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TIME INCORPORATED

Annual Report 1977

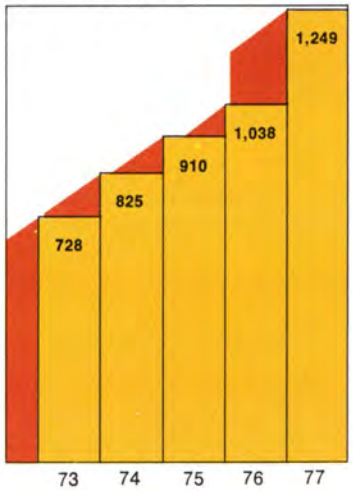
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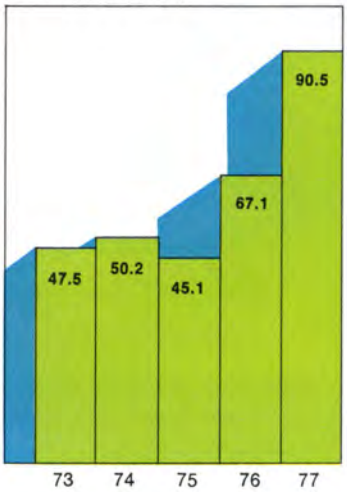
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Total Revenues
(in millions of dollars)



Net Income
(in millions of dollars)

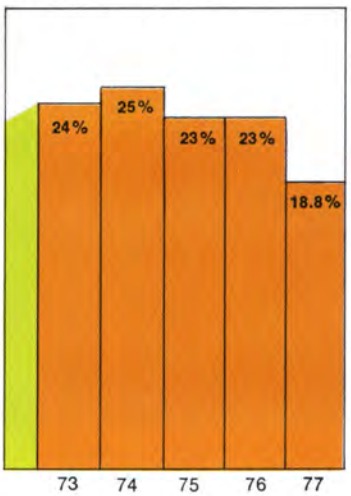


FINANCIAL HIGHLIGHTS

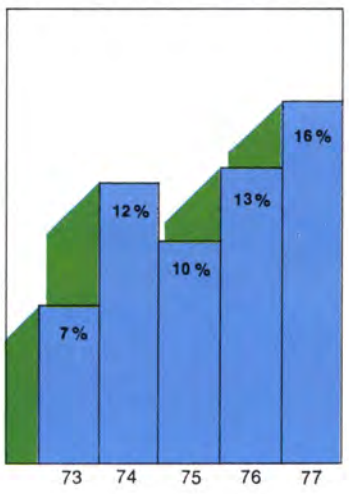
(In thousands of dollars except for per share data and number of shareholders)

	1977	1976
REVENUES	$1,249,816	$1,038,242
NET INCOME	90,539	67,093
PER SHARE		
NET INCOME	$4.44	$3.32
DIVIDENDS	1.2625	1.075
WORKING CAPITAL	$333,009	$284,249
PURCHASE OF PROPERTY AND EQUIPMENT	49,543	46,506
DEPRECIATION, AMORTIZATION, DEPLETION	33,703	29,840
UNEARNED PORTION OF PAID SUBSCRIPTIONS	114,870	97,046
LONG-TERM DEBT	127,689	138,249
SHAREHOLDERS' EQUITY	551,420	450,448
COMMON SHAREHOLDERS' EQUITY—PER SHARE	$25.41	$22.20
AVERAGE SHARES OUTSTANDING (000)	20,371	20,192
NUMBER OF COMMON SHAREHOLDERS	9,259	8,959

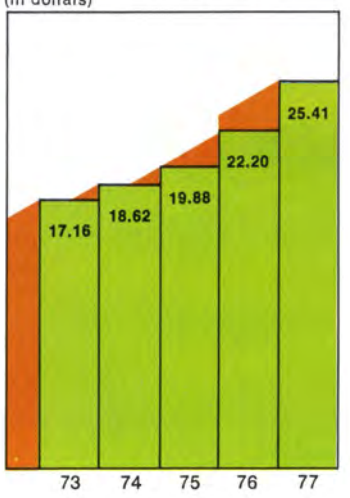
Debt to Total Capital



Operating Return on Assets



Equity Per Common Share
(in dollars)



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For Time Inc. 1977 was another record year. Revenues rose to $1.25 billion and profits to $90.5 million. Per share earnings climbed 34 per cent—to $4.44.

THE YEAR IN BRIEF



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Despite the unexpectedly uneven and hesitant recovery of the United States economy, Time Inc. enjoyed another very good year in 1977. Indeed, revenues, which topped $1 billion for the first time in 1976, rose over 20 per cent, to $1.25 billion, in 1977. Earnings also rose, by 35 per cent, to a record $90.5 million, or $4.44 per share, compared to $3.32 per share in 1976.

The largest contribution to last year's record performance was made by our publishing operations, which accounted for $718.1 million or 57 per cent of revenues, and $99.6 million, or 62 per cent of earnings before taxes in 1977. The Forest Products Group also posted improved pretax earnings of $52.9 million, helped by strong building-materials earnings that more than offset reduced profits from pulp and paperboard operations. The Forest Products Group as a whole accounted for 29 per cent of total revenues and 33 per cent of earnings last year. Particularly gratifying was the fact that each of Time Inc.'s major groups—Magazines, Books, Video, Forest Products and Other Activities—had higher operating profits in 1977, with the Video Group contributing to corporate earnings for the first time.

A large share of the credit for the outstanding performance of all divisions and subsidiaries, of course, must go to the people who managed and operated them. It seems appropriate, therefore, to introduce some of these individuals to our shareholders in this Annual Report. The principal executives of our operating groups and all corporate officers are pictured, beginning opposite, and a cross section of some of the talented men and women employed in these divisions is shown on pages 19-21.

The 15,900 people who make up Time Inc.'s staff worldwide produced exceptionally impressive results in all areas of Company activity last year.

Left to right: Hedley Donovan, Editor-in-Chief, Andrew Heiskell, Chairman of the Board and Chief Executive Officer and James R. Shepley, President and Chief Operating Officer.

PUBLISHING OPERATIONS

The year was an especially strong one for magazines. Net revenues from advertising in our magazines were $274 million, up 27 per cent over 1976. Circulation results were equally gratifying, as revenues reached $183 million, a 25-per-cent increase over 1976. This strong growth in reader-revenue is an affirmation of the continuing editorial strength of our magazines and clearly enhances their appeal to advertisers.

Time, our oldest and largest publication, was once again first among all magazines in worldwide advertising revenues in 1977, with sales of $209 million.*

People, our newest magazine, ran 2,710 advertising pages, a gain of 790 pages, or 41 per cent, over 1976. Only five magazines in the United States now carry more ad pages than People. People's advertising rate base was increased twice in 1977 and again in January 1978 to 2.2 million. In terms of revenues from sales through food store checkout counters, People now ranks third among all magazines in the country.

Fortune, after 47 years of monthly publication, increased its publishing frequency to 26 issues per year, beginning with the issue of January 16, 1978. The initial response to the fortnightly Fortune, both from readers and advertisers, has been very encouraging.

Sports Illustrated, now the fourth-largest magazine in the United States in terms of advertising revenues, increased its operating profit nearly 50 per cent last year. Money also continued to improve, with revenues rising nearly 40 per cent over 1976.

*Publishers Information Bureau figures are used throughout this report for domestic advertising revenues of individual magazines.



Corporate Editors Ralph Graves and Henry A. Grunwald

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Time-Life Books Inc. is now headquartered in the Atrium, a handsome—and cost-efficient—building in Alexandria, Virginia.



BOOKS ACQUIRED BOMC

Time-Life Books accounted for more than $215 million of revenues in 1977, and the Books Group as a whole, which now includes a number of domestic subsidiaries and foreign affiliates, set a new high in earnings.

In November, a special meeting of Time Inc. shareholders approved the acquisition of the Book-of-the-Month Club, Inc., the oldest and most prestigious book club in the United States. The merger, involving both cash and a tax-free exchange of preferred stock, was valued at $64 million. (Because the acquisition was completed in November 1977, only BOMC's December 1977 results are included in the financial statements in this report).

The Book-of-the-Month Club was acquired by Time Inc. last year for $64 million.



HBO'S TURNAROUND

The big Video news of the year was the turnaround of Home Box Office. HBO now delivers television programing to more than 400 CATV systems in 45 states, and in 1977 it increased the number of CATV subscribers it serves to over one million. The growth in HBO subscribers pushed the programing service above breakeven. This, in turn, enabled the Video Group, whose television, film and CATV operations were already profitable, to contribute to Time Inc.'s operating profit for the first time.

The Video Group negotiated two noteworthy acquisitions during 1977. In August, Time-Life Films acquired Talent Associates, a leading television-program production company; David Susskind, president of the 30-year-old firm, became Senior Executive Producer for Time-Life Films.

During the fourth quarter of 1977, Time Inc. also reached an agreement in principle to acquire the Denver-based American Television and Communications Corp., the second-largest and one of the most successful cable-television companies in the United States. Serving over 675,000 subscribers in 97 CATV systems in 31 states, ATC, in the year ended June 30, 1977, had a net income of $6.2 million on revenues of $53.2 million. Time Inc. presently owns approximately 26 per cent of the almost four million shares outstanding. The merger is to be achieved through an exchange of 1.55 shares of Time Inc. convertible preferred stock, with a liquidation value of $30 per share (or the cash equivalent for a portion of the ATC shares), for each share of ATC common, in a transaction valued at approximately $145 million.

OTHER ACTIVITIES

Among Time Inc.'s Other Activities, two subsidiaries performed exceptionally well. Selling Areas-Marketing, Inc. (SAMI), which is a marketer of computerized food-sales data, had another record year. Pioneer Press, our group of weekly newspapers in the Chicago suburban area, posted a 48 per cent earnings increase on a revenue gain of 13 per cent.

FOREST PRODUCTS REORGANIZED

The management of Temple-Eastex Inc., our Texas-based forest-products subsidiary, was restructured late in 1977. Six major operating groups were established. The largest of these are the Temple and Eastex Divisions, which are engaged, respectively, in the production of forest-based building materials, and in the manufacture of paperboard, pulp, and packaging materials.

The strong resurgence of new

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residential construction in 1977 raised U.S. housing starts to nearly two million units for the year. Both unit and dollar sales of building materials rose sharply, pushing the Temple Division's earnings to a new high on record sales. Revenues of the Eastex pulp and paperboard mill were also at record levels, but earnings were down. Together, these two major divisions recorded an increase of 17 per cent in revenues over 1976, with profits rising to $53 million.

Having completed a $64-million capital-improvement program at the Evadale paperboard mill in 1976, last year Temple-Eastex undertook a $25-million expansion of its building-materials facilities. The largest investment will go to increase fiberboard-siding capacity and the balance to boost plywood production.

