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DISTINGUISHED · CONVENIENT · COMFORTABLE · ACCESSIBLE · STRIKING · INNOVATIVE · UNCONGESTED · DESIRABLE · RENTABLE ·

TIME & LIFE BUILDING 1968

Chicago has been building a reputation for its notable architecture for more than 100 years, as its skyline readily bears witness. Louis Sullivan and John Root developed the "skyscraper" here. Daniel Burnham reshaped its lakefront, parks and boulevards. Frank Lloyd Wright described it as ". . . . the world's most beautiful city." And disciples of the "Chicago School" of architecture have carried on the tradition of innovation through the years.

TIME Incorporated, a solid citizen in Chicago since it moved its circulation fulfillment operation to the city in 1945, takes great pride in its recent contribution to Chicago's rich architectural tradition — the impressive TIME & LIFE Building at 541 North Fairbanks Court. This new landmark, in the hub of Chicago's new "downtown" north of the Chicago River, houses some 1,500 TIME Inc. employees in its Subscription Services, Time/Life Libraries and SAMI divisions. Completed in 1968, the TIME & LIFE Building is more than just a place to work.

It is *distinguished* — winning for its designers, the noted Chicago architectural firm of Harry Weese & Associates, a coveted national Honor Award from the American Institute of Architects. It is *convenient* — to the fine shops on Chicago's Magnificent Mile, to a score of famous restaurants and to excellent new hotel accommodations. It is *comfortable* — with a clear-span, column-free interior, an advanced air-conditioning system, generous ceiling heights and low, horizontal windows that enhance a feeling of spaciousness. It is *accessible* — to all Chicago expressways, to ample parking, to buses and to commuter rail service. It is *striking* — a glowing, 30 story, mirrored and deep-tone metal structure set in a park-like promenade and commanding spectacular views of Lake Michigan and the surrounding area. It is *innovative* — the first office building to use double-deck elevators successfully, one of the first scaled to give its seated occupants good views, and one of the first to employ gold mirrored glass for control of sunlight and reduction of energy consumption. It is *uncongested* — located in Streeterville, a neighborhood that has been transformed into an open and unhurried business and residential environment. It is *desirable* — having on its roster of tenants an impressive array of leading national and international businesses.

And, it is *rentable* — some choice space in this distinguished, convenient, comfortable, accessible, striking, innovative, uncongested and highly desirable building is available for immediate occupancy.

Your space inquiry will be welcomed.
Call or write Arthur C. West, Building Manager

TIME & LIFE Building 541 North Fairbanks Court, Chicago, Illinois 60611, (312) 337-5860

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restrial microwave links, an increasing proportion are receiving it via RCA's synchronous orbiting domestic communication satellite stationed 22,300 miles above the earth. By the end of 1976, a total of 79 "earth stations" had been built by cable systems in 36 states, and these 33-foot antenna "dishes" fed HBO programing to 142 cable systems. The FCC's recent authorization of smaller, less expensive "dishes" will permit many smaller cable systems to join the HBO network.

During 1976 HBO acquired Telemation Program Services, Inc., which supplies pay-TV programs to "stand-alone" cable systems not connected to the HBO network.

HBO also moved to diversify its program package further in 1976. While motion pictures, unedited and uninterrupted by commercials, continue to be HBO's programing mainstay, the number of programs that were produced specifically for HBO increased. A two-hour Bette Midler special, for example, and a Folies Bergères revue were both television firsts. A series of "On Location" performances by such well-known comedians as Mort Sahl, Rodney Dangerfield and David Steinberg was another HBO program innovation.

This year, HBO plans further substantial financial commitments to the production of distinctive programing. A Sammy Davis Jr. Special, recorded in Acapulco and the last team appearance of the Smothers Brothers are early examples of the kind of programs planned for 1977. Partly because of these past and present commitments to programing, and also because building and servicing a new pay-TV network is expensive, HBO operated at a loss in 1976.

Manhattan Cable Television

The Video Group also owns and operates one of the largest cable-television systems in the U.S. Manhattan Cable Television completed its 10th year in 1976, and its first full year of profitable operation. It now serves 87,000 subscribers in the southern half of Manhattan, of whom 35,000 also subscribe to the HBO channel.

Now that Manhattan Cable serves 40 per cent of the homes it passes, its marketing emphasis is shifting to subscriber retention, the development of new services and the improvement of its own facilities. One such improvement is an internal electronic telephone communications system that is being installed in its Manhattan headquarters. Among the new experimental services being offered over the company's existing cables are data-transmission and visual security systems.



Manhattan Cable Television's colorful service vans provided maintenance six days a week for our cable system which serves 87,000 homes in lower Manhattan.

Television Station WOTV

The Video Group's oldest and most profitable holding is television station WOTV in Grand Rapids, Michigan. WOTV, an NBC affiliate, celebrated its 25th anniversary in 1976 with record revenues of $6.4 million, and earnings before taxes nearly $1 million above the preceding year.

WOTV, with a news staff of 21, is acknowledged to be the top news station in Western Michigan. To solidify that position, WOTV purchased over $200,000 of new electronic equipment in 1976, including three RCA mini-cameras and related video-tape recording and editing equipment.

WOTV, Time Inc.'s television station in Grand Rapids, Michigan, improved its coverage of the news with $200,000 worth of new lightweight electronic equipment. It also celebrated 1976 by increasing its earnings before taxes nearly $1 million.



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PICK UP YOUR WEEK

Pick up a copy of PEOPLE—any day, any week—and watch a lot of people being all too human. Listen to them talk about themselves—and, sometimes, about everyone else. Find out what they're into, onto, up to. Learn what they're proud of, pleased with, angry about, happy over. Meet the tycoons, wheeler dealers, big names in every field from show biz to monkey biz and back. Meet ordinary people doing extraordinary things. They're all here in the pages of PEOPLE Magazine, the picture-packed weekly from Time Incorporated that's all about everyone. It's the who's-who, what's-what, what's-going-on-here magazine that'll put a spring in your conversation every time. The photos are alive—and the writing's just as lively. You run into everyone. So sidle over to where you buy magazines. Pick up the one that's all about people. From cover to cover, every week... PEOPLE.

...PICK UP A PEOPLE TODAY.



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OTHER OPERATIONS

In addition to Publishing and Forest Products and the newer Video activities, Time Inc. also engages in a number of endeavors that are grouped under the heading "Other Operations." It should be noted that, while most of these other activities are administered by Group Vice President Charles B. Bear, several fall operationally within the purview of other Time Incorporated groups.

For example, Woodward, Inc., a furniture-manufacturing subsidiary of Temple-Eastex, is not operationally part of "Other Operations" but its sales and earnings are included there in the Lines of Business schedule on page 35. Similarly, most of the revenues of New York Graphic/Alva, operationally part of the Books Group, are also in "Other Operations" for Lines of Business purposes. The principal operating subsidiaries that make up "Other Operations" are: Selling Areas-Marketing, Inc., (SAMI), Pioneer Press, and Printing Developments, Inc.

SAMI

Selling Areas-Marketing, Inc., was Time Inc.'s outstanding "Other Operation" in 1976. Its function is to market information on which manufacturers who sell their products in food stores can take action. In 1976, SAMI's revenues were ahead of 1975—also a record year—and SAMI's profits more than doubled for the second year in a row.

SAMI provides computer-generated information on the movement of products from warehouses to retail food stores. To do this, SAMI uses data provided by major supermarket chains and wholesalers, which it feeds into Time Inc.'s large computers in Chicago. These voluminous data are processed, summarized in customized reports and sold to SAMI's clients. Client firms use these reports to develop marketing plans, establish advertising and promotional budgets and to direct their sales forces.

SAMI's growth last year was broadly based, with all of its major services having reached new revenue highs. This year SAMI plans to extend its reporting system further—from 36 to 39 areas; by year end, the coverage will encompass 76 per cent of all U.S. food-store sales.

In 1976, SAMI also increased the speed of delivery of its reports, and further improved their formats. It can now deliver reports which interrelate data received from different sources, thus saving its clients many hours of clerical calculation.

While continuing to improve the quality of its present reports, SAMI is also carefully researching the emerging automated retail point-of-sale systems in order to be able to incorporate these new data in its present system or use them to develop entirely new information systems.

During 1977, SAMI will offer a new service called SIFT. SAMI Institutional Foodservice Trends will do for institutional food service business (restaurants, schools, hospitals etc.) what SAMI now does for manufacturers of food sold in supermarkets.



SAMI compiled and sold computerized data on the flow of products distributed through food stores for some 400 clients.

Pioneer Press Inc.

Time Inc.'s 17 weekly newspapers in suburban Chicago had another record year in 1976. Pioneer's revenues rose 16 per cent; its pretax profits, 45 per cent. While small in relation to Time Inc.'s magazine-publishing operations, Pioneer Press is unique in the weekly-newspaper field. Its paid-circulation weeklies are stitched and trimmed like tabloid-size magazines and some carry the highest newsstand cover prices (50¢) of any weekly or daily newspaper in the country.

Late in 1976, Pioneer completed the first phase of a $1.6-million capital-improvement program. When completed, this prepress system will include 63 entry terminals and a data-transmission network linking all seven local publishing offices. This interactive system, which is the first of its kind in the newspaper industry, will handle both "on line" news and classified and display advertising copy for all 17 of the Pioneer Press papers.

PDI

Printing Developments, Inc., Time Inc.'s printing-equipment subsidiary, continued to sell and lease color scanners and photo-typesetting equipment in 1976, chiefly in Japan. During the year, PDI sold most of its color-separation processing studios in the U.S. and Europe to major printers and platemakers who will continue to operate them under the PDI logo.

PDI has also begun the development of an advanced prepress system that incorporates color-editing, pagination and electronic-storage capabilities. Work on this and related systems is continuing at PDI's Norwalk, Conn., Research & Development Center.

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HBO,
The Great Entertainment Alternative
Presents:

The Fabulous Bette Midler Show



Hook up with Home Box Office and you're connected to some of the best TV shows available. Anywhere.

Home Box Office is the pay-television service that delivers to subscribers a new kind of exclusive entertainment month after month. Entertainment that can't be found anywhere else on any dial.

Great specials like Bette produced on location just for HBO by some of the biggest names in show business.

Great movies right after their first runs. Presented uncut and without commercial interruption.

Great sports the year round.

Great children's films every week.

HBO helps you get more laughter, more tears, more fun, more solid entertainment out of your television set than you ever thought possible.

Home Box Office is only available to cable TV subscribers. If you have cable TV, contact your system operator and ask him about HBO service.

Over a half million American homes are now receiving this Great Entertainment Alternative. There's always room for one more.

HBO

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FOREST PRODUCTS

Temple-Eastex Incorporated, our Texas-based Forest Products Group, increased its revenues and profits substantially in 1976. Not surprisingly, the "profit mix" shifted dramatically as compared to 1975. A sharp increase in the profitability of the Building Materials Division more than offset a decline in the earnings of the Eastex Pulp and Paperboard Division.

Eastex Division—Pulp and Paperboard

As anticipated, sales increased but earnings dipped, compared to 1975, at our pulp, paper and paperboard complex in Evadale, Texas. Although both sales and production levels were higher than in 1975, cost increases exceeded the revenue gains during the change-over related to the $64-million capital-expansion program. These extra costs resulted primarily from disruptions to operations during the tie-in of the new processes. Completed in the second quarter, the capital-improvement program was on schedule and under budget, increasing capacity by 15 per cent, to 1,500 tons per day.

Markets for bleached paper and paperboard were generally good throughout most of 1976, although some softening of demand late in the year prevented us from increasing prices enough to offset rising costs. However, the manufacturing efficiencies and increased productivity that resulted from our capital-improvement program, coupled with an expected strengthening in market demand for our products, should provide the conditions for a reversal of the 1976 pattern this year, and we anticipate greater profitability for our pulp and paper operations in 1977.

Major components in the completed capital-expansion and improvement project included a chemical-recovery boiler that not only permits more efficient recycling of the chemicals that are used in producing pulp, but also allows the pulping residues to be converted into more steam and power.

A new continuous pulp-washing-and-bleaching system is the first industrial application of its kind in the world; the system requires less energy, water and manpower per unit of production than do conventional pulp-processing systems. Both of these installations provide hedges against the rising costs of raw materials, energy and labor, and contribute to the mill's energy self-sufficiency by reducing the proportion of purchased energy.

The new pulping system provides the mill with a third pulping-and-bleaching line that further enhances its flexibility, enabling it to manufacture a broad product-mix of specialized pulp, paper and paperboard grades in order to take maximum advantage of shifting market demands.

Completion of the capital-expansion project reduces waste discharge per unit of production and further improves the efficiency of the mill's waste-treatment systems; this is in keeping with increasingly restrictive environmental regulations.

Eastex Division—Packaging

Eastex Packaging enjoyed a record year in both revenues and earnings in 1976. Since its formation in December 1965, Eastex Packaging has become well established as a quality supplier of custom-designed packages to many of the nation's leading manufacturers of retail goods. Our packaging plants are located in Charlotte, North Carolina; Madison, Wisconsin; and Memphis, Tennessee, with additional sales offices in Chicago and New York.