WASHINGTON STAR TO BE ACQUIRED

Early in 1978, Time Inc. reached an agreement in principle with the Evening Star Newspaper Company to acquire *The Washington Star* for $20 million in cash. The *Star,* founded in 1852, has a daily circulation of nearly 350,000 and a Sunday circulation of approximately 335,000. It is one of only two newspapers serving the nation's capital. Joseph Albritton, who purchased the newspaper four years ago, has agreed to stay on as publisher of the *Star,* which will become Time Inc.'s first daily newspaper.

MANAGEMENT AND DIRECTORS

There were several important executive changes and elections to the Board of Directors during the year. James A. Linen, who joined Time Inc. in 1934 and was President from 1960 to 1969, retired.

In October 1977, Group Vice President Charles B. Bear, who also is Secretary of Time Inc., was elected to the Board of Directors.

In January 1978, Joan D. Manley, Group Vice President-Books; J. Richard Munro, Group Vice President-Video; and Michael D. Dingman, Chairman and President of Wheelabrator-Frye Inc., were also elected Directors of Time Inc.

Joe C. Denman Jr., Executive Vice President of Temple-Eastex Inc., was elected President and Chief Executive Officer of that company, succeeding Arthur Temple, who continues as Chairman.

Richard J. Durrell, Publisher of People magazine; John D. McSweeney, President of Time-Life Books Inc.; and P. Peter Sheppe, Assistant Secretary of Time Inc., were elected Vice Presidents of Time Inc.

Carolyn K. McCandless, Manager of Budgets and Financial Analysis, was named Assistant Secretary of Time Inc.

Henry A. Grunwald, Managing Editor of Time magazine since 1968, was named a Corporate Editor of Time Inc., joining Ralph Graves as a deputy to Editor-in-Chief Hedley Donovan. Ray Cave, an Assistant Managing Editor of Time, succeeded Grunwald as Managing Editor of Time.

A year ago, when Time Inc. topped the $1-billion-revenue level, we ended our 1976 report to shareholders with the observation that records exist to be broken. In 1977 Time Inc. eclipsed the sales and earnings records set in the prior year by substantial margins. We continue to feel confident that, with the help of the remarkable men and women introduced in this report, Time Inc. will prosper and grow further in the year ahead.


The Washington Star

rd Batters Northeast

75,000 WITHOUT POWER IN BOSTON

MOST SCHOOLS HERE ARE CLOSED

Time Inc. has agreed in principle to purchase its first daily newspaper, *The Washington Star,* for $20 million.

Andrew Heiskell

ANDREW HEISKELL
Chairman of the Board and Chief Executive Officer

James R. Shepley

JAMES R. SHEPLEY
President and Chief Operating Officer

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Time Inc.'s five magazines contributed substantially to the Company's profit growth in 1977 as both advertising and circulation revenues set new records.

MAGAZINE GROUP



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The executives pictured at left manage by far the largest magazine-publishing enterprise in the United States, indeed, in the world. By virtually any criterion of business size, Time Inc.'s magazine-publishing operations surpass those of any other company. Approximately 15 per cent of the aggregate advertising revenues of all general-circulation magazines are, according to Publishers Information Bureau figures, accounted for by Time Inc.'s five magazines.

TIME

For the eighth consecutive year, Time, The Weekly Newsmagazine, led all magazines in worldwide advertising revenues. In its 55th year of publication, Time's ad revenues reached a record $209 million, up 24 per cent from 1976. Time's demographic and geographic editions contributed importantly to this revenue growth, along with the full U.S. and International Editions. (Time's newest demographic edition, Time A+, will go to 600,000 subscribers with average household incomes of $54,000 or more.)

Time's circulation revenues, both domestic and foreign, also reached record levels in 1977. Even though the newsstand cover price of the magazine was increased to $1 in 1976 (and the one-year subscription rate to $26), domestic newsstand sales rose during 1977 compared with a year earlier. The magazine's advertising rate base throughout 1977 continued at 4.25 million copies.

Editorially, Time's greatly increased use of fast-closing color photography met with widespread approval, and the redesign and new layout gave the magazine a distinctively contemporary look.

Time is currently negotiating an arrangement whereby Time cover portraits of newsworthy Americans will henceforth become a permanent exhibit at the National Portrait Gallery of the Smithsonian Institution in Washington.

From left to right: Lawrence M. Crutcher, Corporate Circulation Director; James J. McCluskey, Director of Manufacturing and Distribution; Money Publisher John U. Crandell; Fortune Publisher Clifford J. Grum (seated); Sports Illustrated Publisher John A. Meyers; Kelso F. Sutton, Vice President–Magazines; Time Publisher Ralph P. Davidson (seated); People Publisher Richard J. Durrell; Subscription Services Director Ira R. Slagter; Robert P. Fisler, Circulation Promotion Director; Arthur W. Keylor, Group Vice President.

Ray Cave, Managing Editor of Time



FORTUNE

Time Inc.'s second-oldest publication also had record advertising and circulation revenues in 1977. A monthly ever since its launch in 1930, Fortune last year decided to increase its frequency to 26 issues per year. The first fortnightly issues were sent to subscribers in January 1978, at which time Fortune also increased its advertising rate base from 625,000 to 640,000.

The new version preserves the old Fortune tradition of in-depth, definitive reporting of business, but places added emphasis on fast-closing coverage of current business news. Each issue will include several short, late-closing articles on recent developments in the business world. The new format has been enthusiastically received by readers.

From a business standpoint, the increased frequency provides advertisers with greater flexibility and impact and the initial reaction to the new Fortune is highly favorable among advertisers too.

SPORTS ILLUSTRATED

1977 was a record revenue year for Sports Illustrated as well. Advertising revenues rose 21 per cent to $94.9 million, comfortably establishing Sports Illustrated as the fourth-largest magazine in the U.S. in terms of advertising revenues. SI's circulation revenues also hit a new high in 1977, 26 per cent above the previous year.

SI's flexible advertising editions, advertising inserts and a special issue, A Year in Sports, all helped push its advertising revenues to new highs. A pictorial review of the



Robert Lubar, Managing Editor of Fortune

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1976 sports year, the special issue grossed $1.8 million, while SI SELECT, a 700,000-subscriber advertising edition sent to the most affluent ZIP codes in the United States, grossed $4.5 million.

SI's record circulation revenues were achieved by raising both introductory and basic annual subscription prices. The basic SI subscription price was raised from $16 to $20, while the introductory rate was raised from an average 21¢ per issue to 39¢ in 1977.

Editorially, SI continued to offer its readers more color pages than any other weekly magazine. To enhance its distinctive reporting of the world of sport, SI's editors have scheduled even more color pages for 1978.

An ancillary but growing source of profits for SI is Sports Illustrated Enterprises, which markets games, posters and other sports-related items under the SI name. Enterprises' most recent venture is Sports Illustrated Court Clubs, a co-venture with a firm that builds racquetball facilities across the United States. SICC's royalties are expected to contribute to future SI profits as the popularity of this fast-growing sport continues to spread.



Roy A. Terrell Jr., Managing Editor of Sports Illustrated

MONEY

Money, our smallest magazine in terms of revenues, celebrated its fifth anniversary in 1977. Its advertising-page totals and revenues both set new records, with revenues climbing a respectable 35 per cent. In January 1978, Money raised its single-copy price from $1.25 to $1.50 and its base subscription price from $11.95 to $14.95. Despite these increases, Money was able to raise its advertising rate base from 650,000 to 700,000 in July 1977, and to 750,000 in January 1978.

In 1977, Money also, for the first time, began offering advertisers regional editions. Those available to date cover New York State, the Chicago metropolitan area and the State of California.

In line with its editorial policy of providing helpful information on all the ways of making and spending money efficiently, Money published two major series in 1977: one on popular careers, "The Professionals," and one on "How to be your own Security Analyst."

PEOPLE

Our newest magazine, People, continued its truly remarkable growth. During 1977, People increased its circulation, raised its cover price and upped both its advertising pages and revenues impressively.

Launched just four years ago, with an advertising rate base of one million copies, People's rate base has since been increased to 1.8 million in January 1977, two million in July and 2.2 million as of January 1978. The magazine's cover price was raised from 50¢ to 60¢ last April.

People's advertising revenues also rose dramatically last year. On an advertising-page increase of 41 per cent, to 2,710 pages, advertising revenues rose 82 per cent, to $41.2 million according to PIB figures. People has now moved to

Richard B. Stolley, Managing Editor of People



sixth place among all general-circulation magazines in advertising pages and to third place in revenue from copies sold at food store checkout counters across the country.

People's success has attracted imitations, but we believe it to be well-established in the forefront of the new personality journalism.

OTHER DIVISIONAL PUBLISHING OPERATIONS

Although each Time Inc. magazine has its own editorial and publishing staff—and a healthy degree of competition exists among the magazines—a number of publishing functions are most efficiently performed on a group basis. The principal divisions that operate on such a basis in the Magazine Group are Corporate Circulation, the Subscription Service Center, Corporate Manufacturing and Distribution and Editorial Services.

The Corporate Circulation Division markets all of Time Inc.'s magazines to the reading public. Last

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year the public paid more than ever before for Time Inc. magazines, and the Circulation Division, with a marketing staff of 225, was largely responsible for that achievement.

To achieve its purposes the Circulation Division utilizes an in-house "ad agency" of 14 people, which last year prepared 1,350 promotions and also directed the work of three outside advertising agencies in the U.S. and three more abroad. Many of the circulation promotions, such as direct mail, renewal letters, and direct-response television commercials, solicit subscriptions (still Time Inc.'s principal source of circulation revenue). Others, using radio, television and the print media, back our growing newsstand sales effort and also support our direct-mail selling.

A newsstand staff of 125 people, worldwide, works at constantly improving and increasing the number of retail sales displays for People, Time and our other publications. New retail outlets were opened during 1977, for example, in such diverse places as gas stations in Manila (for Time), major convenience-store chains in the U.S. (for Sports Illustrated) and selected retail outlets (for Money and Fortune). Our leading single-copy magazine, People, gained 18 per cent in unit sales, at least in part as a result of upgrading its displays in supermarkets and more effective media promotion.

Each magazine's Circulation Director directs his own marketing activities, but all efforts are closely coordinated and certain marketing activities provide cross-benefits for the other magazines; e.g., the current "Read Time Inc." poster campaign.



William S. Rukeyser, Managing Editor of Money

The Subscription Service Center is charged with the subscription fulfillment of all Time Inc.'s magazines. It also handles fulfillment for Time-Life Books, and produces and distributes the voluminous reports for Time Inc.'s food-sales data-marketing subsidiary, SAMI. Last year, the division handled 30 million pieces of mail. Its Magazine Telephone Response Center handled 1.5 million calls, almost triple the previous year's volume. The Center also shipped a record 17.7 million books and record albums in 1977, and a prodigious 39 million pages of client reports for SAMI.