As its marketing strategy, Eastex Packaging has concentrated on specialized packaging and has offered customers its creative capabilities in structural design and graphics backed by modern manufacturing facilities and production expertise. During 1976, commitments were made to pro-



Eastex Division's pulp and paperboard mill in Texas completed a $64-million expansion program that includes a more efficient chemical recovery complex.

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Eastex Packaging provided its clients a full range of package design-and-manufacturing service. Housewife below unloads products using Eastex Packaging.



vide additional equipment at both the Charlotte and Memphis plants that will better enable them to handle a greater number of specialized packaging accounts in the future.

Temple Division—Building Materials

The resurgence in single-family housing construction in 1976 was the biggest factor contributing to the outstanding performance of our Building Materials Division. Residential construction in our primary market areas outperformed the construction industry nationwide, and we anticipate a continued improvement in home building in the year ahead. Particularly noteworthy is the fact that 1976 was a record year for our plywood production, because our new Pineland plant reached peak operating efficiency. Last year, higher selling prices and an increased volume of shipments of our basic lines of plywood, fiberboard, lumber and particleboard more than offset the rising cost of energy, chemicals and other raw materials that are used in the manufacturing of our products. The recovery was not quite as great in our particleboard operations, but even this product line was profitable for the year.

Temple markets in 36 states, with the bulk of its sales generated within a 500-mile radius of the primary manufacturing complexes in Diboll and Pineland, Texas (approximately 100 miles north of Houston). Specialty products are accounting for an increasing percentage of our sales. Fiberboard exterior siding, for example, has increased in popularity as builders find it both architecturally attractive and economical to install. Moreover, since it is an engineered product, fiberboard siding is both versatile and adaptable to change—the current vogue is a rough saw-textured finish. Specialized products like this, and particleboard that is manufactured specifically for shelving, are decreasing the Building Materials Division's dependence on basic-commodity products such as gypsum and lumber.

Our fiberboard plant began producing a new by-product material last December—wood molasses. Refined by evaporating the process-water generated in the fiberboard-pulping operations, the wood molasses is marketed as a feed ingredient for cattle. Completion of the molasses plant has eliminated almost all effluent discharge from the fiberboard plant. All the process water is now either being recycled within the system or being dispersed through a network of reservoirs to a spray-irrigation field.

Temple-Eastex Forests—Timberland

The Forests Division manages more than one million acres of Company-owned timberland in East Texas—an area somewhat larger than the state of Rhode Island. In 1976 this rich resource provided about half of the wood fiber required to support the Temple-Eastex manufacturing facilities. Each year more wood fiber is grown on these lands than is harvested.

This timberland also provides recreational and conservation benefits. Over 500,000 acres are open year-around to the public, free of charge,

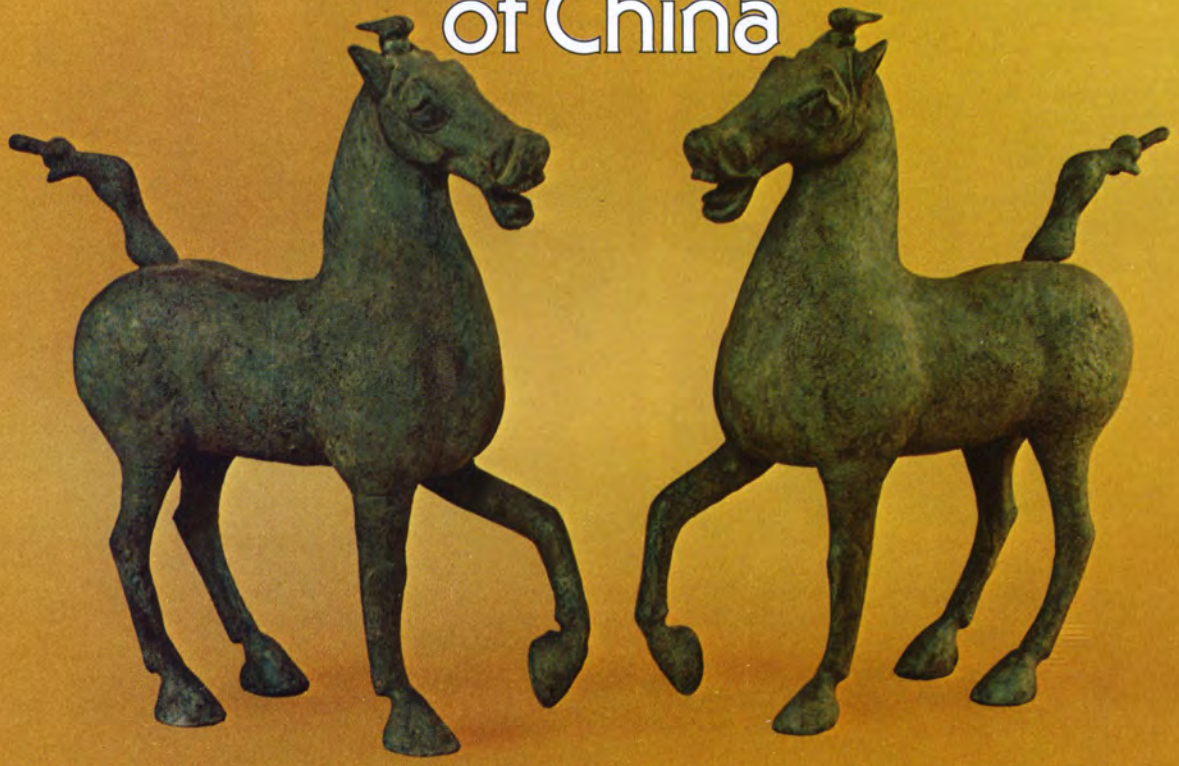


The Temple Division's building-materials revenues had a marked upsurge in 1976 as home construction picked up. This house used a variety of Temple products.

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A Limited Edition by Alva Museum Replicas

The Celestial Horses of China



More than two thousand years ago, the nobleman, Chang Ch'ien, returned to China from east of Samarkand with tales of tall "blood-sweating horses with hooves so hard they cleft the stones as they galloped swift as the wind...celestial horses!"

Their introduction during the following century so fired the minds of the Chinese and their artists that they became a symbol of wealth and privilege, and were ceremonially interred, as bronze sculptures, with the rich and powerful of the Eastern Han Dynasty.

Alva Museum Replicas, authorized producer of reproductions for more than a hundred renowned museums, has created this special limited edition of such bronzes from the Wu-wei excavation. Months of intensive research went into duplication of every possible detail and nuance of the originals, recreating their look, spirit, even the patina of time on the bonded bronze casts. This is a unique opportunity to own what will unquestionably become a treasure in our own time.

The horses are an impressive eleven inches in length. (They are nine and a quarter inches high.) A heavy Plexiglas base is provided for each.

The U.S. edition of 975 pairs is individually numbered and orders will be filled in numerical sequence by earliest postmark. After completion of the edition, all molds will be destroyed.

We seriously invite your consideration.

Edition size: 975 pairs
Price: $700 as a pair—Order # ST-1002
$375 each—Order # ST-1003
Shipped postpaid—Subject to prior sale.

Special price for Time Inc. shareholders until Annual Meeting April 21, 1977: $500 a pair; $275 each.

Send 75¢ for full-color MUSEUM COLLECTIONS Catalog...Five thousand years of sculpture and jewelry replicas presented as elegant and tasteful gift suggestions.

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The Stillman Nursery in Newton County, Texas, raises millions of seedlings. Here a forester grafts a cutting from a selected specimen to produce superior seed stock.

for camping and hiking and hunting in season. There are two extensive wildlife areas used as outdoor classrooms by naturalists and university groups. These sanctuaries also serve as preserves for rare animal and plant species and as sites for game-and fish-management research.

Federal funding to purchase the timberland acres that will make up the Big Thicket Preserve (a unique ecological area in Southeast Texas), although authorized by Congress, has been modest to date; only 600 acres of our lands were acquired for the Preserve in 1976. Although we are not legally required to do so, we will continue to observe a harvest moratorium on the 27,000 acres of Company-owned timberland that have been designated for inclusion in the Big Thicket Preserve. Thus far, we have purchased nearly 22,000 new timberland acres to replace the acres scheduled for acquisition for the Preserve and we continue to seek additional timberland.

A federal court in mid-1976 halted all timber harvesting on some 650,000 acres of National Forest land in Texas. Although our Company does not procure a significant volume of its fiber needs from these federal lands, the withdrawal of this source of timber has caused obvious pressure on the entire forest-products industry in East Texas.

Forest management literally requires planning a generation ahead in order to provide enough fiber to meet increasing consumer needs. Our forests are managed in such a way as to meet the needs of our integrated operations—for example, we assign the larger pines to plywood and lumber manufacture, and use residues from our lumber and plywood plants together with the smaller pines and hardwoods for paper making. Some portion of our forests (approximately 230,000 acres) are in plantation form, to maximize their future fiber growth.

We will continue to invest in seedling production, site preparation and planting to create additional plantation acres. Much progress has been made by our Forest Division in breeding genetically superior pine trees and, in the future, we anticipate an increase in our fiber yield per acre.

AFCO Industries, Inc.

AFCO, a fast-expanding Temple-Eastex subsidiary, is a leading national supplier of specialized interior-wall products, such as decorative paneling. Its sales increased about 25 per cent in 1976, setting another record. AFCO sales are primarily to "do-it-yourself" consumers through retail building-materials chains, and the rapidly growing "home centers." Although do-it-yourself sales tend to follow residential building trends, they are also sometimes favorably affected by adverse building conditions and low housing-starts. These conditions can impel many homeowners to remodel their present homes, and inspire many of them to "do-it-themselves" in order to avoid the cost of professional labor.

AFCO's ability to serve its growing market has been enhanced by its acquisition of several small companies that now provide it with direct national distribution from four locations.

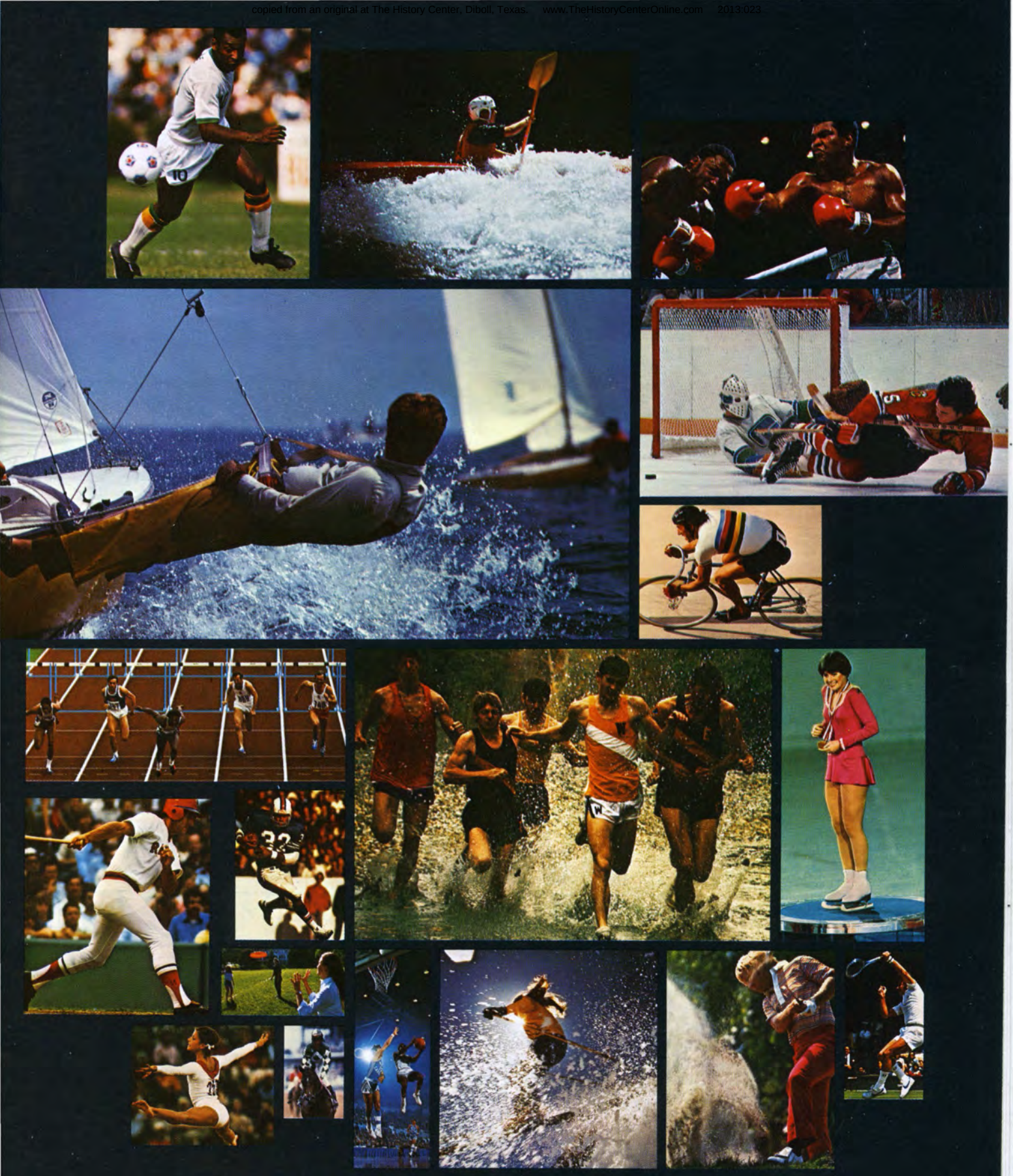
Woodward, Inc.