Corporate Manufacturing and Distribution is headquartered in New York and maintains offices in nine other cities around the world. The division is responsible for the purchase and quality control of all the paper and printing used by Time Inc.'s magazines as well as for expediting the transportation and delivery of the magazines via postal services and other means. From the time editorial copy and advertising pages are released until the magazines reach their final destination, they are in the hands of Manufacturing and Distribution. Last year the division supervised the distribution of more than 640 million copies of Time Inc. magazines around the world.

Philip B. Kunhardt Jr., Editor, Magazine Development



Editorial Services consists of four departments that provide essential services not only for our magazines but for other Time Inc. groups as well. *The Library,* located in the Time-Life Building in New York, contains over 85,000 books and half a million constantly-updated information folders. Using a file of more than 3 million cross-indexed cards, the Library answered 123,000 queries last year. *The Picture Collection,* which includes the voluminous Life photo archives, is unmatched in size and quality. Containing over 18 million photographs and pictures, it is the largest fully catalogued picture library in the world. *The Photo Lab* processes both black-and-white and color film for Time Inc.'s publications on an around-the-clock schedule. In 1977, it processed 206,000 black-and-white pictures and 65,000 rolls of color. *Copy Processing* provides a computerized, electronic, photo-composition and photo-typesetting service for all of the Company's magazines, and last year it "composed" approximately 20,000 magazine pages.

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Already one of the most successful book-publishing companies in the world, the Time Inc. Books Group acquired a prestigious new subsidiary in 1977.

BOOKS GROUP



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The Books Group also had record sales and earnings in 1977. Revenues of the group (consisting, for most of 1977, of Time-Life Books, Little, Brown and Company, New York Graphic Society and Books and Arts Associates) totaled $258 million as compared with $228 million in 1976. Time-Life Books Inc., the largest entity in the Books Group, had revenues of $215 million, of which $95 million, or 44 per cent, was accounted for by international operations, another high.

The most important new development for the Books Group in 1977 was Time Inc.'s acquisition of the Book-of-the-Month Club in a transaction valued at $64 million in cash and a tax-free exchange of stock. The BOMC, which has over one million members in its principal club and some 350,000 in six subsidiary book clubs, is the oldest and best known of all U.S. book clubs. It posted sales of $64.6 million in the fiscal year ending June 1977, and net earnings of $4.9 million. BOMC will continue to operate as a separate subsidiary under its present management.

TIME-LIFE BOOKS INC.

In October, Time-Life Books celebrated the first anniversary of its move to Alexandria, Virginia. As hoped, economies in rental costs and taxes more than covered the one-time cost of the move. During 1977 Time-Life Books sold 16.7 million books and record albums domestically and 8 million in foreign markets, both new highs.

U.S. mail-order sales continued to be dominant, although telephone sales accounted for 790,000 new subscribers in 1977. Such series as Home Repair and Improvement, American Wilderness and World War II all exceeded their expected sales levels. The popular 12-volume Time-Life Encyclopedia of Gardening was extended in 1977, and six additional volumes have already been published. Two new series, The Encyclopedia of Collectibles and The Seafarers, were developed during the year and introduced early in 1978.

In related activities, a new Time-Life Records series, Arthur Fiedler's Favorites, was launched in October 1977 and a new Photo Arts business got off to a very encouraging start. A 2,500-copy Photo Arts limited edition portfolio of Mathew Brady's photographs, Great Americans, for example, sold out at $150 per copy; a second portfolio, P.T. Barnum's World, is now being marketed at $250 per copy. A 1,000-copy, deluxe edition of The World of Mathew Brady also sold out in 1977 at $125 per copy.

Most Time-Life Books' series are translated into foreign languages for sales around the world. The gardening series, for instance, has been successfully launched in four languages in the European market, in Japanese, and in Portuguese for Brazil. Other series were published in Korean and Indonesian for the first time in 1977. Foreign sales (excluding Canada) accounted for $95 million of TLB revenues.

Since its inception in 1961, Time-Life Books has published a total of 563 book titles and issued 93 record albums.

Left to right: Herbert D. Schutz, President, New York Graphic Society; John D. McSweeney, President, Time-Life Books; Edward E. Fitzgerald, President, Book-of-the-Month Club; Arthur H. Thornhill Jr., Chairman and President, Little, Brown; Zachary P. Morfogen, Managing Director, Books & Arts Associates; Joan D. Manley, Group Vice President.

SUBSIDIARIES AND ASSOCIATES

The Book-of-the-Month Club is joining a varied and distinguished group of subsidiaries and associates of the Books Group.

In 1966, Time Inc. acquired its first Books & Arts associate, the 52-year-old New York Graphic Society Ltd., which is the leading publisher of fine art prints in the U.S. While relatively small in terms of revenues, New York Graphic operates profitably and each year secures reproduction rights to additional art works from leading museums. Its subsidiary, Alva Museum Replicas, Inc., obtains comparable reproduction rights to three-dimensional sculpture, jewelry and other museum artifacts. Last year, New York Graphic and Alva, as did so many other Time Inc. divisions, had their best revenue and profit years.

Time-Life Books Managing Editor, Jerry Korn



Little, Brown and Company (Inc.), a much larger Books associate, was acquired in 1968. Little, Brown is a leading publisher of fiction and nonfiction books sold through bookstores; among its best-selling titles last year were John Fowles' *Daniel Martin,* Robin Cook's *Coma* and James U. Crockett's *Crockett's Victory Garden*. Besides its trade-book activities, Little, Brown is also a successful publisher of legal, medical and college books, activities that helped raise its revenues to a record high in 1977.

The Books Group also has minority investments in a number of leading publishing firms in Europe, Latin America and Japan.

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Time Inc.'s Video Group broke into the black in 1977 as the HBO pay-television network continued its rapid growth.

VIDEO GROUP



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For the Video Group, 1977 was a major breakthrough year. With Home Box Office showing an operating profit for the first time, the Video Group as a whole reported pretax earnings of $6.1 million last year—an $8-million turnaround from the loss of $1.9 million sustained the preceding year. Going into 1978, the profit trend was sharply upward.

TIME-LIFE FILMS

Time-Life Films had another growth year in 1977, increasing its operating profit substantially over 1976. During the year, it acquired Talent Associates, a well-established television production company that will provide it with an ongoing source of network and syndicated program material, such as the high-rated weekly comedy show, "On Our Own," now playing on CBS. Talent Associates' president, David Susskind, has become Senior Executive Producer for Time-Life Films.

Earlier in the year, Time-Life Films formed a film-acquisition unit to purchase distribution rights to both feature films and made-for-television movies. The group's first major acquisition was a 41-film package, including such classics as "Love Among the Ruins," with Katherine Hepburn and Sir Laurence Olivier and "The Night Stalker," with Darren McGavin. The film package has been sold to the ABC-owned stations, among others.

Time-Life Films now has three operating departments: **Time-Life Television,** which produces and distributes programs to the commercial and public television markets; **Time-Life Multimedia,** which supplies 16mm films, video cassettes and filmstrips to schools, libraries, colleges and government agencies; and **Time-Life Video,** which sells prerecorded video cassettes to the home market. A fourth activity, arranging publication of books based on the division's television programs, is handled by the division's business office.

The mainstay of Time-Life Films' business continues to be the co-production and distribution of British Broadcasting Corporation programs in the U.S. and Latin America. Notable series released in 1977 include The Pallisers and Anna Karenina. In 1977, Time-Life Films agreed with the BBC to co-produce the complete works of William Shakespeare. The Television group also originates an increasing amount of programing, both for the three commercial networks and for syndication to individual stations.

Left to right: Gerald M. Levin, Chairman of the Board, HBO (seated); N. J. Nicholas Jr., President, HBO; E. Thayer Bigelow, President, Manhattan Cable Television; Bruce L. Paisner, President, Time-Life Films (seated); Thomas M. Girocco, Vice President and General Manager, WOTV; J. Richard Munro, Group Vice President.

HOME BOX OFFICE

The big event of 1977 for the Video Group was the dramatic improvement at HBO. In 1977, this subsidiary, which is the nation's largest supplier of pay-TV programing, celebrated its first year of profitable operation.

A number of factors contributed to HBO's 1977 achievement including, notably, a sharp increase in the number of subscribers served. During the year, 170 new CATV systems were added to the HBO network, and there was increased acceptance of the premium service in CATV systems already being served. All told, subscribers increased more than 80 per cent in 1977, to exceed one million viewer homes at year-end, in 430 affiliated cable television systems in 45 states.

Improvement in the quality, variety and scheduling of programs contributed to HBO's subscriber growth, as did expanded and more effective marketing efforts by affiliates.

Over half of HBO's subscribers now receive their programing via domestic communications satellite, a transmission mode that has vastly expanded HBO's horizons in that it enables HBO to reach the entire United States. Further expanding HBO's subscriber universe was the FCC's approval last year of smaller, and consequently less expensive, earth receiving stations. Early in 1978, HBO negotiated a 10-year transmission contract with its satellite carrier, RCA American Communications, that will expand by 50 per cent the transmission capacity available to HBO and will further stimulate the growth of a nationwide network for HBO and other new cable services.

MANHATTAN CABLE TELEVISION

This wholly owned Time Inc. subsidiary operates the second-largest cable television system in the United States. It now serves 94,000 subscribers in the lower half of Manhattan, 40,000 of whom also subscribe to HBO's pay-TV channel. In addition to offering distortion-free television transmission, HBO's pay-TV channel and extra free channels, Manhattan Cable is continuing to explore the possibility of offering additional ancillary services in 1978. Data transmission and security systems for apartment houses, for example, are two of the more promising new service areas. Six major New York banks have leased MCTV cable space for high-speed interoffice data transmission, and a cable-connected fire- and burglar-alarm system has been installed in one apartment complex on an experimental basis.

WOTV

1977 was WOTV's most successful year to date. Time Inc.'s NBC-affiliated VHF television station in Grand Rapids, Michigan, is the Video Group's oldest and most profitable operation. Last year it topped its record 1976 profit.

WOTV was again the leading station in its market in ratings, and in the second year of its conversion to electronic (as opposed to filmed) news-gathering, the station won a United Press International award for the best news program in the state.

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Among Time Inc.'s "other" activities are Company administration and such acronymic operations as SAMI, SIFT, and SOLO—as well as PDI and a thriving group of weekly newspapers.

OTHER ACTIVITIES GROUP



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During 1977, this group's three operating subsidiaries—Selling Areas-Marketing, Inc. (SAMI), Pioneer Press Inc. and Printing Developments, Inc. (PDI)—contributed more to Time Inc.'s revenues and pretax profits than ever before.

In addition to supervising these operations, the Other Activities Group is also responsible for real estate operations and corporate administration and personnel matters; a few words about the latter may be in order. Equality of opportunity in hiring and promotion has been a Time Inc. policy of long standing. Over the past five years, the total representation of minorities on the Time Inc. staff has increased appreciably. The Company is determined to continue that trend, with special focus on qualified candidates for higher-level jobs; also, since 1972, women have made significant gains in the sales areas of our Company, as well as in writing and managerial positions.

Our Affirmative Action Programs were strengthened during the year. The main concentration has been on the entry of minorities and women into professional and managerial jobs, or training for those jobs. Over 300 women participated in Career Development Workshops during the year.

While Time Inc. is proud of the progress to date, it recognizes that further progress is to be made and will continue to pursue equal-opportunity goals in the years ahead.



Left to right: John A. Watters, President, SAMI; Peter S. Hopkins, Vice President–Real Estate; Robert J. Edmondson, President, PDI; George W. Hoyt, President, Pioneer Press.

SAMI

Selling Areas-Marketing, Inc., which reports on the movement of grocery products from warehouses to food stores, is the largest of Time Inc.'s Other Activities. SAMI's basic service now covers markets that account for nearly 77 per cent of all U.S. food-store sales. In 1977, SAMI's revenues rose 20 per cent and profits reached another record high.

During 1977, SAMI introduced two new services. The first of these is SAMI Institutional Foodservice Trends (SIFT), an information-tracking system that monitors the movement of food and related products from warehouses to restaurants, hospitals, schools and other elements of the institutional market. SIFT reports are now being supplied for the first SIFT market-area, Chicago.

The second new service, SAMI On-Line Operations (SOLO), is intended to give SAMI's manufacturer clients greater ease of access to the massive SAMI data base. Using a typewriter connected to a distant computer, SAMI clients can obtain electronically the pertinent information needed to answer highly specific marketing questions.

Left to right: Charles B. Bear, Group Vice President; Charles L. Gleason Jr., Vice President; P. Peter Sheppe, Vice President; Robert M. Steed, Personnel Director; Lucy Werner, Associate Personnel Director; E. Gabriel Perle, Vice President–Law.

PIONEER PRESS

Time Inc.'s group of 17 weekly newspapers in the Chicago suburban area had another record year. Profits, although modest by comparison with those of Time Inc.'s magazine and book operations, rose almost 50 per cent last year, on a revenue increase of only 13 per cent.

Much of this improvement can be attributed to Pioneer's recently completed $1.6-million prepress system, which links its seven local offices with a central computer that stores both news and advertising copy for all of the publications. By having access to this central facility on any of 67 computer terminals, all of the local, tabloid-size newspapers can be electronically styled and edited quickly, efficiently and economically. The two-way transmission network is the first of its kind in this country.

PDI

Printing Developments, Inc., Time Inc.'s printing-equipment subsidiary, had another profitable year selling and leasing color scanners, phototypesetting equipment and related hardware. The main market for PDI's printing equipment is Japan, but orders also were received in the United States and European markets. During 1977, PDI continued an active development program at its research facility in Norwalk, Connecticut.

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Paperboard and building materials are the principal products of Time Inc.'s largest subsidiary, Temple-Eastex Inc., whose management was restructured in 1977 to reflect growing diversification.

FOREST PRODUCTS GROUP



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Profits of the Forest Products Group were up moderately last year compared with 1976. The Temple Building Materials Division and related activities benefited from the upsurge in home building and construction generally. Earnings of the Eastex Pulp and Paperboard Division, however, were adversely affected by major cost increases and the sluggish demand for the bleached paperboard products this division manufactures, and especially for market pulp.

1977 was a year of major organizational change for the Forest Products Group. Joe C. Denman Jr., President of the Temple Division, was elected President and Chief Executive Officer of Temple-Eastex Inc., while Arthur Temple continues as Chairman of that company as well as Group Vice President of the parent, Time Inc. In addition, to accommodate the growing diversification of our forest-products operations, six Group Vice Presidents of Temple-Eastex Inc. were elected.

A new Temple-Eastex corporate headquarters is being constructed in Diboll, Texas to house the group's corporate personnel, the Forest Management Division and most of the staff of the Temple Building Materials Division.

EASTEX DIVISION—PULP, PAPERBOARD AND PACKAGING

1977 was not a strong year for the bleached paperboard segment of the paper industry. World demand for pulp also remained extremely weak and prices continued to decline from the previous year's levels. As a result of Eastex' recent capital-improvement program, production increased over the prior year, but the division's profits were down from 1976.

Left to right: Joe C. Denman Jr., President, Temple-Eastex; David H. Dolben, V.P.–Finance; Kenneth Nelson, President, Forests Division; Ward R. Burke, General Counsel; Gex P. Condit, President, Eastex Division (front); Henry H. Holubec Jr., President, Temple Division; Arthur Temple, Group Vice President and Chairman of the Board, Temple-Eastex.

Don V. Hackney, President of Temple Associates



A new program of improvements and modernization has been started at the mill. The first phase, which will cost about $43 million, is slated for completion in late 1979. It is aimed at increasing the mill's capacity to produce higher-quality, lighter-weight grades of paperboard. This program also includes projects to enable the mill to further conserve energy by burning additional wood wastes and by installing devices to increase the efficiency of the mill's chemical recovery system.

A gratifying by-product of the capital-improvement program was Eastex' winning an American Paper Institute/National Forest Products Association Environment Improvement Award for the installation of the first industrial-scale dynamic bleaching system at the division's Evadale, Texas, paper mill. The technically innovative system reduces by 80 per cent the water discharge of the bleaching operation and by 65 per cent the consumption of energy, as compared with conventional bleaching methods.

Eastex Packaging Inc. had another good year in 1977. Its extensive creative design capabilities enabled it to provide effective service to the growing specialty-packaging market.

TEMPLE DIVISION—BUILDING MATERIALS

The Building Materials Division set new records in revenues and earnings in 1977. The recovery in home building and construction created strong demand for Temple's plywood, particleboard, lumber, gypsum wallboard and fiberboard products.

During 1977, Temple Division retail sales were increased by the addition of a fifth Big Tin Barn in Harlingen, Texas. The facility, which offers a full line of building materials and ranch supplies, helped push retail sales above $31 million in 1977.

The Temple Division also launched a $25-million expansion program last year. The largest share, $21 million, will be used to increase by 65 per cent the exterior-siding production capacity of the Diboll fiberboard plant. Also included in this program is the installation of a wood-fired boiler system, which will enable the Diboll complex to generate 100 per cent of its steam-power requirements by burning its own wood-waste plus that purchased from local logging and manufacturing operations. The balance of the capital funds is being used to expand capacity at the plywood mill in Diboll, Texas.

TEMPLE-EASTEX FORESTS—TIMBERLAND

This division manages the Company's more than one million acres of timberland in East Texas, including 1,400 miles of road used for logging and for fire control.

The Forests Division also conducts a tree-improvement program intended to provide genetically

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Wayne McDonald, President of Lumbermen's Investment Corp.



superior seedlings. In 1977 the first crop of these seedlings was moved from our nursery to our forests.

Last year Temple-Eastex donated 2,138 acres of ecologically important arid sandyland in the Big Thicket area of East Texas to The Nature Conservancy, a national conservation group. The tract, which will be maintained as a nature sanctuary, is a unique combination of swamp, desert land and open-floor forest, replete with unusual flora and fauna. It has been named the Roy E. Larsen Sandyland Sanctuary in honor of Time Inc.'s Vice Chairman, a lifelong conservationist.

AFCO AND WOODWARD

AFCO Industries, Inc., and Woodward, Inc., the company's decorative wall products and furniture-manufacturing subsidiaries respectively, are contributing to the Forest Products Group's increasing diversification and involvement in the fabrication of basic materials into finished consumer products.

With four manufacturing plants, AFCO markets a broad line of interior wall products nationwide, primarily to the "do-it-yourself" home-improvement market. In addition, it manufactures an extensive line of extruded aluminum and vinyl products that are rack-merchandised for the homeowner and custom extruded for a wide variety of consumer and industrial applications. AFCO had another record-breaking year in 1977, in both sales and profits, with sales topping $20 million.

Woodward, which is located in Austin, Texas, is the largest producer of bedroom furniture in the state. Woodward's revenues exceeded $15 million in 1977, up slightly from the previous year.

TEMPLE ASSOCIATES

Temple Associates, Inc., engages in general contracting, engineering and metal fabrication and the construction of power transmission lines. To complement its engineering division, Temple Associates recruited a staff of professional architects last year. The division's revenues exceeded $17 million in 1977 and the current order backlog points to an even better year ahead.



W. Ray Frye, Chairman of the Board of AFCO Industries

MORTGAGE BANKING AND REAL ESTATE

This group includes Lumbermen's Investment Corporation, of Austin, one of the largest mortgage-banking firms in the Southwest, and Sabine Investment Company of Texas, Inc., the company's Diboll-based real-estate-development subsidiary.

LIC's mortgage-service portfolio nearly doubled in 1977 when it acquired the mortgage-banking business of Schumacher Mortgage Company of Memphis, Tennessee. Acquisition of the $400-million portfolio from Crocker National Corporation of San Francisco raised LIC's total mortgage portfolio to nearly $1 billion, and expanded its network of real estate offices to Memphis, Knoxville, Nashville, Chattanooga, and Kingsport, Tennessee, as well as Minneapolis.

The Mortgage Banking and Real Estate Group also carries on an extensive property and casualty insurance business and is capable of handling virtually all the financial, planning and supervisory aspects of major real estate developments. It has an excellent record in developing both residential and commercial real estate projects.

• • •

Employee Development: Temple-Eastex has a long history of participation in Affirmative Action and employee-development programs.

In 1961, for example, it began stationing recruiting teams in southern Texas. With the professional assistance of Manpower Education and Training, Inc., the teams recruit Mexican-American workers, and the company offers them Spanish/English language courses and seminars on such subjects as household budgeting, in addition to on-the-job training.

Temple-Eastex women employees at all levels are also actively encouraged to broaden their skills and to seek promotion to supervisory and administrative positions. Women are also being recruited as trainees for the Temple-Eastex sales staffs.

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A GALLERY OF TIME INCERS

Director of Contracts Carmen Pugliese of Time-Life Films worked as a registered nurse after graduating from Mount Mercy College in 1967. Then, after a study year in Europe, she decided to shift to the business end of show business. In 1973, she joined Time Inc. as a contract coordinator, and now monitors all agreements with writers, actors, producers, unions, networks, etc. Promoted to her present job last year, Pugliese still finds time for piano playing and the theatre, volunteer political work and piloting an airplane.



Salesperson Edith Holliday joined the Sports Illustrated sales staff in June 1976. A graduate of Vanderbilt University, she worked in advertising, broadcast production and public relations before coming to Time Inc. With sports interests ranging from sailing and skiing to tennis and scuba diving, her service on the President's Council on Physical Fitness and Sports seems appropriate. At SI, Holliday's accounts include insurance companies, travel firms, Save the Children Federation, Coca Cola—and the Army ROTC.



Correspondent Neil MacNeil of Time's Washington News Bureau is a familiar figure to anyone who has watched public television much. A long-time panelist on PBS's Washington Week in Review, MacNeil is a Senior Correspondent for Time magazine who specializes in Congressional coverage and national political conventions. Educated at Exeter and Harvard, he joined Time Inc. in 1958 after stints at *The New York Times* and United Press International. He is the author of three books—all on politics.