Another subsidiary, Woodward, manufactures and markets bedroom furniture in Colonial, Early American, Mediterranean, and French Provincial styling. Located in Austin Texas, Woodward currently produces a line of 11 master-bedroom suites. With 800 employees and a 300,000-square-foot manufacturing facility, Woodward is Texas's largest producer of bedroom furniture. With an eye to expanding its market share, Woodward maintains permanent showrooms not only in Dallas and Atlanta, but in San Francisco and in High Point, North Carolina. Woodward contributed a record $15 mil-



AFCO, a subsidiary of Temple-Eastex, manufactures easy-to-install vinyl wall paneling in a variety of colorful designs for the expanding do-it-yourself market.

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Sports Illustrated

We are sports in print

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lion in revenues to Temple-Eastex in 1976—a healthy 45 per cent increase over the prior year.

Lumbermen's Investment Corporation

LIC is a subsidiary of Temple-Eastex that engages in mortgage banking, insurance, and urban real-estate development. Aided by the increased activity in home-building, the reduction in long- and short-term interest rates and the general growth of the Southwest area, LIC had its best year in 1976.

LIC reached several milestones in 1976, particularly in its mortgage-banking operations. It produced a record $80 million in new mortgage loans, as compared to $54 million in 1975, and its mortgage-servicing portfolio reached $493 million, which is a net increase of 9.4 per cent.

Early this year, LIC completed arrangements to purchase from The Crocker National Bank the assets of Schumacher Mortgage Company of Memphis, Tennessee. The portfolio of mortgages being serviced by LIC will be approximately doubled when the purchase is consummated.

LIC's other business activities also did well. The company's insurance agencies not only had their best year in 1976, but they also expanded their insurance accounts, thereby allowing for future growth and profitability.

The covers of the majority of phone directories in the U.S. are made from paperboard produced by the Eastex Division.



LIC's operations in real estate performed very well, too, benefiting from the rapid population growth in the Southwest. There were two real-estate transactions of special interest: LIC realized a good profit on the sale of Houston House, a 33-story highrise apartment building in the center of Houston, Texas; and also began an expansion of the Crest Hotel in Austin, Texas, where a new convention center was built to accommodate the growing travel and convention business that has been gravitating to the Austin area.

As for 1977, the prospects for continued favorable interest rates as well as a high level of housing and real-estate activity should enable LIC to have another good year. Currently, new markets are being studied as we look forward to further expansion of LIC's business activities.

Sabine Investment Company

Sabine Investment Company, a land development subsidiary, has been phasing down its recreational land development operations and strengthening its position in primary residential property development. To this end, two new projects have been started, one in Lufkin and one in Beaumont, Texas. The Lufkin project will ultimately cover 735 acres and the Beaumont project, 3,000 acres. Lots in the Lufkin project will go on the market in 1977, and those in Beaumont in 1978.

TEMPLE-EASTEX INCORPORATED

Net Sales*

	Year Ended December 31		
	1976	1975	1974
	(in thousands of dollars)		
Paper & Paperboard	**$121,196**	$101,415	$110,741
Market Pulp	**27,996**	35,028	26,902
Pine Lumber	**17,840**	13,469	15,030
Fiberboard	**24,806**	16,631	14,779
Particleboard	**14,133**	12,246	9,566
Plywood	**29,471**	18,697	8,935
Gypsum Wallboard	**6,553**	7,328	9,098
Decorative Wall Paneling	**13,869**	10,847	7,932
	$255,864	$215,661	$202,983

Unit Sales*

	Year Ended December 31		
	1976	1975	1974
	(in thousands of tons)		
Paper & Paperboard	**346**	316	390
Market Pulp	**102**	123	98
	(in millions of board feet)		
Pine Lumber	**110**	103	105
	(in millions of square feet)		
Fiberboard	**360**	301	269
Particleboard	**171**	150	117
Plywood	**244**	198	97
Gypsum Wallboard	**162**	167	216
Decorative Wall Paneling	**64**	50	40

* Includes intercompany sales but does not include (1) conversion of paper into folding cartons, (2) distribution of building materials through wholesale and retail outlets of Temple-Eastex or (3) timber sales.

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SAMI

Tapes 26,000,000 Secrets Every 28 Days

SAMI's business is reporting the movement of thousands of products from food chain and wholesaler warehouses to retail stores in defined marketing areas. Over 400 distributors of these products send to SAMI every 28 days some 26,000,000 pieces of confidential data. Through one of the country's largest commercial computer resources SAMI cumulates this data and reports it nationally and market-by-market. While each distributor's secrets are kept, the summarized data—provided in some 30 different report styles—is vital marketing information to SAMI's clients.

SAMI can provide a manufacturer with volume and market share information on his own and competitors' brands and items in 36 market areas, accounting for 74% of U.S. food store sales. Brand and item movement, retail pricing and trend data can be provided in formats according to each customer's needs. Manufacturers seeking overviews of categories for new product introductions or acquisition evaluations can count on SAMI for incisive analyses.

The computerized reporting system developed by SAMI represents breakthroughs in market research: information is more complete (28,000 branded products are monitored) and more current (new data is usually supplied within three weeks of the period being reported); and, manufacturers and distributors have the benefit of working with the same basic information.

SARDI (SAMI Retail Distribution Index)—a new SAMI service—measures the retail store availability of brands and items in individual markets. Manufacturers' sales forces have found SARDI very helpful in expanding the sale of their brands by showing food chains and wholesalers where they're losing business through limited product availability.

From the 26,000,000 secrets SAMI processes every 28 days for its reports, many manufacturers and distributors are finding the secrets of success. For more information write: SAMI, Time & Life Building, N. Y., N. Y. 10020.

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1923-1976: A RETROSPECTIVE

1920's

1923 Time magazine published

1925 Loss: $23,829

1927 Red-border cover

1928 **Revenues top $1 million**
First Man of the Year: Lindbergh

1929 **Revenues top $2 million**

1930's

1930 Fortune published
First dividend declared

1931 The March of Time, radio
Revenues top $4 million
Stock split 20 for one

1933 Profits exceed $1 million
Stock split two for one

1935 The March of Time, film
Revenues top $8 million

1936 Life published

1937 **Revenues top $16 million**

1940's

1940 **Revenues top $32 million**

1941 Houston Oil investment
Stock split four for one

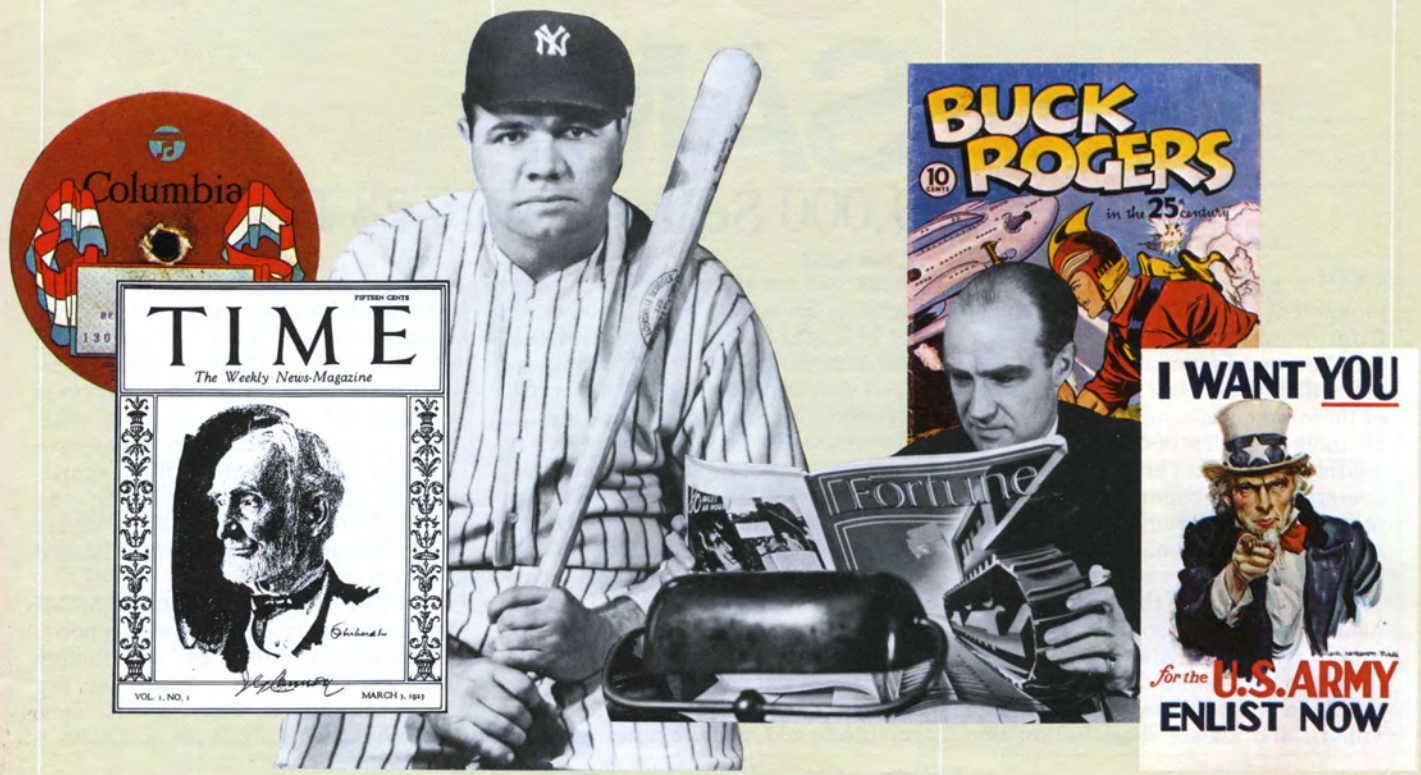
1942 Life becomes largest magazine

1944 **Revenues top $64 million**

1946 Life International

1948 **Revenues top $128 million**

1949 Stock split two for one



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Time Inc.'s annual revenue first reached $1 million back in 1928. Our revenues have doubled almost exactly 10 times since then—reaching $1,038,242,000 in 1976. Our stock meanwhile has been split six times; one share in 1930 is now equal to 1,920 shares. Here is a quick look back at the benchmark years, when our revenues doubled, together with other highlights of Time Inc.'s 54-year history as reflected in our past Annual Reports.

1950's

1950 Life's Picture History of World War II

1952 Eastex Pulp & Paper
First radio and TV stations purchased
House & Home published

1954 Sports Illustrated published

1955 Fortune 500 Directory

1959 **Revenues top $256 million**

1960's

1961 Time-Life Books

1962 Silver Burdett purchased

1964 Stock split three for one
Architectural Forum and House & Home sold
Stock listed on NYSE

1966 SAMI
New York Graphic Society acquired

1968 Little, Brown acquired
Revenues top $512 million

1969 Time-Life Films

1970's

1972 Money published
Life suspends publication

1973 Temple Industries acquired
Home Box Office

1974 People published

1976 **Revenues top $1,024 million**
Stock split two for one



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FINANCIAL REVIEW

In 1976 the Company achieved record earnings of $67.1 million, up 49 per cent from 1975. The improvement was mainly attributable to the Company's two major Lines of Business, publishing and forest products. Higher advertising and circulation volume and prices increased magazine-publishing profits. Building-materials operations made substantial gains because of the rebound in housing starts. These gains more than offset a modest decline in pulp and paperboard profits resulting primarily from production disruptions associated with the paper-mill expansion program.

The effective tax rate in 1976 was lower than the year before, primarily because of a $5-million investment tax credit resulting from the completion of the $64-million expansion program at the Company's paper mill in Evadale, Texas.

Net income for the preceding year, 1975, was $45.1 million, down 10 per cent from the net income of $50.2 million in 1974. The earnings decline in 1975 was caused primarily by the impact of inflation on operating expenses, particularly pulp and paperboard production, by the low level of the new housing starts, which adversely affected building materials, and by reduced advertising volume for the Company's magazines.