Assistant Business Manager Takashi Ohki of Time-Life Books, Japan, is a graduate of Tokyo's Chuo University. He joined Time Inc. in 1970 as an accounting clerk and was named Assistant Business Manager last year. An avid mountaineer, Ohki spent two years climbing in Asia, Europe and Central America and chronicled his adventures in Japan's *Playboy* magazine before joining Time Inc. Active in local politics and environmental programs, Ohki is also a ranking player of *Shogi* (Japanese chess).



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Foreman Bobby E. Breithaupt has worked for Time Inc.'s Eastex pulp and paperboard mill in Evadale, Texas, ever since that facility began operations in 1954. He began as a Second Helper in the Chemical Recovery Department three years after graduating from high school in Louisiana, and over the years he has worked up to his present job of Tour Foreman. The father of two, Breithaupt is active as an umpire in the local baseball Little League. He also collects antique fiddles as a hobby.



Assistant Publisher Charlotte Schiff Jones of People magazine is an Emmy-award-winning television producer, who joined Time Inc.'s Manhattan Cable Television in 1974. She was elected Executive Vice President of Manhattan Cable in 1976 and appointed assistant Publisher of People in 1977. A graduate of Brooklyn College and Columbia University, Jones was named one of the "Top 100 Corporate Women" in 1976 by *Business Week*. She presently enjoys serving on the Manpower Services Council of the State of New York—but says she will enjoy it more when she gets the Council to change its name.



Writer Sue Seixas of Money magazine is a 1949 graduate of Smith College. Seixas joined Time Inc. in 1951 as a copyreader at Life. In 1961, she shifted to the Books' copyroom and then advanced successively to researcher, writer-trainee and, in 1969, to writer. When Books moved to Virginia, Seixas, a confirmed New Yorker, switched to Money magazine. Says she, "It's the variety of jobs I've had that has made my years here interesting—that's what I've liked most about Time Inc."

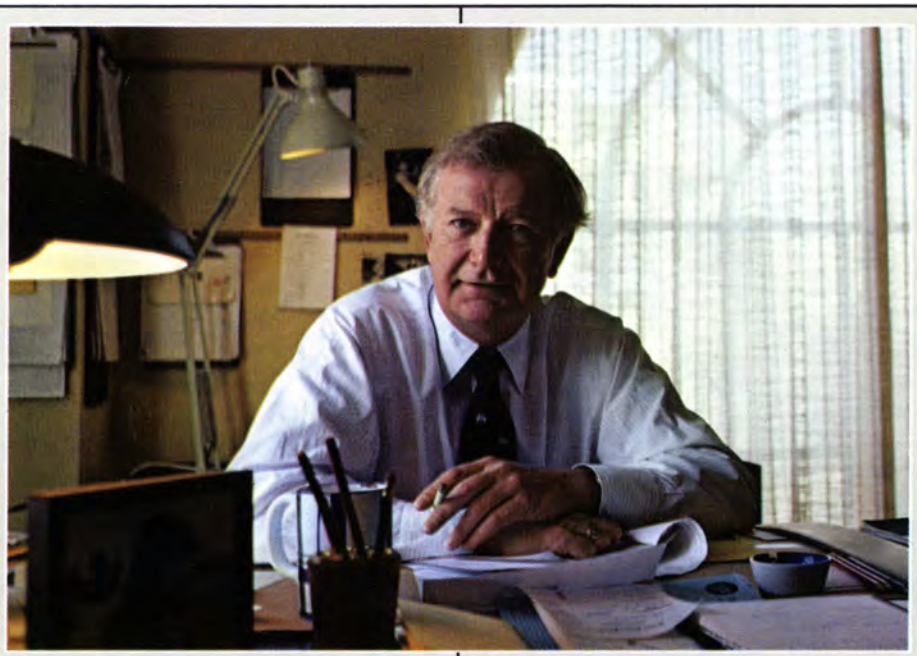


Television Announcer Eddie Chase of Time Inc.'s television station WOTV in Grand Rapids, Michigan, started as the sheet-music folder for the studio orchestra 40 years ago. Since then Chase has worked as a newsman, disc jockey, show host, sports announcer and commercial announcer at the station. He served in the Army in World War II, was wounded and hospitalized for 18 months. He now announces WOTV's Buck Mathews' variety show and has one of the most widely recognized voices in the area.



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Editor Tom Flaherty started his Time Inc. career as a sports reporter for Life magazine in 1957. He was a senior editor when Life suspended publication in 1972, and he then spent three years as press secretary to Senator Charles Percy of Illinois. Rejoining Time Inc. in 1976 as a Series Editor for Time-Life Books in Alexandria, Virginia, Flaherty now edits the extremely successful Time-Life Books' Old West series. A golfer and tennis player, Flaherty was a member of the 1977 Walker Cup Committee.





Assistant Business Manager Barbara Bell is a cum laude graduate of Bucknell University who came to Time Inc. as a secretary in 1963. Starting in Time-Life Broadcast (since dissolved) she switched to SAMI (page 15) when that subsidiary was formed and rose from secretary to assistant to the General Manager and then to her present position. Bell prices all SAMI sales agreements, places all production orders for SAMI's voluminous reports and works on the preparation of sales statistics. She is now buying her first home.

Salesman Rob Mountain of Time Magazine is one of the 211 men and women who together sold over $274 million of advertising space in Time Inc.'s five magazines last year. A native New Yorker and 1967 graduate of Parsons College, he handles package goods and travel accounts for Time. He is married to a Citibank trust officer, and he and his wife are expecting their first child next month. A sports buff (hiking, jogging tennis, karate, paddle tennis), Mountain is also a philatelist, specializing in U.S. plate blocks.



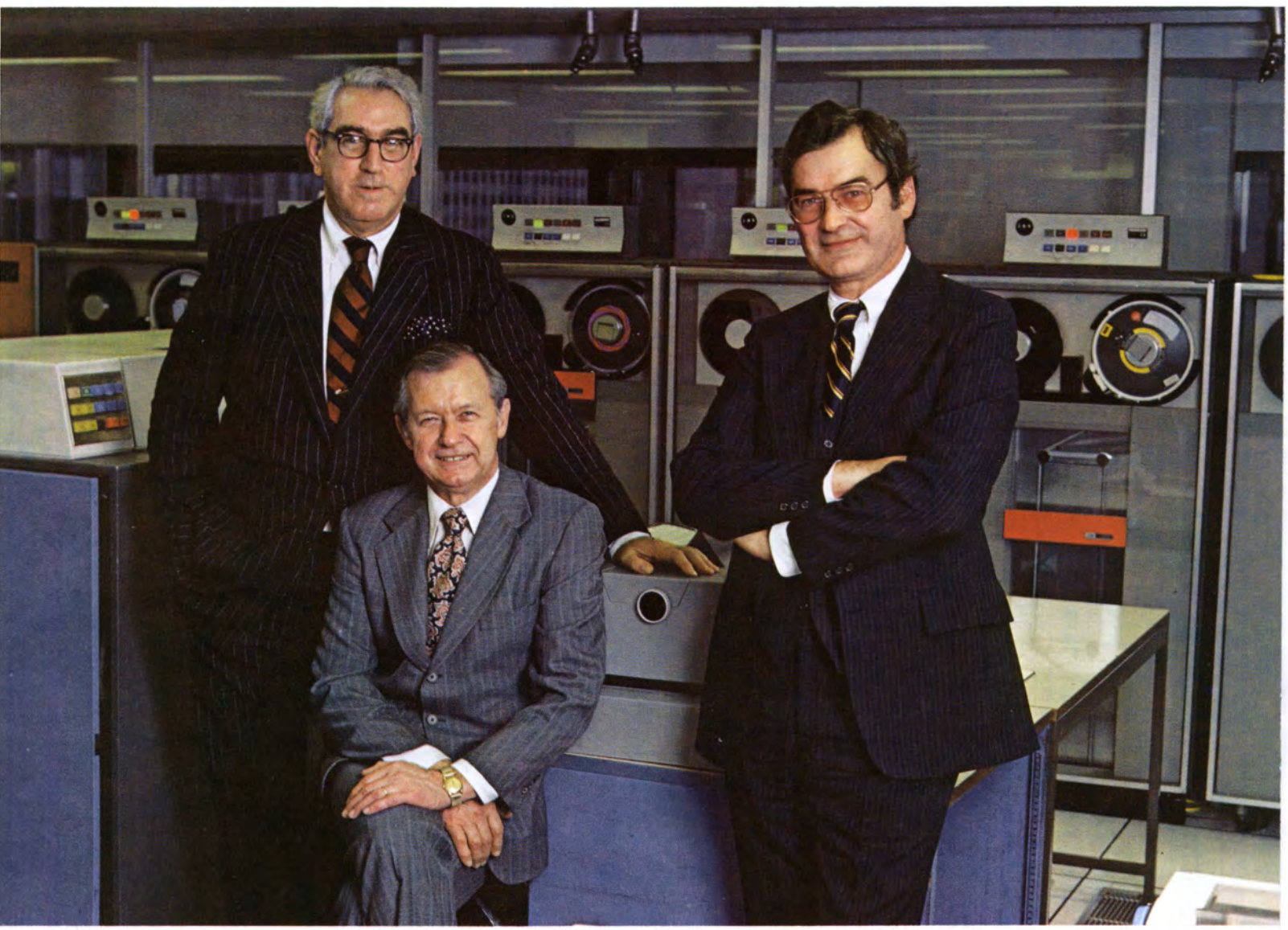
Saw-filer Sam Coleman went to work in the Shipping Department of the Fiberboard Division of Temple Industries in Diboll, Texas in 1966. He has risen to saw-filer, a very specialized job, in that division of Time Inc.'s forest products subsidiary. The father of seven, Coleman is a Sunday School teacher, church deacon and member of the East Texas Area Council of the Boy Scouts of America. He is also a Heart Fund and Red Cross volunteer — and the first black ever elected to the Diboll City Council.



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With assets topping $1 billion for the first time in 1977 and a current ratio of 2.7 to 1, Time Inc.'s financial position continues to be exceptionally strong.

FINANCIAL REVIEW



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Left to right: Kevin Dolan, Assistant Comptroller; J. Winston Fowlkes, Assistant Treasurer; Olga Curcio, Assistant Treasurer; Eugene F. Farro, Director of Taxes.

The Company's net income in 1977 was a record $90.5 million, up 35 per cent from 1976. The leading contributor to the improvement was the publishing group. Magazine income was up, due to greatly increased advertising and circulation revenues. Book publishing had a record year as well, due to a strong mail-order year in the United States and excellent foreign operations.

In addition, the Company's building-materials operations showed strong improvement, benefiting from the increased volume of construction and higher prices. Pulp and paperboard operations, however, showed decreased profits, primarily due to a world surplus of market pulp and to general domestic market conditions for bleached paperboard, which restricted our ability to raise prices enough to offset cost increases. Home Box Office, our pay-cable television network, moved into the black in 1977, enabling the Video Group to achieve profitability.

Net income for the preceding year, 1976, was $67.1 million, up 49 per cent from 1975. This improvement was mainly attributable to the Company's two major Lines of Business, publishing and forest products. Higher advertising revenues plus higher circulation volume and prices increased magazine-publishing profits. Building materials made substantial gains because of the rebound in housing starts. These gains more than offset the decline in pulp and paperboard profits. This decline resulted, in large part, from production disruptions that were associated with the pulp and paperboard mill expansion program.

The Company's effective tax rate was 44.1 per cent for the year 1977, compared to 38.7 per cent for the year 1976 and 40.7 per cent in 1975. The lower tax rate in 1976 was due primarily to investment tax credits resulting from the $64-million expansion program at the Company's paper mill in Evadale, Texas.

Left to right: Edward Patrick Lenahan, Treasurer; William E. Bishop, Comptroller; Richard B. McKeough, Vice President–Finance.

The quarterly dividend rate was increased by 15 per cent in September 1976, from 25¢ to 28¾¢ per share and by 13 per cent in June 1977, from 28¾¢ to 32½¢ per share. In 1976 the dividend paid was $1.075 per share compared to $1.26¼ in 1977. The current annual rate is $1.30, based on the June 1977 increase.

At a special meeting on November 30, 1977, stockholders approved the merger of Book-of-the-Month Club, Inc. into a wholly owned subsidiary of the Company. The transaction qualified as tax-free and involved a cash payment of $31 million and the issuance of 1.1 million shares of newly created $1.575 Cumulative Convertible Preferred Stock, redeemable at $30 per share. The excess of purchase price over the net tangible assets acquired in this transaction totaled $26 million and is being amortized over a 40-year period.

During the fourth quarter of 1977, the Company also reached an agreement in principle to acquire American Television and Communications Corp (ATC), the second-largest cable-system operator in the country, serving more than 675,000 subscribers in 31 states. the Company presently owns about one million shares of ATC common stock, or 26 percent of the almost four million shares outstanding. If the transaction is approved, each of the remaining three million shares would be exchanged for 1.55 shares of Time Incorporated $1.575 Convertible Preferred Stock or the cash equivalent for a portion of the ATC shares. The transaction is valued at about $145 million.

Capital expenditures for property and equipment totaled $49.5 million in 1977 and $46.5 million in 1976. Included in the expenditures were purchases of 17,400 acres of timberland in 1977 and 10,300 acres in 1976, all as part of the Company's program to replace the 27,000 acres that have been designated for inclusion in the Big Thicket National Preserve. In 1977 the federal government compensated the Company for 3,700 of the designated 27,000 acres at fair market value.

Depreciation, amortization and depletion totaled $33.7 million in 1977 and $29.8 million in 1976.

Interest expense was $10.4 million in 1977, $10.8 million in

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1976 and $10.3 million in 1975. The balance sheet continues to reflect the Company's financial strength. The ratio of current assets to current liabilities as of December 31, 1977, was 2.7 to 1. Included in current assets are cash and short-term marketable securities of $163.8 million. Long-term debt was 18.8 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, Fortune, Sports Illustrated, People and Money, together with book publishing, whose major components are Time-Life Books Inc., Little, Brown and Company (Inc.) and Book-of-the-Month Club, Inc.

Income before taxes from publishing activities was $99.6 million in 1977, $59.9 million in 1976 and $42.8 million in 1975.

Five-Year Financial Summary

Time Incorporated and Subsidiaries
(in millions except for per share amounts)

	1977	1976	1975	1974	1973
Income and Dividends					
Revenues	$ 1,249.8	$ 1,038.2	$ 910.7	$ 825.6	$ 728.3
Editorial, production, manufacturing and distribution costs	775.8	649.9	575.0	511.0	428.4
Interest expense	10.4	10.8	10.3	10.7	7.7
Taxes on income	71.4	42.3	30.9	39.3	41.4
Income before extraordinary items	90.5	67.1	45.1	50.2	49.9
Extraordinary items, net of taxes	—	—	—	—	(2.4)
Net income	90.5	67.1	45.1	50.2	47.5
Dividends paid	25.7	21.7	20.0	20.0	16.8
Per Share					
Income before extraordinary items	$ 4.44	$ 3.32	$ 2.26	$ 2.50	$ 2.41
Extraordinary items, net of taxes	—	—	—	—	(.12)
Net income	4.44	3.32	2.26	2.50	2.29
Dividends paid	1.2625	1.075	1.00	1.00	.95
Average shares outstanding (000)	20,371	20,192	19,949	20,062	20,760

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Both magazine publishing and book publishing showed substantial gains in 1977. The largest increases were in magazine advertising revenues, reflecting higher prices and additional pages, and in circulation revenues. The Company's book-publishing operations had a record year, attributable to strong mail order in the U.S., excellent foreign operations and savings associated with Time-Life Books' move to Virginia. The publishing group, mainly Books, also benefitted from net foreign exchange translation gains of $2.1 million as compared to losses of $2.8 million in the prior year.

In 1976, the largest gains over 1975 were in magazine circulation revenues, due to higher copy prices and the substantial growth in newsstand sales for People. The improvement in book publishing was led by the U.S. operations, where higher shipments, sales of higher-priced book series and low-

Lines of Business[1]

Time Incorporated and Subsidiaries (in millions)	1977	1976	1975	1974	1973
Revenues					
Publishing[2]	$ 718.1	$ 594.0	$531.0	$478.5	$430.1
Forest Products[3]	359.9	306.9	257.6	242.3	199.2
Video[4]	78.8	54.7	33.3	22.0	14.8
Other Operations[5]	93.0	82.6	88.8	82.8	84.2
Total Revenues	$1,249.8	$1,038.2	$910.7	$825.6	$728.3
Income (loss) Before Taxes On Income					
Publishing[2]	$ 99.6	$ 59.9	$ 42.8	$ 43.0	$ 52.5
Forest Products[3]	52.9	50.8	43.0	59.9	46.0
Video[4]	6.1	(1.9)	(2.8)	(5.9)	(5.8)
Other Operations[5]	15.5	12.2	7.6	9.8	10.3
	174.1	121.0	90.6	106.8	103.0
Financial income	8.8	9.4	8.0	8.7	9.0
Equity in earnings of unconsolidated subsidiaries and companies 20% to 50% owned	4.3	3.8	.3	(.6)	(1.5)
Unallocated corporate overhead	(14.9)	(14.0)	(12.6)	(11.5)	(11.5)
Unusual charges to income	—	—	—	(3.2)	—
Interest expense	(10.4)	(10.8)	(10.3)	(10.7)	(7.7)
Income Before Taxes on Income	$ 161.9	$ 109.4	$ 76.0	$ 89.5	$ 91.3

[1] In December, 1976, the Financial Accounting Standards Board issued new requirements for reporting lines of business for periods beginning after December 15, 1976. In general, the new requirements parallel the types of disclosure made by the Company in its financial reporting for several years. The major difference is that in the past the Company credited publishing operations with imputed interest income on the "Unearned Portion of Paid Subscriptions" and at the same time fully allocated interest expense. Under the new rules, both items are excluded in determining profitability by lines of business.

[2] Publication of magazines, books, recordings and related products.

[3] Production of pulp, paperboard and building materials.

[4] TV broadcasting, film production and distribution and operation of cable-TV and pay-TV systems.

[5] 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.

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er selling costs all contributed to the gain. This improvement was achieved in spite of the negative effects of foreign exchange translation and the one-time expenses associated with Time-Life Books' move to Virginia.

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

	1977	1976	1976
	(in millions of dollars)		
Magazines—Advertising	$ 274	$ 217	$ 188
Circulation	183	147	120
Time-Life Books	215	192	178
Other Publishing	46	38	45
Total	$ 718	$ 594	$ 531

Production and distribution costs for magazines and books increased approximately $39 million in 1977 and $27 million in 1976. Approximately $14 million of these higher costs in 1977 and $12 million in 1976 were attributable to price increases.

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 $52.9 million in 1977, $50.8 million in 1976 and $43.0 million in 1975. Net unit revenues (average prices) of our principle forest products over the past three years were:

	1977	1976	1975
Paperboard (per ton)	$ 365	$ 350	$ 321
Pulp (per ton)	250	275	284
Lumber (per thousand board feet)	189	162	131
Fiberboard*	77	69	55
Particleboard*	118	83	81
Plywood*	148	121	94
Gypsum Wallboard*	52	40	44

*per thousand square feet

The demand in 1977 for the grades of paperboard produced by the Eastex division increased only marginally over 1976. Prices for these grades rose in the early months of 1977 but were flat for the balance of the year. Demand during 1976 was similarly up only slightly over 1975 levels. The demand for pulp continued on the downward trend that started three years ago. This is a direct reflection of the weakness in the world market demand for pulp and the resulting high level of world pulp inventories. Total production at the Eastex mill increased to 468,000 tons—up 17,000 tons over 1976 and 27,000 tons over 1975 due mainly to a major mill-improvement program.

For 1977 as a whole, the combination of modest price increases for paperboard, the continued decline in pulp prices and inflation in manufacturing costs adversely affected this division.

Temple Building Materials Division sales attained record levels in 1977 due to increased prices as well as higher volume. Market demand for all product lines was strong. Although sales levels for 1976 had shown an improvement over 1975, it was during 1977 that the residential-construction market made a full recovery from the 1974-1975 recession years.

VIDEO

In 1977, video operations were profitable after a number of years of losses incurred as a result of developing several new businesses. Income before taxes was $6.1 million compared to losses of $1.9 million in 1976 and of $2.8 million in 1975.

The major contributor to this turnaround was Home Box Office, the Company's pay-cable television program network, which became profitable in the third quarter of 1977. This improvement reflects better programing and marketing techniques by Home Box Office and the cable operators, which produced substantially increased numbers of subscribers and revenues. In 1976, Home Box Office had higher losses than in 1975 because the rapid growth in revenues from its subscribers had been more than offset by increased costs, particularly those for more diversified programing.

Our Grand Rapids, Michigan, TV broadcasting station, WOTV, again had a record year in 1977. Manhattan Cable Television and Time-Life Films also posted gains in 1977 over the previous year. In 1976 Manhattan Cable showed a profit, compared to a loss in 1975.

OTHER OPERATIONS

Other Operations include Selling Areas-Marketing, Inc., (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 was $15.5 million in 1977, $12.2 million in 1976 and $7.6 million in 1975. In 1977 continued improvements at Selling Areas-Marketing, Inc., (SAMI) and Pioneer Press led the gain. SAMI doubled its profits in 1976 compared to 1975.