In prior years the Company's pay-TV activities and operation of a cable system in the southern portion of Manhattan Island were considered developmental, and were shown as a separate Line of Business entitled Developmental Activities. These activities have now moved beyond the developmental stage and they have been combined into a new Video Line of Business along with Time-Life Films and WOTV, our TV broadcasting station, which were previously classified as Other Operations.

Earnings-per-share data in this report take into account the Company's two-for-one stock split. The stock was distributed on October 1 to shareholders of record August 30, 1976. The purpose of the stock split was to broaden the market for the Company's common stock.

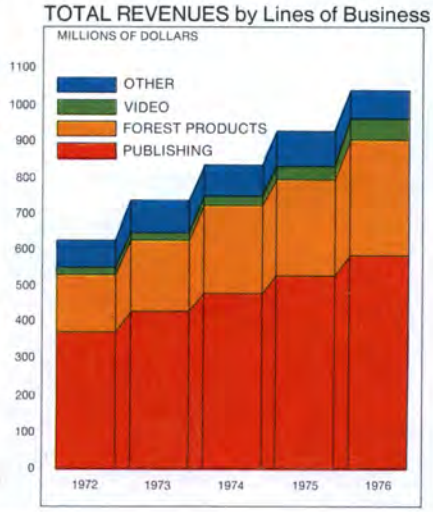
The quarterly dividend was increased by 15 per cent in September from 25¢ to 28¾ ¢ per share. In 1974 and 1975 the dividends paid were $1.00 per share compared to $1.075 in 1976. The current annual rate is $1.15, based on the September 1976 increase.

In January 1976, the Company sold $50 million of 7⅞ per cent notes due January 15, 1986. These notes were rated AA by Standard & Poor's and Aa by Moody's. The proceeds from the sale of these notes were used to retire or prepay $18 million of term loans and short-term debt and to finance the completion of the $64-million paper-mill expansion at Evadale, Texas, with the remainder added to working capital. In view of the issuance of these notes, the Company canceled $65 million of revolving bank credit agreements, which were convertible into five-year term loans.

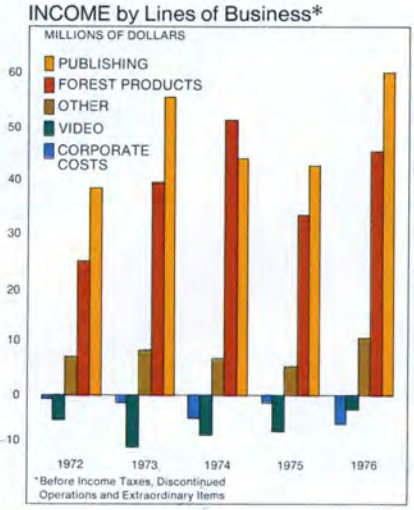
Capital expenditures in 1976 were $41 million, which included $13 million for completion of the paper-mill expansion. In addition the Company spent $5 million in 1976 for the purchase of 10,300 acres of timberland as part of its program to replace the 27,000 acres designated for inclusion in the Big Thicket National Preserve. In January 1977, the Company bought an additional 11,600 acres, making a total of 21,900 acres.

Depreciation, amortization and depletion totaled $30 million in 1976.

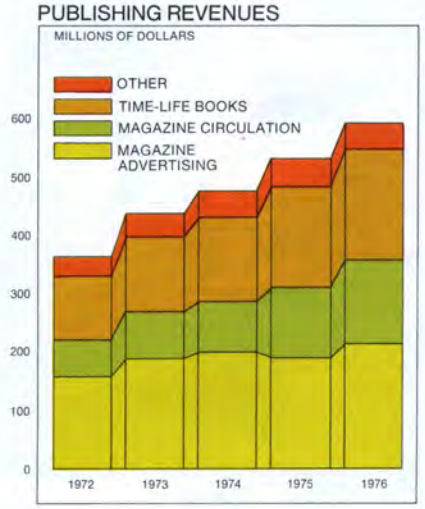
TOTAL REVENUES by Lines of Business



INCOME by Lines of Business*



PUBLISHING REVENUES



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Interest expense was $10.8 million in 1976, $10.3 million in 1975 and $10.7 million in 1974.

The balance sheet continues to reflect the Company's financial strength. The ratio of current assets to current liabilities as of December 31, 1976 was 3.3 to 1. Included in current assets are cash and short-term marketable securities of $126 million. Long-term debt was 23.5 per cent of the total capitalization, which includes shareholders' equity plus long-term debt.

Publishing

Included in the publishing Line of Business are the Company's magazines, Time, Sports Illustrated, Fortune, People and Money, together with book publishing, whose major components are Time-Life Books and Little, Brown and Company (Inc.).

Income before taxes from publishing activities was $61.4 million in 1976, $43.0 million in 1975 and $44.3 million in 1974.

The largest gains in 1976 were in magazine circulation revenues, reflecting higher copy prices and the continuing growth of People, and in magazine advertising revenues, due to price increases and additional pages. The improvement in book publishing was led by the U.S. operations of Time-Life Books where higher shipments, sales of higher-priced book series and lower selling costs all contributed to the gain. This improvement in book publishing was achieved in spite of the negative effects of foreign exchange translation and the one-time expenses associated with Time-Life Books' move to Alexandria, Virginia.

In 1975, by contrast, the improvement in magazine circulation and book-publishing revenues and higher advertising rates were more than offset by a decline in advertising pages for all magazines (except People) and by the effects of inflation on production and distribution costs.

Production and distribution costs for magazines and books increased approximately $27 million in 1976 and $20 million in 1975. Approximately $12 million of these higher costs in 1976 and $19 million in 1975 were attributable to price increases.

A breakdown of publishing revenues for the past three years follows:

	1976	1975	1974
	(in millions of dollars)		
Magazines—Advertising	$217	$188	$197
Circulation	147	120	97
Time-Life Books	192	178	145
Other Publishing	38	45	39
Total	$594	$531	$478

Forest Products

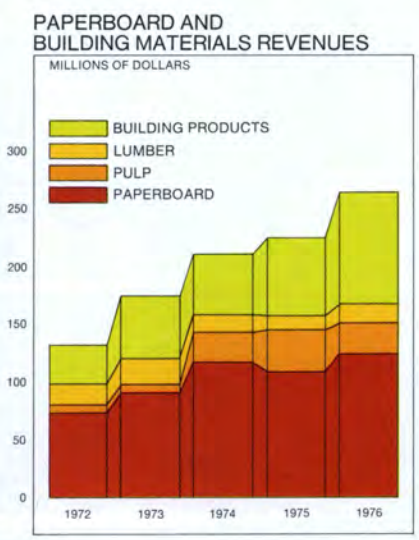
Temple-Eastex Incorporated operates the complex that makes up our forest-products Line of Business. Included are Eastex pulp and paperboard and Temple building materials. Our major product lines in building materials are particleboard, plywood, fiberboard, lumber, gypsum wallboard and decorative wall panels (AFCO).

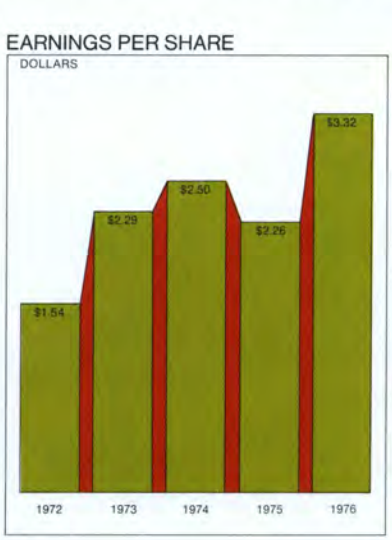
Income before taxes from our forest-products activities was $44.6 million in 1976, $36.0 million in 1975 and $52.8 million in 1974. Net unit revenues (average prices) of our principle forest products over the past three years were:

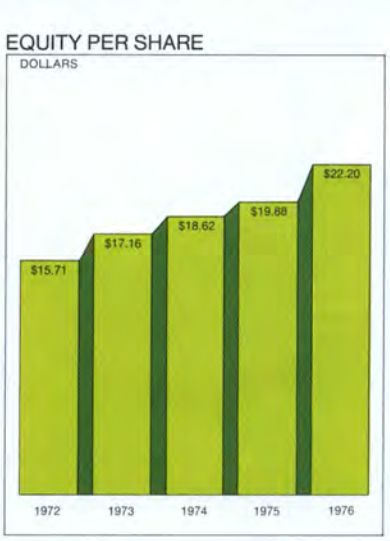
	1976	1975	1974
Paperboard (per ton)	$350	$321	$284
Pulp (per ton)	275	284	274
Lumber (per thousand board feet)	162	131	143
Fiberboard*	69	55	55
Particleboard*	83	81	81
Plywood*	121	94	92
Gypsum Wallboard*	40	44	42

*per thousand square feet

The demand for paper and paperboard in the aggregate was up slightly in 1976 (even taking into account the dip later in the year) over 1975 levels, although still below the strong market of 1974. The weakness in world market demand for pulp, which began in 1974, continued through-







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Photograph by
Valerie Taylor

THE GREAT WHITE SHARK!

One of the killers you'll encounter in DANGEROUS SEA CREATURES



Needle-sharp tooth of a great white

The great white . . . most feared of the ocean's predators. He grows to a length of 21 feet, and to a weight of three tons. His teeth measure a full two inches, and are replaced, when damaged, within 24 hours. His acute sense of smell can detect one ounce of fish blood in one million ounces of water. His nerve endings can pick up erratic vibrations — such as those of a swimmer in trouble — at a distance of 600 feet. The great white claimed the lives of thousands of shipwreck victims during World War II . . . yet most attacks take place in waist-deep water! You've heard the myths about the great white shark . . . now, read the stranger-than-fiction truth about the deadliest of all sharks in *Dangerous Sea Creatures*. It's your first volume in the WILD, WILD WORLD OF ANIMALS library, based on the popular TIME-LIFE television series.

The great white is only one of the terrifying inhabitants of the deep. In *Dangerous Sea Creatures*, yours for 10-day free trial, you'll discover:

- **an electric ray,** capable of stunning its prey with a charge of up to 200 volts
- **the nurse shark,** which can clamp its jaws so tightly on its victim that the body can only be dislodged by killing the shark
- **a jellyfish** that grows to a length of eight feet, with stinging trailers extending up to 100 feet
- **the sea wasp,** whose venom is so potent, it can paralyze the heart of a man within minutes after entering his bloodstream
- **the giant grouper,** reportedly capable of swallowing a diver *whole!*
- **the barracuda,** whose barely-detectable approach and needle-sharp teeth make him more feared than the shark in some parts of the world

Embark on an action-photo tour of the treacherous undersea world. More than 125 incredible full-color photographs (many of them taken by famed photographer Ron Taylor who has actually survived a white shark attack) give you a close-up view of the ocean's monsters second in drama only to actually confronting them. Send for *Dangerous Sea Creatures* for a 10-day free examination today — and begin a perilous journey to the ocean's floor.



The Zambezi shark of South Africa stalks its prey . . .

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Discover the action-photo excitement of

Wild, Wild World of Animals

Based on the award-winning TIME-LIFE TELEVISION show, the WILD, WILD WORLD OF ANIMALS library takes you on an astonishing photographic safari to the most action-packed places on earth. You'll roam jungles and plains in *The Cats* to watch cheetahs, leopards and lions hunt, fight and struggle for survival. You'll learn the astonishing secrets of man's closest kin when you enter the world of *Monkeys and Apes*. Future volumes in the series will introduce you to all of the animal kingdom's most fearsome and fascinating creatures. Each will feature 150 brilliant, full-color action close-ups of animals in their natural habitats, as well as a thoroughly-researched text that will reveal their habits as never before. To examine *Dangerous Sea Creatures* for 10 days free, mail the post-paid order card you will find elsewhere in this report.

Dangerous Sea Creatures, your introductory volume in the WILD, WILD WORLD OF ANIMALS, will bring you face-to-face with: Sharks • Rays • Skates • Sawfish • Octopuses • Squids • Electric Eels • Sea Snakes • Sea Monsters • Poisonous and Venomous Fish

Each volume in the series will include:
- Over 20,000 words of text
- 128 pages, beautifully hardbound in large 9¼ by 10¾ inch format
- More than 125 full-color photographs
- Extensive anthology of animal writing



. . . and bites a young gray shark in preparation for devouring it.

Enjoy Dangerous Sea Creatures for 10 days free!

TIME LIFE TELEVISION
A Division of Time-Life Films, Inc.

Mail Postage-Paid Reply Card Today!

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out 1976. Prices continued to rise for paper and paperboard in 1976, as they had in 1975, but not at a sufficient pace to offset the increase in costs—particularly for energy, chemicals and labor. Another factor affecting costs at the end of 1975 and in most of 1976 was temporary production inefficiencies arising from the paper-mill expansion program completed in 1976. These startup problems caused a production increase of only 451,000 tons in 1976 compared to 441,000 tons in 1975 even though the expansion program was completed in 1976. Production in 1975 was down from the 1974 peak level of 482,000 tons.