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Consolidated Statement of Income

Time Incorporated and Subsidiaries
(in thousands except for per share amounts)
For years ended December 31

	1977	1976
Revenues	$1,249,816	$1,038,242
Costs and Expenses		
Editorial, production, manufacturing and distribution	775,759	649,876
Selling, administrative and general	321,791	283,426
Total Costs and Expenses	1,097,550	933,302
Operating Income	152,266	104,940
Other income—net	9,673	4,453
Income before Taxes	161,939	109,393
Taxes on income	71,400	42,300
Net Income	$ 90,539	$ 67,093
Per Share of Common Stock		
Net Income	$4.44	$3.32
Average Shares Outstanding (000)	20,371	20,192

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

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Consolidated Balance Sheet

Time Incorporated and Subsidiaries
(In thousands)

ASSETS as of December 31	**1977**	**1976**
Current Assets		
Cash	$ 39,058	$ 32,648
U.S. Government and other short-term securities—at cost (approximately market)	124,757	92,929
Receivables, less allowances of $38,069,000 in 1977 and $30,869,000 in 1976	170,384	126,772
Notes receivable	4,875	4,875
Inventories—at the lower of cost or market:		
Work in process and finished goods	92,905	67,898
Paper and other materials	33,595	29,370
Prepaid expenses and other current assets	62,257	52,088
Total Current Assets	527,831	406,580
Investments		
Unconsolidated subsidiaries	14,180	11,691
Companies 20% to 50% owned	31,240	5,527
Others—at cost less allowances of $2,196,000 in 1977 and $912,000 in 1976	26,906	28,532
Marketable equity securities—quoted market price of $25,956,000 in 1977 and $32,664,000 in 1976	20,588	27,034
Total Investments	92,914	72,784
Property and Equipment—at cost		
Buildings	91,566	84,244
Machinery and equipment	397,656	381,753
Leasehold improvements	23,154	20,851
Construction in progress	5,870	2,229
	518,246	489,077
Less allowances for depreciation and amortization	243,484	219,024
	274,762	270,053
Timber and timberlands, less depletion	52,470	42,224
Land	8,850	8,098
Total Property and Equipment	336,082	320,375
Excess of Purchase Prices over Net Tangible Assets of Acquired Properties	41,536	14,425
Notes Receivable	9,750	14,625
Other Assets	45,167	36,961
TOTAL ASSETS	$1,053,280	$865,750

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

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LIABILITIES AND SHAREHOLDERS' EQUITY	1977	1976
Current Liabilities		
Accounts payable and accrued expenses	$ 123,514	$ 99,778
Employee compensation and profit-sharing contributions	19,261	15,470
Taxes on income	42,266	827
Loans and current portion of long-term debt	9,781	6,256
Total Current Liabilities	194,822	122,331
Unearned Portion of Paid Subscriptions	114,870	97,046
Long-Term Debt	127,689	138,249
Deferred Federal Income Taxes	53,930	47,852
Other Liabilities	10,549	9,824
Shareholders' Equity		
Preferred Stock—$1 par value; authorized 12,500,000 shares, issuable in series:		
Series A $1.575 Cumulative Convertible Preferred Stock, par value $1 per share (stated redemption requirement and liquidation preference—$32,613,000), issued and outstanding 1,087,100 shares	1,087	—
Applicable additional paid-in capital	31,515	—
	32,602	—
Common Stock—$1 par value; authorized 35,000,000 shares in 1977 and 25,000,000 shares in 1976, issued 20,784,100 shares in 1977 and 1976	20,784	20,784
Additional paid-in capital	41,488	40,200
Retained income	463,147	398,346
Treasury stock, at cost; 364,900 shares in 1977 and 490,300 shares in 1976	(6,601)	(8,882)
Total Shareholders' Equity	551,420	450,448
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$1,053,280	$865,750

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Consolidated Statement of Shareholders' Equity

Time Incorporated and Subsidiaries
(in thousands)

	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Income	Treasury Stock	Shareholders' Equity
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 benefit 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
Net Income—$4.44 per share	—	—	—	90,539	—	90,539
Stock options exercised	—	—	287	—	1,777	2,064
Tax benefit of stock options exercised	—	—	504	—	—	504
Acquisition of Talent Associates Ltd.	—	—	497	—	504	1,001
Acquisition of Book-of-the-Month Club, Inc.	32,602	—	—	—	—	32,602
Dividends paid on common stock—$1.2625 per share	—	—	—	(25,738)	—	(25,738)
Balance at December 31, 1977	$32,602	$20,784	$41,488	$463,147	($ 6,601)	$551,420

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

Increases (Decreases) in Components of Working Capital

(in thousands) For years ended December 31	1977	1976
Cash and short-term securities	$38,238	$78,629
Receivables	43,612	8,217
Notes receivable	—	1,575
Inventories	29,232	(1,733)
Prepaid expenses and other current assets	10,169	7,304
Increase in Current Assets	121,251	93,992
Accounts payable and accrued expenses	23,736	14,503
Employee compensation and profit-sharing contributions	3,791	2,578
Taxes on income	41,439	(5,391)
Loans and current portion of long-term debt	3,525	(240)
Increase in Current Liabilities	72,491	11,450
Increase in Working Capital	$48,760	$82,542

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Consolidated Statement of Changes in Financial Position

Time Incorporated and Subsidiaries
(in thousands)

For Years Ended December 31	1977	1976
Sources of Working Capital		
From Operations:		
Net Income	$ 90,539	$ 67,093
Charges (credits) not affecting working capital:		
Depreciation, amortization, depletion	33,703	29,840
Deferred federal income taxes	6,307	11,225
Provision for losses on investments	1,717	760
Equity in net income of 20% to 50% owned companies	(1,821)	(891)
Equity in net income from unconsolidated subsidiaries	(1,398)	(1,503)
Amortization of goodwill	482	246
Total from Operations	129,529	106,770
Increase in long-term debt	3,683	51,727
Dispositions of property and equipment	7,669	3,204
Increase in other liabilities	725	—
Dispositions of investments	7,183	2,304
Decrease in notes receivable	4,875	4,875
Increase in unearned portion of paid subscriptions	17,824	13,216
Issuance of preferred stock	32,602	—
Issuance of treasury shares	3,065	6,783
Tax benefits of stock options exercised	504	720
Total Sources	207,659	189,599
Applications of Working Capital		
Dividends paid to shareholders	25,738	21,721
Purchase of property and equipment	49,543	46,506
Additions to investments	25,911	3,752
Goodwill from acquisitions	27,493	—
Decrease in other liabilities	—	1,592
Repayment of long-term debt	14,243	31,654
Increase in other assets	4,181	—
Acquisition of Book-of-the-Month Club property and equipment	7,536	—
Acquisition of Book-of-the-Month Club book rights	4,254	—
Miscellaneous	—	1,832
Total Applications	158,899	107,057
Increase in Working Capital	$ 48,760	$ 82,542

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

Details of increases and decreases in components of working capital are on page 30.

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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.

Inventories. Cost of inventories amounting to $7,604,000 in 1977 and $6,650,000 in 1976 was determined by the last-in, first-out method. The cost of the remaining inventories of $118,896,000 in 1977 and $90,618,000 in 1976 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. The Company translates the financial statements of foreign operations at appropriate exchange rates. Net translation gains and losses are included in operations in the period in which they occur. In 1977 the net foreign exchange gain was $2,330,000, and in 1976 the net foreign exchange loss was $2,849,000.

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

Year Ended December 31	1977	1976
	(in thousands)	
Revenues	$161,211	$140,364
Net Income	19,770	14,523
Assets	115,777	86,846
Liabilities	33,373	30,367

Goodwill. Excess of Purchase Prices over Net Tangible Assets of Acquired Properties of $30,820,000 (net of Amortization of $1,327,000) is being amortized in the financial statements over periods from 20 to 40 years. The remaining balance of this asset is not being amortized because the related businesses were acquired prior to 1970 and, in the opinion of management, there has been no decrease in their value.

Involuntary Conversion of Timberlands. Approximately 27,000 acres of the Company's timberlands have been designated for inclusion in the national preserve created by the Big Thicket Preserve Act, which was signed into law in 1974. The Company expects to be compensated for all land taken for this preserve at fair market value.

Proceeds received from the condemnations have been and, to the extent received in the future, will be applied to the cost of the replacement acreage. Such policy does not result in recognition of income to the Company.

Net Income Per Share of Common Stock. Net income per share of common stock is based on the weighted average number of common shares outstanding during each year. The shares of Series A $1.575 Cumulative Convertible Preferred Stock, each of which is convertible into .72 shares of common stock, are not considered common stock equivalents. The computation of fully diluted earnings per share in 1977 results in less than 3 per cent dilution and is therefore immaterial.

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,

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exceeded its equity in their related net assets by approximately $11,500,000 at December 31, 1977 and $1,700,000 at December 31, 1976. Included in the 1977 amount is $9,800,000 arising from the Company's 26 per cent investment in American Television and Communications Corporation that is being amortized over 40 years.

A principal investment is Lumbermen's Investment Corporation. At December 31, 1977 the total assets of Lumbermen's were $78,278,000 and total liabilities were $68,680,000. Revenues for the years 1977 and 1976 were $13,036,000 and $10,905,000, respectively, and its income before taxes of $2,550,000 in 1977 and $2,825,000 in 1976 is included in Other Income—Net.

MARKETABLE EQUITY SECURITIES

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

At December 31, 1977 gross unrealized gains and losses pertaining to marketable equity securities were approximately $6,851,000 and $1,483,000, respectively. In 1977 a net realized gain of $368,000 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.

ACQUISITIONS

Book-of-the-Month Club, Inc., an operator of book clubs, was acquired on December 1, 1977. The combination was accounted for as a purchase and the financial results of Book-of-the-Month Club are included in the consolidated financial statements from December 1, 1977.

Book-of-the-Month Club was acquired for approximately $64,100,000, which includes $31,295,000 in cash and 1,087,100 shares of newly created Series A $1.575 Convertible Preferred Stock with a liquidation value of $30 per share. The Series A Preferred Stock is convertible into .72 shares of Time Common Stock and may be converted at any time. The Company is required to redeem on November 30, 1982 and each year thereafter at $30 per share plus accrued dividends, 5 per cent of the original number of shares of this Series. The excess of purchase price over net tangible assets of Book-of-the-Month Club of $26,369,000 is being amortized over a 40-year period.

The Federal Trade Commission has authorized an investigation of the acquisition of Book-of-the-Month Club to determine whether the effect of the proposed acquisition may be to lessen competition. At the request of the FTC, the Company has signed a "hold separate" agreement.

Below is pro forma financial information for the years ended December 31, 1977 and 1976 combining the consolidated income statements of Time and Book-of-the-Month Club:

	Year Ended December 31	
	1977	1976
	(in thousands except for per share amounts)	
Revenues	$1,305,837	$1,100,014
Net Income	93,654	70,660
Preferred Dividend	1,712	1,712
Net Income after Preferred Dividend	91,942	68,948
Net Income per share	4.51	3.41

LEASES

The Company currently accounts for Leases entered into prior to January 1, 1977 in accordance with generally accepted accounting principles established prior to the issuance of FASB Statement No. 13, "Accounting for Leases." The change to conform all of the Company's leases to the requirements of FASB Statement No. 13 would not have a material effect on the Company's financial statements.