Building-materials sales are largely dependent on residential construction, which dropped to a 30-year low by December 1974. This type of construction activity made only a slight comeback in 1975, but scored some healthy gains in 1976 although it was still well below the peak of 1973. The Company's building-materials operations became unprofitable in the second half of 1974 and continued at disappointing levels in 1975. Even though costs continued to rise in 1975, conditions in the marketplace made it impossible to ameliorate the situation with price increases. In 1976, however, the improvement in housing starts increased the demand for and the prices of building materials. The improvement was particularly reflected in the plywood, fiberboard and lumber product lines.

Video

Losses before taxes from our video operations were $3.2 million in 1976, $6.6 million in 1975 and $9.4 million in

FIVE-YEAR FINANCIAL SUMMARY

Time Incorporated and Subsidiaries (in millions of dollars except for per share data)	1976	1975	1974	1973	1972
Income and Dividends					
Revenues	**$1,038.2**	$910.7	$825.6	$728.3	$608.6
Editorial, production, manufacturing and distribution costs	**649.9**	575.0	511.0	428.4	358.2
Interest expense	**10.8**	10.3	10.7	7.7	7.5
Taxes on income	**42.3**	30.9	39.3	41.4	30.2
Income before discontinued operations and extraordinary items	**67.1**	45.1	50.2	49.9	38.3
Discontinued operations, net of taxes	**—**	—	—	—	(3.5)
Income before extraordinary items	**67.1**	45.1	50.2	49.9	34.8
Extraordinary items, net of taxes	**—**	—	—	(2.4)	(3.0)
Net income	**67.1**	45.1	50.2	47.5	31.8
Dividends paid	**21.7**	20.0	20.0	16.8	13.8
Per Share					
Income before discontinued operations and extraordinary items	**$3.32**	$2.26	$2.50	$2.41	$1.85
Discontinued operations, net of taxes	**—**	—	—	—	(.17)
Income before extraordinary items	**3.32**	2.26	2.50	2.41	1.68
Extraordinary items, net of taxes	**—**	—	—	(.12)	(.14)
Net income	**3.32**	2.26	2.50	2.29	1.54
Dividends paid	**1.075**	1.00	1.00	.95	.95
Average shares outstanding (000)	**20,192**	19,949	20,062	20,760	20,746

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1974. In 1976, Manhattan Cable showed a profit as compared to a loss in 1975. Our Grand Rapids, Michigan, TV broadcasting station, WOTV, had a record year in 1976. Computer Television Inc., the Company's 80-per-cent-owned hotel pay-TV operation, whose assets and business were sold in December 1975, operated at a loss for the year 1975. Somewhat offsetting these sources of improvement were additional losses at Home Box Office, where continued rapid growth in subscriber revenues was more than offset by increased costs, particularly for programing. The 1975 Video loss was lower than the previous year, primarily because of gains at Time-Life Films and reduced losses at Manhattan Cable. The latter reflected a rate increase and the introduction of Home Box Office programing to the Manhattan Cable market.

Other Operations

Other Operations includes SAMI (markets computer-generated information on the sales flow of food products), Printing Developments, Inc. (provides graphic-arts equipment and services), Pioneer Press Inc. (publishes a group of suburban newspapers), Woodward, Inc. (manufactures furniture), Temple Associates (contracting), and several real estate and land development activities.

Income before taxes from Other Operations was $10.8 million in 1976, $5.9 million in 1975 and $6.9 million in 1974. Selling Areas-Marketing, Inc. (SAMI) doubled its profits in 1976 compared to 1975, and in 1975 compared to 1974. Offsetting SAMI's improvement in 1975 were declines in other areas.

LINES OF BUSINESS

Time Incorporated and Subsidiaries (in millions of dollars)	**1976**	1975	1974	1973	1972
Revenues					
Publishing[1]	**$ 594.0**	$531.0	$478.5	$430.1	$362.9
Forest products[2]	**306.9**	257.6	242.3	199.2	160.0
Video[3]	**54.7**	33.3	22.0	14.8	11.1
Other operations[4]	**82.6**	88.8	82.8	84.2	74.6
Total Revenues	**$1,038.2**	$910.7	$825.6	$728.3	$608.6
Income (Loss) Before Income Taxes, Discontinued Operations and Extraordinary Items*					
Publishing[1]	**$ 61.4**	$ 43.0	$ 44.3	$ 56.1	$ 40.6
Forest products[2]	**44.6**	36.0	52.8	39.8	26.2
Video[3]	**(3.2)**	(6.6)	(9.4)	(10.3)	(5.5)
Other operations[4]	**10.8**	5.9	6.9	8.3	7.3
Income from broadcast properties sold	**—**	—	—	—	2.4
Unusual charges to income	**—**	—	(3.2)	—	—
Financial income, mortgage banking and unallocated corporate administrative costs	**(4.2)**	(2.3)	(1.9)	(2.6)	(2.5)
Total income before income taxes, discontinued operations and extraordinary items	**$ 109.4**	$ 76.0	$ 89.5	$ 91.3	$ 68.5

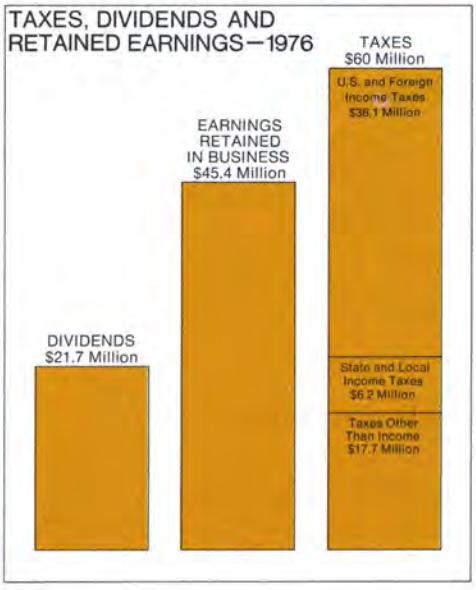
[1] Publication of magazines, books, recordings and related products.
[2] Production of pulp, paperboard and building materials.
[3] TV broadcasting, film production and distribution and operation of cable-TV and pay-TV systems.
[4] Marketing of information relating to the movement of supermarket products, newspaper publishing, sale of equipment and services to the graphic-arts industry, manufacture of furniture and beverage cases and commercial and industrial contracting.
* Indirect interest expense was allocated to each line of business based on average net assets.

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TIME AND TAXES

"Taxes," Oliver Wendell Holmes said in 1904, "are what we pay for civilized society." The price paid in federal taxes that year was $540 million, a not inconsiderable sum. Since then, the price has risen some 58,000 per cent, to $315 billion, which is somewhat more than the quality of the product paid for has improved. State and local taxes, both direct and indirect, have also risen precipitously. Today about 35 per cent of all personal income is paid out in some form of taxes.

No dollars are more heavily (and repeatedly) taxed than those earned by corporations and distributed to their shareholders. Congress is currently considering the possible revision and reform of this corporate tax structure. It may be instructive, therefore, to try to trace the revenue that our Company realized last year and to identify the amounts that were siphoned off in taxes.



Some of the payments can be readily and precisely identified. About $29 million of federal corporate income taxes, for example, went, or will go, to directly support those elements of "civilized society" administered from Washington, D.C. But, substantial additional fractions of Time Inc.'s revenues also found, or will find, their way into government coffers. Foreign taxes on income, for example, will take $7.1 million; state and local levies, about $6.2 million. Taxes, other than those based on income, which include payroll, real and personal property taxes, claim a whopping $17.7 million. The accompanying chart shows the total bite that has or will be taken directly by taxes from Time Incorporated's revenues and profits at all levels of government.

These direct levies, however, are only part of the total tax assessment. A second large bite is taken out of the dividends that are paid to the company's shareholders. In 1976, Time Inc. paid out a record total of $21.7 million in dividends; the federal, state and local governments, by a conservative estimate, will extract another $5-$6 million of this disbursement in the form of personal-income levies on earnings that have previously been taxed at the corporate level.

Although both Presidential candidates last year professed to favor the elimination of this patently inequitable double taxation of dividends, and President Carter is still sympathetic, actual relief is highly uncertain. A recent Roper Poll indicates that 70 per cent of the electorate thinks corporate taxes are a likely source of *additional* tax revenue.

In spite of the fact that basic corporate tax rates have been pared slightly in recent years (to a top rate of 48 per cent), the effective corporate rates in relation to real earnings (i.e., after eliminating inventory profits caused by inflation and giving cognizance to the true replacement cost of capital equipment) have risen alarmingly. Economist George Terborgh places the effective corporate tax rate at 60 per cent of real earnings, which means that corporations last year paid out far more than their true net earnings in taxes. This may be one reason why the rate of capital formation in the U.S. is one of the lowest in the free world, exceeded in paucity among developed nations only by that of England.

Total federal, state and local taxes of $415 billion in 1974 consumed a far larger share of U.S. national income than at the peak of World War II: 36.5 per cent versus 29.3 per cent. A single company like Time Inc. can only estimate the aggregate portion of its revenues that are diverted directly and indirectly to government use. There are, in addition to the corporate taxes and the imposts on dividends previously cited, those taxes imposed on payments to suppliers for materials and services, and the indirect tax represented by the time (and, therefore, money) spent compiling information and filing forms required by government agencies. And, finally, there are the very substantial taxes paid by employees on their salaries—to say nothing of the employees' own indirect taxes. Together, these levies consume at least one quarter to one half of the average employee's paycheck. All told, it is probably safe to estimate that Time Inc. paid out as much as one third of its total revenues to help support the current version of civilized society.

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CONSOLIDATED STATEMENT OF INCOME

Time Incorporated and Subsidiaries
For years ended December 31

	1976	1975
Revenues	**$1,038,242,000**	$910,659,000
Costs and Expenses		
Editorial, production, manufacturing and distribution	**649,876,000**	575,022,000
Selling, administrative and general	**283,426,000**	261,820,000
Total Costs and Expenses	**933,302,000**	836,842,000
Operating Income	**104,940,000**	73,817,000
Other Income—Net	**4,453,000**	2,134,000
Income before Taxes	**109,393,000**	75,951,000
Taxes on Income	**42,300,000**	30,900,000
Net Income	**$ 67,093,000**	$ 45,051,000
Per Share of Common Stock:*		
Net Income	**$3.32**	$2.26
Average Shares Outstanding*	**20,192,000**	19,949,000

The accompanying notes are an integral part of this financial statement.
*Adjusted for 1976 two-for-one split.

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CONSOLIDATED BALANCE SHEET

Time Incorporated and Subsidiaries as of December 31

Assets	1976	1975
Current Assets		
Cash	**$ 32,648,000**	$ 33,854,000
U.S. Government and other short-term securities—at cost (approximately market)	**92,929,000**	13,094,000
Receivables, less allowances of $30,869,000 in 1976 and $26,149,000 in 1975	**126,772,000**	118,555,000
Notes receivable	**4,875,000**	3,300,000
Inventories—at the lower of cost or market:		
Work in process and finished goods	**67,898,000**	69,274,000
Paper and other materials	**29,370,000**	29,727,000
Prepaid expenses and other current assets	**52,088,000**	44,784,000
Total Current Assets	**406,580,000**	312,588,000
Investments		
Unconsolidated subsidiaries	**11,691,000**	9,403,000
Companies 20% to 50% owned	**5,527,000**	5,649,000
Other—at cost less allowances of $912,000 in 1976 and $700,000 in 1975	**28,532,000**	21,931,000
Marketable equity securities—quoted market price of $32,664,000 in 1976 and $32,416,000 in 1975	**27,034,000**	32,719,000
Total Investments	**72,784,000**	69,702,000
Property and Equipment—at cost		
Buildings	**84,244,000**	82,456,000
Machinery and equipment	**381,753,000**	306,227,000
Leasehold improvements	**20,851,000**	20,466,000
Construction in progress	**2,229,000**	50,952,000
	489,077,000	460,101,000
Less allowances for depreciation and amortization	**219,024,000**	196,692,000
	270,053,000	263,409,000
Timber and timberland, less depletion	**42,224,000**	35,500,000
Land	**8,098,000**	8,004,000
Total Property and Equipment	**320,375,000**	306,913,000
Excess of Purchase Prices over Net Tangible Assets of Acquired Properties	**14,425,000**	14,616,000
Notes Receivable	**14,625,000**	19,500,000
Other Assets	**36,961,000**	36,495,000
Total Assets	**$865,750,000**	$759,814,000

The accompanying notes are an integral part of this financial statement.

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Liabilities and Shareholders' Equity	1976	1975
Current Liabilities		
Accounts payable and accrued expenses	**$ 99,778,000**	$ 85,275,000
Employee compensation and profit-sharing contributions	**15,470,000**	12,892,000
Taxes on income	**827,000**	6,218,000
Loans and current portion of long-term debt	**6,256,000**	6,496,000
Total Current Liabilities	**122,331,000**	110,881,000
Unearned Portion of Paid Subscriptions	**97,046,000**	83,830,000
Long-Term Debt	**138,249,000**	118,176,000
Deferred Federal Income Taxes	**47,852,000**	37,938,000
Other Liabilities	**9,824,000**	11,416,000
Shareholders' Equity		
Common Stock—$1 par value; authorized 25,000,000 shares; issued 20,784,100 shares in 1976 and 1975	**20,784,000**	20,784,000
Additional paid-in capital	**40,200,000**	38,350,000
Retained income	**398,346,000**	352,974,000
Treasury stock, at cost; 490,300 shares in 1976 and 790,200 shares in 1975	**(8,882,000)**	(14,535,000)
Total Shareholders' Equity	**450,448,000**	397,573,000
Total Liabilities and Shareholders' Equity	**$865,750,000**	$759,814,000

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CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

Time Incorporated and Subsidiaries (in thousands of dollars)

	Common Stock	Additional Paid-In Capital	Retained Income	Treasury Stock	Shareholders' Equity
Balance at December 31, 1974	$10,387	$48,470	$327,873	($15,822)	$370,908
Retroactive effect of August, 1976 stock split	10,392	(10,392)	—	—	—
Net Income—$2.26 per share	—	—	45,051	—	45,051
Stock options exercised	5	272	—	1,287	1,564
Dividends paid—$1.00 per share	—	—	(19,950)	—	(19,950)
Balance at December 31, 1975	20,784	38,350	352,974	(14,535)	397,573
Net Income—$3.32 per share	—	—	67,093	—	67,093
Stock options exercised	—	1,130	—	5,653	6,783
Tax benefits of stock options exercised	—	720	—	—	720
Dividends paid—$1.075 per share	—	—	(21,721)	—	(21,721)
Balance at December 31, 1976	$20,784	$40,200	$398,346	($ 8,882)	$450,448

The accompanying notes are an integral part of this financial statement.

Increases (Decreases) in Components of Working Capital

For years ended December 31	**1976**	1975
Cash and short-term securities	**$78,629,000**	($ 3,965,000)
Reclassification of marketable equity securities	**——**	(25,704,000)
Receivables	**8,217,000**	6,167,000
Notes receivable	**1,575,000**	(10,484,000)
Inventories	**(1,733,000)**	(3,010,000)
Prepaid expenses and other current assets	**7,304,000**	3,388,000
Increase (Decrease) in Current Assets	**93,992,000**	(33,608,000)
Accounts payable and accrued expenses	**14,503,000**	6,684,000
Employee compensation and profit-sharing contributions	**2,578,000**	344,000
Taxes on income	**(5,391,000)**	(10,621,000)
Loans and current portion of long-term debt	**(240,000)**	(14,532,000)
Increase (Decrease) in Current Liabilities	**11,450,000**	(18,125,000)
Increase (Decrease) in Working Capital	**$82,542,000**	($15,483,000)

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CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Time Incorporated and Subsidiaries
For years ended December 31

	1976	1975
Sources of Working Capital		
From operations:		
Net income	**$ 67,093,000**	$ 45,051,000
Charges (credits) not affecting working capital:		
Depreciation, amortization, depletion	**29,840,000**	25,543,000
Deferred federal income taxes	**11,225,000**	3,949,000
Provision for losses on investments	**760,000**	1,444,000
Equity in earnings of 20% to 50% owned companies	**(891,000)**	(996,000)
Net income from unconsolidated subsidiaries	**(1,503,000)**	(780,000)
Amortization of goodwill	**246,000**	560,000
Total from Operations	**106,770,000**	74,771,000
Increase in long-term debt	**51,727,000**	20,414,000
Dispositions of property and equipment	**3,204,000**	4,680,000
Increase in other liabilities	**—**	4,587,000
Dispositions of investments	**2,304,000**	18,036,000
Decrease in notes receivable	**4,875,000**	3,300,000
Increase in unearned portion of paid subscriptions	**13,216,000**	8,408,000
Issuance of common stock and treasury shares sold	**6,783,000**	1,564,000
Tax benefits of stock options exercised	**720,000**	—
Dispositions of goodwill	**—**	4,770,000
Miscellaneous	**—**	165,000
Total Sources	**189,599,000**	140,695,000
Applications of Working Capital		
Dividends paid to shareholders	**21,721,000**	19,950,000
Purchase of property and equipment	**41,100,000**	60,738,000
Purchase of timber and timberland	**5,406,000**	—
Additions to investments	**3,752,000**	18,406,000
Decrease in deferred taxes	**—**	4,216,000
Decrease in other liabilities	**1,592,000**	—
Repayment of long-term debt	**31,654,000**	27,164,000
Reclassification of marketable equity securities	**—**	25,704,000
Miscellaneous	**1,832,000**	—
Total Applications	**107,057,000**	156,178,000
Increase (Decrease) in Working Capital	**$ 82,542,000**	($ 15,483,000)

Details of increases and decreases in components of working capital are on page 40.
The accompanying notes are an integral part of this financial statement.

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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 (with the exception of Lumbermen's Investment Corporation, which has not been consolidated because its mortgage banking and real estate investment operations are dissimilar to the other operations of the Company). Unconsolidated subsidiaries and companies 20 per cent to 50 per cent owned are reflected in the financial statements on the equity basis and the Company's equity in their income or loss before income taxes and net income or loss, respectively, is included in Other Income—Net.

STOCK SPLIT. All per share information has been adjusted to reflect the two-for-one stock split distributed on October 1, 1976, to shareholders of record August 30, 1976.

INVENTORIES. Cost of inventories amounting to $6,650,000 in 1976 and $5,535,000 in 1975 was determined by the last-in, first-out method. The cost of the remaining inventories of $90,618,000 in 1976 and $93,466,000 in 1975 was determined principally by the first-in, first-out method. All inventories are carried at either cost or market, whichever is lower.

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

UNEARNED PORTION OF PAID SUBSCRIPTIONS. Sales of magazine subscriptions 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. Promotion costs related to sales of book and record series are amortized over a 12-month period. All other promotion costs are expensed within the year incurred.

FOREIGN OPERATIONS. Effective January 1, 1976, the Company changed its method of translating foreign currency financial statements of its foreign subsidiaries in accordance with the provisions of the Financial Accounting Standards Board Statement No. 8. Under the new method inventories, properties and certain other assets are translated at historical rates. All other current assets and liabilities and long-term debt are translated at current rates. Revenues, costs and expenses (except depreciation) are translated into U.S. dollars at rates prevailing during the year. Net translation gains and losses are included in operations in the period in which they occur. Previously, assets and liabilities were translated at year-end rates, except for property and equipment and related depreciation, which were translated at historical rates. 1975 has not been restated because the effect of the change was not material.

In 1976 the net foreign exchange loss was $2,849,000. In 1975 the net loss was immaterial.

Included in the consolidated financial statements are the following data for foreign operations:

	Year Ended December 31	
	1976	1975
	(in thousands of dollars)	
Revenues	$140,364	$132,067
Net income	14,523	8,038
Assets	86,846	86,427
Liabilities	30,367	30,359

GOODWILL. Excess of Purchase Prices over Net Tangible Assets of Acquired Properties is not being amortized in the financial statements (except for $3,654,000 acquired subsequent to October 31, 1970, net of amortization of $928,000, that is being amortized over 20 years) because these businesses were acquired prior to 1970 and, in the opinion of management, there has been no decrease in their value.

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Investments in Unconsolidated Subsidiaries and Companies 20 Per Cent to 50 Per Cent Owned

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 $1,700,000 at December 31, 1976 and 1975. This excess is not being amortized.

The principal investment is Lumbermen's Investment Corporation (99 per cent owned). At December 31, 1976, the total assets of Lumbermen's were $45,166,000 and total liabilities were $36,993,000. Revenues for the years 1976 and 1975 were $10,905,000 and $10,321,000, respectively, and its income before taxes of $2,825,000 in 1976 and $1,719,000 in 1975 was included in Other Income—Net.

Marketable Equity Securities

Preferred and common stocks are classified as noncurrent investments and carried at cost.

At December 31, 1976 gross unrealized gains and losses pertaining to marketable equity securities were approximately $7,871,000 and $2,241,000, respectively. A 1975 net realized gain of $1,287,000 and a small 1976 net realized loss on the sale of marketable equity securities are included in Other Income—Net. The cost of the securities sold was based on specific identification of the securities sold.

Leases

Total rental expense, including contingent rentals that were not material, reduced by sublease rental income of $2,736,000 and $2,705,000, was $13,763,000 and $13,837,000 for the years ended December 31, 1976 and 1975, respectively.

The future minimum rental commitments for all noncancelable leases, reduced by an aggregate of $14,886,000 for rentals to be received from existing noncancelable subleases at December 31, 1976, are as follows:

	Total	Buildings	Equipment	Office Space
		(in thousands of dollars)		
1977	$11,501	$ 400	$1,538	$ 9,563
1978	9,649	466	863	8,320
1979	8,607	468	553	7,586
1980	7,867	490	437	6,940
1981	4,547	498	135	3,914
1982-1986	5,670	2,310	—	3,360
	$47,841	$4,632	$3,526	$39,683

The Company occupies office space in the Time & Life Building in New York under terms of a lease agreement which expires in 1980 but has a 21-year renewal option.

Long-Term Debt

In January 1976 the Company issued $50,000,000 of 7⅞ per cent Notes, due January 15, 1986, which are not redeemable prior to January 15, 1983.

The term loan due in installments to 1980 bears interest at prime rate plus ½ of 1 per cent but has a maximum average interest rate of 7⅞ per cent, provided the loan is not prepaid prior to December 31, 1978. Interest paid in excess of 7⅞ per cent ($1,413,000 and $1,591,000 at December 31, 1976 and 1975, respectively) is included in Other Assets.

Under the most restrictive provision of credit agreements covering these loans, the Company is required to maintain minimum consolidated net current assets (as defined in the agreements) and observe limits on the payment of dividends. At December 31, 1976, consolidated net current assets were approximately $201,000,000 in excess of these requirements, and approximately $139,000,000 of consolidated retained income was unrestricted as to payment of dividends.

In connection with its long-term debt aggregating $28,000,000 at December 31, 1976, Temple-Eastex Incorporated has agreed to observe restrictions with respect to payment of dividends, maintenance of working capital, prepayment of debt, incurrence of additional debt, etc. In addition, of the total net assets of Temple-Eastex at December 31, 1976, approximately $135,000,000 (including $37,000,000 of net current assets) was unrestricted by the loan agreement and thus available for distribution to the Company.

At December 31, 1976, net assets in the amount of approximately $164,000,000 were subject to mortgage liens.

Aggregate maturities of long-term debt, including sinking fund requirements of the first-mortgage bonds during the next five years, are as follows: 1977—$6,300,000; 1978—$13,300,000; 1979—$12,700,000; 1980—$20,200,000; 1981—$5,100,000.

Stock Options

The following summary shows the changes during 1976 and 1975 in qualified and non-qualified options granted to key employees to purchase shares of the Company's common stock.

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SHARES UNDER OPTION

	Number of Shares 1976	Number of Shares 1975	Price Range per Share
Balance at January 1	840,764	924,628	$10.57-$26.29
Options granted	371,075	—	$33.07-$34.38
	1,211,839	924,628	
Options exercised	(299,924)	(74,264)	$10.58-$26.29
Options terminated	(6,200)	(9,600)	$15.29-$25.63
Balance at December 31	905,715	840,764	$11.85-$34.38

There were 61,325 shares and 428,200 shares available for the granting of options at December 31, 1976 and 1975, respectively.

Options granted are exercisable at various dates, but no later than five years from date of grant in the case of qualified options and no later than 10 years from date of grant in the case of non-qualified options. Options for 534,640 shares and 609,384 shares were exercisable at December 31, 1976 and 1975, respectively.

The option prices, which are not less than 100 per cent of fair market value on the dates of grant, are payable in full at the time the options are exercised. There were no charges or credits to income in connection with options exercised.

Taxes on Income

Federal, foreign and state and local taxes on income consisted of the following:

	1976 Current	1976 Deferred	1975 Current	1975 Deferred
	(in thousands of dollars)			
Federal	$19,469	$ 9,565	$21,170	$1,060
Foreign	6,339	723	6,355	(1,004)
State & Local	6,204	—	3,319	—
	$32,012	$10,288	$30,844	$ 56

The differences between the consolidated effective income tax rate of 38.7 per cent in 1976 and 40.7 per cent in 1975 and the federal statutory income tax rate of 48 per cent include the following:

	1976	1975
	(in thousands of dollars)	
48% of income before taxes	$52,508	$36,457
Investment tax credits	(7,454)	(1,867)
Tax benefit of capital gains, mainly from the harvesting and sale of fee-owned timber	(3,861)	(3,143)
State & local income taxes, net of federal tax benefit	3,226	1,726
All other	(2,119)	(2,273)
	$42,300	$30,900

Long-Term Debt (Excluding Current Portion)

	December 31 1976	December 31 1975
	(in thousands of dollars)	
7⅞% Notes due January, 1986	**$ 50,000**	$ —
Term loan at 7⅞% due 1978-1980	**29,000**	36,000
5⅜% sinking fund first mortgage bonds due 1985	**26,400**	29,700
6½% mortgage notes due 1978-1990	**18,735**	19,640
Lease obligations due 1978-1991	**4,270**	4,480
Portion of long-term debt paid with proceeds of long-term notes issued in January, 1976	**—**	17,950
4%-10% notes, some property, timberlands and real estate pledged as collateral, due 1978-1998	**9,844**	10,406
	$138,249	$118,176

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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 amount of unremitted earnings considered permanently reinvested for such purpose at December 31, 1976 was approximately $24,000,000 after reduction for available foreign tax credits.

Deferred income taxes have been provided because of the following timing differences:

	1976	1975
	(in thousands of dollars)	
Accelerated depreciation	$ 5,275	$2,582
All other	5,013	(2,526)
	$10,288	$ 56

Investment tax credits have been accounted for primarily as reductions in current income tax expense.

Other Income—Net

Other Income—Net in 1976 and 1975 consisted of the following:

	1976	1975
	(in thousands of dollars)	
Dividends	$ 2,602	$ 2,814
Interest income	6,204	4,048
Interest expense	(10,835)	(10,300)
Equity in income before taxes of unconsolidated subsidiaries	2,875	1,779
Equity in earnings of 20% to 50% owned companies	891	996
Gains on sale of land	464	872
Royalties and ancillary sales	2,375	1,541
Reserves for unrealized losses on investments	(760)	(1,444)
Net realized gain (loss) on securities	(39)	1,287
Realized gain on investment	1,398	—
Miscellaneous	(722)	541
	$ 4,453	$ 2,134

Retirement Plans

The Company and its subsidiaries have retirement plans covering substantially all employees, including those in foreign countries. Retirement plan expense was approximately $6,300,000 in 1976 and $6,900,000 in 1975, which includes amortization of past service cost over periods of approximately 10 years. In 1976 the Company changed certain actuarial assumptions of its plans which had the effect of decreasing retirement plan expense by $900,000. Unfunded past service costs were $3,900,000 and $5,400,000 at December 31, 1976 and 1975, respectively. The Company's policy is to fund pension costs accrued.

Commitments and Contingencies

At December 31, 1976, the Company had commitments and contingent liabilities in connection with its investments, programing and transmission contracts, purchases and sales of property and equipment, and long-term paper and printing contracts.

In 1973, a class action was filed against the Company in the United States District Court for the Southern District of New York alleging various violations of federal antitrust laws, securities laws and common law of fraud and deceit by the Company in connection with its acquisition of the minority interest in Sterling Communications, Inc. The class action and the antitrust claims were dismissed. The remaining individual action by the named plaintiffs has been dismissed without prejudice to the plaintiffs to reopen the action if a settlement is not concluded. A derivative action in the Supreme Court of the State of New York brought in the name of Sterling Communications, Inc., by certain of its shareholders alleges deliberate mismanagement of Sterling Communications, Inc., by various officers and directors of the Company. A special proceeding is pending in the same court seeking an appraisal of Sterling Communications, Inc. stock voted against the sale of assets and dissolution of that company. Both of the state court actions have been stayed pending a resolution of the District Court action.

Temple-Eastex Incorporated and most of the plywood producers in the United States are defendants in a series of antitrust class actions started in 1972 which allege conspiracies to fix and stabilize plywood prices. The actions, which seek treble damages, permanent injunctions, and other relief, have been consolidated for pretrial and are in the discovery stage.

Eastex Packaging, Inc., (Packaging) was indicted in February 1976 along with 22 other corporations and 50 individuals, not including any Packaging personnel, for violation of Section 1 of the Sherman Antitrust Act. All defendants except one corporation and two individuals entered a plea of *nolo contendere* to the indictment. Maximum fines of $50,000 were imposed on nine of the corporate defendants, Packaging being fined $25,000. As a result of this action, 65 civil treble damage actions were filed against Packaging and 25 other corporations, generally as class actions, alleging a combination and conspiracy to fix, maintain and stabilize the price of folding cartons in violation of the federal antitrust laws. These actions are in the discovery stage.

One other private treble damage case is pending, which named Packaging as a defendant along with a

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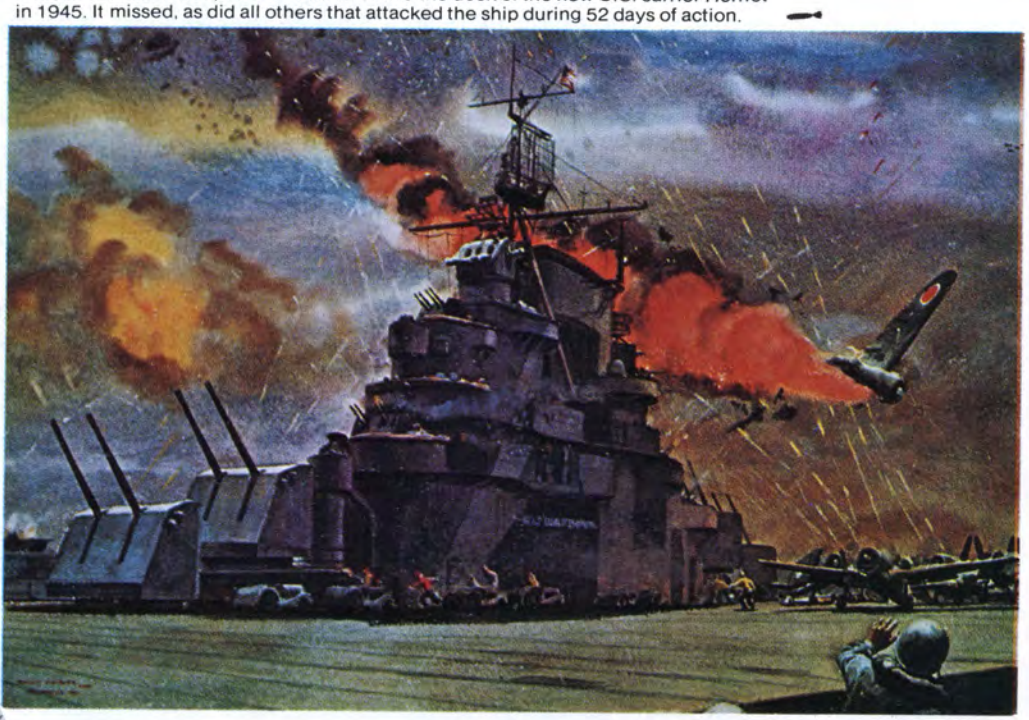
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A Japanese kamikaze plane thunders toward the deck of the new U.S. carrier *Hornet* in 1945. It missed, as did all others that attacked the ship during 52 days of action.





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number of the other corporate defendants. The plaintiff (acting for itself and a class consisting of "independent convertors" of folding cartons) alleges that defendants engaged in a combination and conspiracy to fix and maintain prices for bending box board and that defendants have engaged in a combination and conspiracy to restrain trade by attempting to monopolize the manufacture and sale of folding cartons.

In addition, there were pending against the Company and its subsidiaries lawsuits and claims arising in the regular course of business.

In the opinion of management, recoveries, if any, by plaintiffs or claimants that may result from the foregoing litigation and claims will not be material in relation to the consolidated financial position of the Company and its subsidiaries.

The Company expects to realize a gain from the sale of approximately 27,000 acres of its timberlands when acquired by the Federal Government under the Big Thicket Preserve Act.

Asset Replacement Cost (Unaudited)

The Company's Annual Report on Form 10-K (a copy of which is available upon request) contains information with respect to the estimated replacement cost of inventories, plant and equipment, and timberlands at December 31, 1976, and the approximate effect of such costs on cost of sales and depreciation expense for the year.

Replacing items of plant and equipment with assets having equivalent productive capacity has usually required a substantially greater capital investment than was required for the original purchase of such assets. This reflects the cumulative impact of inflation on the long-lived nature of these assets. This inflationary increase has been somewhat offset by technological improvements which have resulted in increasing the productivity of the newer asset additions, particularly in the forest products operations.

The Company's timberlands were acquired some years ago. Prices of comparable timberlands (when available) today are substantially higher than original cost.

The Company has attempted to adjust selling prices to maintain profit margins over the years and will continue to do so.

Summary of Quarterly Results of Operations (Unaudited)

The following is a summary of the unaudited quarterly results of operations for the year ended December 31, 1976:

	Three Months Ended			
	Mar. 31	June 30	Sept. 30	Dec. 31
	(in thousands of dollars except for per share data)			
Revenues	$228,798	$265,387	$254,825	$289,232
Editorial, production, manufacturing and distribution costs	146,195	159,708	156,073	187,900
Gross profit	82,603	105,679	98,752	101,332
Net income	10,627	20,108	12,523	23,835
Net income per share	.53	1.00	.62	1.17

Report of Ernst & Ernst, Independent Auditors

TO THE BOARD OF DIRECTORS AND SHAREHOLDERS OF TIME INCORPORATED

We have examined the consolidated balance sheet of Time Incorporated and subsidiaries as of December 31, 1976 and December 31, 1975, and the related consolidated statements of income, shareholders' equity and changes in financial position for the years then ended. 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.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of Time Incorporated and subsidiaries at December 31, 1976 and December 31, 1975, and the consolidated results of their operations and changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Ernst & Ernst

E&E

New York, New York
February 17, 1977

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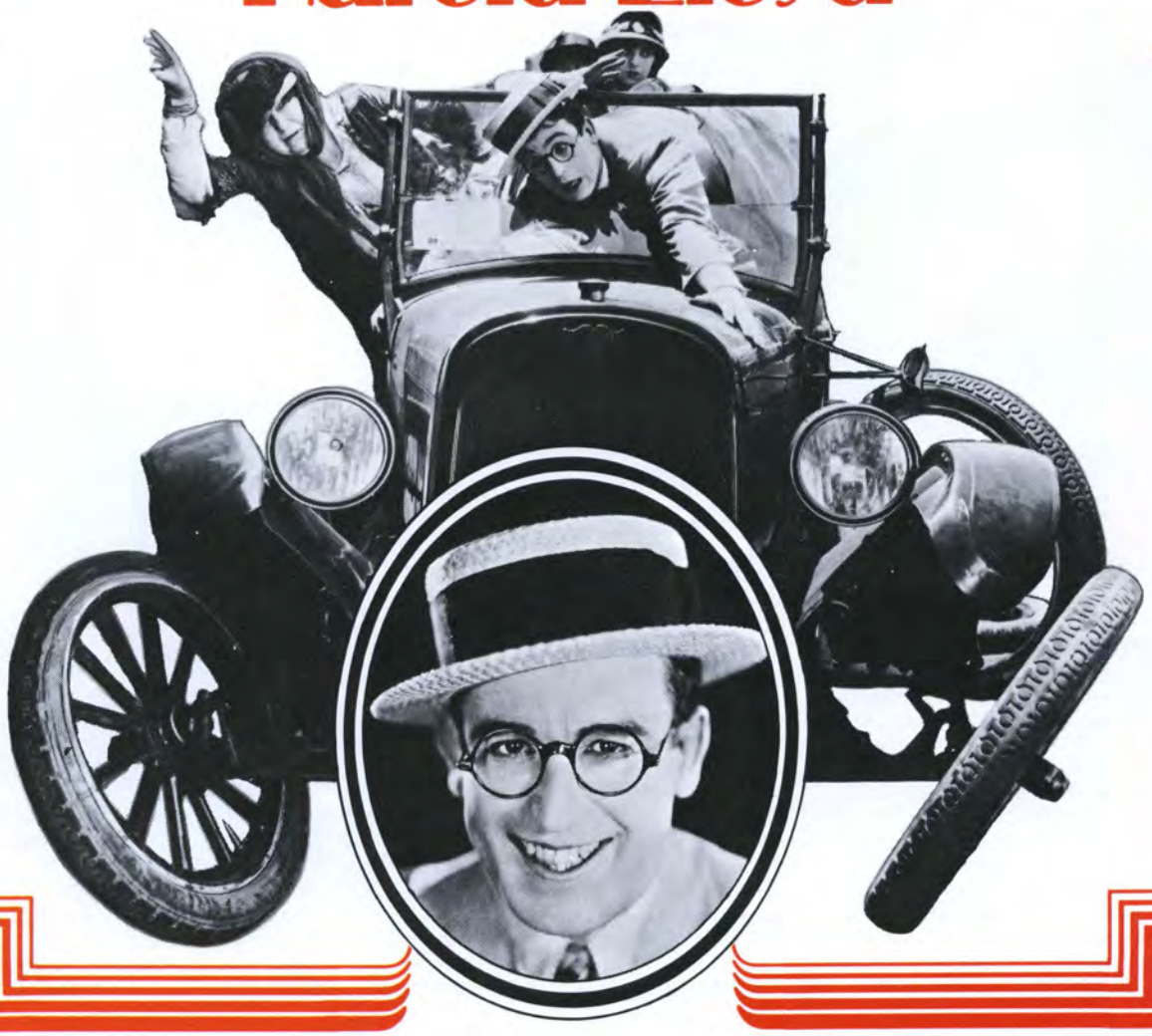
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The return of Harold Lloyd



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Board of Directors



Robert Temple Keeler, *Partner, Taft, Stettinius & Hollister,* was elected a Director of Time Inc. in 1975. Keeler was born in Cleveland, Ohio, in 1914; he graduated *magna cum laude* from Dartmouth in 1936 and received his law degree from Yale in 1939. Before serving in the U.S. Navy during World War II, he joined the Cincinnati law firm of which he is currently a partner, where he specializes in litigation as a trial lawyer. Keeler served as a member of the Board of Directors of Temple Industries from 1951 until 1973, when that company was acquired by Time Inc.

Gaylord Freeman, *Honorary Chairman of the Board, The First National Bank of Chicago,* became a Director of Time Inc. in 1962. Born in Chicago, in 1910, he was graduated from Dartmouth and Harvard Law School. He is a Senior Member of The Conference Board, a Trustee of the Eisenhower Exchange Fellowships, Aspen Institute and Northwestern University. He recently served on Treasury and Justice Departments advisory committees. He is a Member of the Center for Productivity & Quality of Working Life and Chairman of the Commission on Postal Service.



Hedley Donovan, *Editor-in-Chief,* joined Fortune magazine in 1945, after serving in the U.S. Navy in WW II. He became Managing Editor of Fortune in 1953, Editorial Director of Time Inc. in 1959 and a member of the Board of Directors in 1962. In 1964 he succeeded Henry R. Luce as Editor-in-Chief of all Time Inc. publications. Born in Brainerd, Minnesota, in 1914, he graduated from the University of Minnesota and was a Rhodes Scholar at Oxford. He is a Trustee of New York University, Mt. Holyoke College, the Carnegie Endowment for International Peace and The Ford Foundation and is a Director of the Council on Foreign Relations.

Andrew Heiskell, *Chairman of the Board and Chief Executive Officer,* joined Life magazine in 1937 and became its Publisher in 1946. He was elected to the Board of Directors in 1959, became Chairman in 1960 and Chief Executive Officer of Time Inc. in 1969. Born in Naples, Italy, in 1915, Heiskell was educated in Europe, graduated from the University of Paris and attended Harvard University Graduate School of Business Administration. He is President of the Board of Overseers of Harvard College and serves on the boards of the New York Urban Coalition, the International Executive Service Corps, Bennington College and the Atlanta University Center.



Henry Luce III, *Vice President-Corporate Planning,* joined Time Inc. in 1951. He was born in New York City in 1925, graduated from Yale in 1948 and served in the U.S. Navy in World War II. In 1953 he became a contributing editor of Time and later served in a number of corporate posts. He became a Vice President in 1964, London Bureau Chief in 1966, a Director in 1967, Publisher of Fortune in 1968, of Time in 1969, and Vice President-Corporate Planning in 1972. He is President of the Henry Luce Foundation, Inc., Chairman of the Board of the China Institute in America, and a Trustee of Princeton Theological Seminary and of The College of Wooster.

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Arthur Temple, *Group Vice President-Forest Products,* has been a Director since 1973, when Temple Industries was acquired by Time Inc. Born in Texarkana, Arkansas, in 1920, he attended Texas University. He joined Temple Industries in 1937, becoming President in 1951. Temple was named Chairman, President and Chief Executive Officer of Temple-Eastex Inc. in 1975. Temple is a member and past President of the Economic Council of Forest Products Industries and past Chairman and President of the National Forest Products Association. He is also a Director of Wheelabrator-Frye Inc., the Madison Fund, Gulf States Utilities, and Republic of Texas Corporation.

James R. Shepley, *President and Chief Operating Officer,* joined Time Inc. in 1942. After WW II service on the staff of General George C. Marshall in Washington and China, Shepley served as a Time writer, headed the Washington Bureau and became, successively, Publisher of Fortune and Time. He was elected President and a member of the Board in 1969, and Chairman of the Executive Committee in 1974. Shepley was born in Harrisburg, Pennsylvania, in 1917 and attended Dickinson College, of which he is a Trustee. He serves on the boards of the South Street Seaport Museum, the National Trust for Historic Preservation and the George C. Marshall Research Foundation.



Louis Banks, *Adjunct Professor of Management, Alfred P. Sloan School of Management, Massachusetts Institute of Technology,* became a Director of Time Inc. in 1973. He was born in Pittsburgh, Pennsylvania, in 1916 and graduated from the University of California at Los Angeles in 1937. He served as a Navy pilot during World War II, joined Time magazine in 1945, and became a Senior Editor in 1955. In 1961 Banks moved to Fortune and became Managing Editor in 1965. Appointed Editorial Director of all Time Inc. publications in 1970, Banks retired in 1973 to become Visiting Professor at the Harvard Graduate School of Business Administration. He joined the Sloan faculty in 1976. He is a Director of the Boston World Affairs Council and a member of the Council on Foreign Relations.



Thomas J. Watson Jr., *Chairman of the Executive Committee of the Board of Directors, International Business Machines Corporation,* served as a Director of Time Inc. from 1958 to 1965 and was reelected to the Board in 1974. He was born in Dayton, Ohio, in 1914 and, after graduating from Brown University in 1937, joined IBM. He was elected President of IBM in 1952 and Chairman in 1961. He retired in 1974. He is a Director of Pan American World Airways and a member of The Business Council. A Citizen Regent of the Smithsonian Institution, he is also a Trustee of Brown University, the Mayo Clinic, the California Institute of Technology, The American Museum of Natural History and Mystic Seaport.

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Richard B. McKeough, *Vice President-Finance,* joined the Company in the Comptroller's department in 1952. In 1955 he was named Business Manager of the International Division and, in 1961, Assistant Treasurer of Time Inc. He was elected Treasurer in 1968 and Vice President-Finance in 1971. In 1973 he was elected to the Board of Directors, a year later he was also appointed Chairman of the Finance Committee and Chief Financial Officer. Born in 1927, a native of Grand Rapids, Michigan, McKeough graduated from Michigan State University in 1950.

Matina Souretis Horner, *President, Radcliffe College,* was elected to the Board of Directors of Time Inc. in 1975. She was born in Roxbury, Massachusetts. in 1939, graduated *cum laude* from Bryn Mawr in 1961 and took her Ph.D. in psychology from the University of Michigan in 1968. She joined the Harvard faculty in 1969. In 1972, at age 32, she became the sixth and youngest president of Radcliffe College. A Trustee of the Twentieth Century Fund, she is a Director of the American Academy of Political and Social Sciences.

Sol M. Linowitz, *Senior Partner, Coudert Brothers,* became a Director in 1969. He was born in Trenton, New Jersey, in 1913, graduated from Hamilton College in 1935 and Cornell Law School in 1938. He served in the U.S. Navy in World War II. From 1946 to 1966 he was associated with Xerox Corporation, serving finally as Chairman. A former Ambassador to the Organization of American States, in February 1977 he was appointed co-negotiator of the Panama Canal Treaty. He is a Trustee of Cornell University, Hamilton College and The Johns Hopkins University.

Frank Pace Jr., *President, International Executive Service Corps,* joined the Board in 1960. He was born in Little Rock, Arkansas, in 1912, graduated from Princeton in 1933 and Harvard Law School in 1936. Pace served as Director, Bureau of the Budget in 1949 and, in 1950, was appointed Secretary of the Army. In 1953, he joined General Dynamics Corporation and became Chairman of the Board and Chief Executive Officer in 1959. In 1964 he became president of IESC. Pace has also served as Chairman of the Board of the Corporation for Public Broadcasting and is currently a director of a number of corporations and charitable institutions.

Alexander Heard, *Chancellor, Vanderbilt University,* has been a Director of Time Inc. since 1968. He was born in Savannah, Georgia, in 1917 and graduated from the University of North Carolina and Columbia University. He served in the Departments of Interior, War and State, and in the U.S. Navy before becoming Professor of Political Science at the University of North Carolina in 1950; he became Dean of their Graduate School in 1958. In 1963, he became Chancellor of Vanderbilt University. Heard has served on many government and private commissions and is presently Chairman of the Board of Trustees of The Ford Foundation.



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Roy E. Larsen, *Vice Chairman of the Board,* was an original member of the staff of Time magazine in 1922. He became a Vice President in 1927, and in 1931 helped launch *The March of Time.* Elected a Director of Time Inc. in 1933, Larsen served as the first Publisher of Life magazine from 1936 until 1946. He succeeded Henry R. Luce as President of Time Inc. in 1939. Larsen was born in Boston, Massachusetts, in 1899 and graduated from Harvard in 1921. He has served as President of Harvard's Board of Overseers, a Trustee of The Ford Foundation, Chairman of the Fund for the Advancement of Education and has been a member of many other charitable and educational associations. He also helped organize the National Citizens Commission for the Public Schools.

James A. Linen, *Member of the Board of Directors* since 1959, joined Time magazine after graduating from Williams College. He became Advertising Manager of Life magazine in 1940. During World War II, he served in the Office of War Information. In 1945, he became Publisher of Time and was elected President of Time Inc. in 1960. He was born in 1912 in Waverly, Pennsylvania. Linen currently serves on the boards of Williams College and Rockefeller University. He is also Chairman of the Board of Trustees of Athens College in Greece, Vice Chairman of the Japan-U.S. Friendship Commission, Senior Trustee of the U.S. Council of the International Chamber of Commerce and a member of the Executive Committee of the National Urban League.



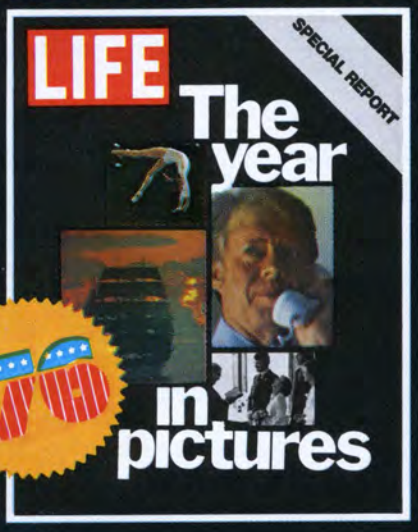


Arthur W. Keylor, *Group Vice President-Magazines,* joined Time Inc. in 1948. He was born in Natick, Massachusetts, in 1920 and is a graduate of Bowdoin College and the Harvard Graduate School of Business Administration. Keylor became Associate Publisher of Life in 1964 and Publisher of Fortune in 1966. In 1968, he was appointed to a newly-created corporate management post, supervising five major activities and, in 1969, became an Executive Vice President of Time Inc. In 1972 he was elected to the Board of Directors and also appointed Group Vice President-Magazines, responsible for supervising the publishing activities of all Time Inc. magazines.

Rawleigh Warner Jr., *Chairman and Chief Executive Officer, Mobil Corporation,* became a Director in 1967. He was born in 1921, graduated from Princeton in 1943, joined Mobil Oil in 1953, became its President in 1965 and Chairman in 1969. In 1976 he became Chairman of Mobil Corporation, the holding company for Mobil Oil, Montgomery Ward and Container Corporation of America. He is a Director of AT&T, Caterpillar Tractor, Chemical Bank, American Express, The American Petroleum Institute; a Trustee of Lawrenceville School, Woodrow Wilson International Center for Scholars, and a Member of The Business Council and the Labor Management Group.

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COMMON STOCK PERFORMANCE AND DIVIDEND COMPARISON
1975 & 1976*

(New York Stock Exchange–Symbol: TL
London Stock Exchange–Symbol: TIMEINC)

PRICE RANGE		Low	High
1975:	First quarter	12⅜	18⅛
	Second quarter	17⅛	27 11/16
	Third quarter	25¾	30½
	Fourth quarter	26¾	31½
	Year	**12⅜**	**31½**
1976:	First quarter	30 15/16	34¾
	Second quarter	28 11/16	33⅛
	Third quarter	30	35 1/16
	Fourth quarter	31½	39¾
	Year	**28 11/16**	**39¾**

DIVIDENDS	1976	1975
First quarter	$.25	$.25
Second quarter	.25	.25
Third quarter	.2875	.25
Fourth quarter	.2875	.25
Year	**$1.075**	**$1.00**

*Adjusted for two-for-one stock split: August 30, 1976

Questions and communications regarding lost stock certificates, changes of address, dividend checks, consolidation of accounts and transfer of certificates should be sent to: The Chase Manhattan Bank, N.A., Agency Administration Department, 15th Floor, 1 New York Plaza, New York, N.Y. 10015.

Copies of SEC Form 10K will be available to stockholders after April 30, on written request to P. Peter Sheppe, Assistant Secretary, Time Inc., Time & Life Building, Rockefeller Center, New York, N.Y. 10020.

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