Total rental expense, including contingent rentals that were not material, reduced by sublease rental income of $3,427,000 and $2,736,000, was $13,866,000 and $13,763,000 for the years ended December 31, 1977 and 1976, respectively.

The future minimum rental commitments for all non-cancellable leases (which are primarily for office space), reduced by an aggregate of $10,663,000 for rentals to be received from existing non-cancellable subleases at December 31, 1977, are as follows:

1978	$15,178,000
1979	13,174,000
1980	10,843,000
1981	5,488,000
1982	3,187,000
Thereafter	7,345,000
TOTAL	$55,215,000

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The Company occupies office space in the Time & Life Building in New York under the terms of a lease agreement that expires in 1980 but has a renewal option which is currently being negotiated.

LONG-TERM DEBT

The 7⅞ per cent Notes due January 15, 1986 are not redeemable prior to January 15, 1983.

The term loan due in installments to 1980 bears interest at prime rate plus ½ per cent but has a maximum average interest rate of 7⅞ per cent, provided the loan is not prepaid prior to December 31, 1978.

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, 1977, consolidated net current assets were approximately $253,000,000 in excess of these requirements, and approximately $172,000,000 of consolidated retained income was unrestricted as to payment of dividends.

In connection with its long-term debt, aggregating $25,000,000 at December 31, 1977, 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, 1977, approximately $164,000,000 (including $40,000,000 of net current assets) was unrestricted by the loan agreement and thus available for distribution to the Company.

At December 31, 1977, net assets in the amount of approximately $159,000,000 were subject to mortgage liens.

Aggregate maturities of long-term debt during the next five years, including capital lease obligations and sinking fund requirements of the first-mortgage bonds, are as follows: 1978—$9,800,000; 1979—$13,800,000; 1980—$21,100,000; 1981—$5,300,000; 1982—$5,300,000.

STOCK OPTIONS

The following summary shows the changes during 1977 and 1976 in qualified and non-qualified options granted to key employees to purchase shares of the Company's common stock, and the change during 1977 in Book-of-the-Month Club stock options converted to options for Time Preferred Stock.

Shares Under Option

	Number of Shares		Price Range Per Share
	1977	1976	
Common Stock			
Balance at January 1	905,715	840,764	$11.85-$34.38
Options granted	38,750	371,075	$33.07-$36.69
	944,465	1,211,839	—
Options exercised	(94,860)	(299,924)	$11.85-$26.29
Options surrendered	(20,100)	—	$19.35
Options terminated	(12,000)	(6,200)	$19.35-$34.38
Balance at December 31	817,505	905,715	$14.94-$36.69
Preferred Stock			
Book-of-the-Month Club stock options converted to options for Time Preferred Stock	20,927	—	$11.50-$19.63
Balance at December 31	20,927	—	$11.50-$19.63

Long-Term Debt (Excluding Current Portion)

(in thousands)

December 31	1977	1976
7⅞ % Notes due January, 1986	$ 50,000	$ 50,000
Term loan at 7⅞ % due 1979-1980	22,000	29,000
5⅜ % sinking fund first mortgage bonds due 1985	23,100	26,400
6½ % mortgage notes due 1979-1990	17,769	18,735
Lease obligations due 1979-1991	4,462	4,270
4%-10% notes, some property, timberlands and real estate pledged as collateral, due 1979-1998	10,358	9,844
	$127,689	$138,249

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There were 34,575 common shares and 61,325 common shares available for the granting of options at December 31, 1977 and 1976, respectively. There were no preferred shares available for the granting of options at December 31, 1977.

Options granted for common shares 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 562,610 common shares and 534,640 common shares were exercisable at December 31, 1977 and 1976, respectively.

Options for preferred shares are exercisable at various dates, but no later than five years from date of grant. All options were exercisable at December 31, 1977.

The options prices, which are not less than 100 per cent of fair market value on 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:

	1977		1976	
	Current	Deferred	Current	Deferred
	(in thousands)			
Federal	$52,371	$4,784	$19,469	$ 9,565
Foreign	7,121	196	6,339	723
State & local	6,928	—	6,204	—
	$66,420	$4,980	$32,012	$10,288

The differences between the consolidated effective income tax rate of 44.1 per cent in 1977 and 38.7 per cent in 1976 and the federal statutory income tax rate of 48 per cent include the following:

	1977	1976
	(in thousands)	
48% of income before taxes	$77,731	$52,508
Investment tax credits	(3,321)	(7,454)
Tax benefit of capital gains, mainly from the harvesting and sale of fee-owned timber	(3,859)	(3,861)
State & local income taxes, net of federal tax benefit	3,603	3,226
All other	(2,754)	(2,119)
	$71,400	$42,300

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, 1977 was approximately $27,000,000 after reduction for available foreign tax credits.

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

	1977	1976
	(in thousands)	
Accelerated depreciation	$ 3,553	$ 5,275
All other	1,427	5,013
	$ 4.980	$10,288

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

OTHER INCOME—NET

Other Income—Net consisted of the following:

	1977	1976
	(in thousands)	
Dividends	$ 2,316	$ 2,602
Interest income	8,770	6,204
Interest expense	(10,430)	(10,835)
Equity in income before taxes of unconsolidated subsidiaries	2,696	2,875
Equity in net income of companies 20% to 50% owned	1,821	891
Gain on sale of land	1,302	464
Royalties and ancillary sales	3,638	2,375
Provision for losses on investments	(1,717)	(760)
Net realized gain (loss) on securities	368	(39)
Realized gains on investment	—	1,398
Miscellaneous	909	(722)
	$ 9,673	$ 4,453

PENSION PLANS

The Company and its subsidiaries have pension plans covering substantially all employees, including those in foreign countries. Pension plan expense was approximately $8,100,000 in 1977 and $6,300,000 in 1976, which includes amortization of past service cost over periods of approximately 10 years. Unfunded past service costs were $4,700,000 and $5,300,000 at December 31, 1977 and 1976, respectively. The Company's policy is to fund pension costs accrued.

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COMMITMENTS AND CONTINGENCIES

At December 31, 1977, 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.

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, numerous 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.

In addition, there are pending two civil suits brought by the Department of Justice against Packaging. One such suit, filed in February 1976, charged a similar violation to that described in the preceding paragraph and sought injunctive and other relief. Packaging was served in the second such civil suit on May 3, 1976. This suit was brought for single damages for folding cartons sold to the government and, in the alternative, civil penalties and double damages under the federal False Claims Act for payments made based upon sales of folding cartons to the government.

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

BUSINESS SEGMENT INFORMATION

Refer to "Lines of Business" on page 25 for information relating to revenues and income (loss) before taxes on income of the Company's principal lines of business.

Below is additional information required by FASB Statement No. 14:

		Year Ended December 31, 1977	
	Identifiable Assets at December 31, 1977	Depreciation, Depletion and Amortization	Capital Expenditures
	(in thousands)		
Lines of Business			
Publishing	$ 332,216	$ 2,546	$ 4,393
Forest Products	320,877	23,695	32,934
Video	81,957	4,321	5,486
Other Operations	82,899	2,764	5,800
Corporate	189,911	377	930
Investment in unconsolidated subsidiaries and companies 20% to 50% owned	45,420	—	—
	$1,053,280	$33,703	$49,543

	U.S.	Foreign Countries	Eliminations	Consolidated
	(in thousands)			
Foreign Operations				
Sales to unaffiliated customers	$1,088,605	$161,211	—	$1,249,816
Transfers between geographic areas	6,061	4,564	($10,625)	—
	$1,094,666	$165,775	($10,625)	$1,249,816
Operating Profit	$ 145,314	$ 28,826	—	$ 174,140
Identifiable assets	702,172	115,777	—	817,949

Intersegment sales are accounted for at prices that are approximately arms-length market prices. Investments in unconsolidated subsidiaries and other companies (principally domestic) includes $5,159,000 applicable to Publishing, $24,431,000 applicable to Video and $15,830,000 applicable to other lines of business.

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 tim-

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berlands at December 31, 1977 and 1976, and the approximate effect of such costs on cost of sales and depreciation expense for the years.

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.

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 years ended December 31, 1977 and 1976:

	Three Months Ended			
	Mar. 31	June 30	Sept. 30	Dec. 31
	(in thousands except for per share amounts)			
1977				
Revenues	$267,950	$311,236	$303,145	$367,485
Editorial, production, manufacturing and distribution costs	164,251	190,941	204,997	215,570
Gross Profit	103,699	120,295	98,148	151,915
Net Income	15,045	25,142	19,359	30,993
Net Income per share	.74	1.24	.95	1.51
1976				
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

SUBSEQUENT EVENTS

During the fourth quarter of 1977, the Company reached an agreement in principle to acquire American Television and Communications Corporation, the second-largest cable system operator in the country serving more than 675,000 subscribers in 31 states. The Company presently owns about one million shares of ATC common stock or 26 per cent of the almost four million shares outstanding. If the transaction is approved, each of the remaining three million shares would be exchanged for 1.55 shares of Time $1.575 Convertible Preferred Stock. A cash alternative will be offered for approximately 26 per cent of the ATC shares not owned by the Company. The transaction is valued at about $145 million.

Also, during the first quarter of 1978, the Company reached an agreement in principle to acquire *The Washington Star,* an afternoon daily newspaper serving the Washington, D.C., metropolitan area, for $20 million in cash. The *Star* has a daily circulation of approximately 350,000 and a Sunday circulation of approximately 335,000.

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, 1977 and 1976, 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, 1977 and 1976, 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 16, 1978

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BOARD OF DIRECTORS

Andrew Heiskell
Chairman of the Board and
Chief Executive Officer, Time Inc.
Roy E. Larsen
Vice Chairman of the Board, Time Inc.
Louis Banks
Adjunct Professor of Management,
Alfred P. Sloan School of Management,
Massachusetts Institute of Technology
Charles B. Bear
Group Vice President and Secretary,
Time Inc.
Michael D. Dingman
Chairman and President,
Wheelabrator-Frye Inc.
Hedley Donovan
Editor-in-Chief, Time Inc.
Gaylord Freeman
Honorary Chairman of the Board,
The First National Bank of Chicago
Alexander Heard
Chancellor, Vanderbilt University
Matina S. Horner
President, Radcliffe College
Robert T. Keeler
Partner, Taft, Stettinius & Hollister
Arthur W. Keylor
Group Vice President, Time Inc.
Sol M. Linowitz
Senior Partner, Coudert Brothers
Henry Luce III
Vice President, Time Inc.
Joan D. Manley
Group Vice President, Chairman,
Time-Life Books Inc.
Richard B. McKeough
Vice President—Finance, Time Inc.
J. Richard Munro
Group Vice President, Time Inc.
Frank Pace Jr.
President, International Executive
Service Corps
James R. Shepley
President and Chief Operating Officer,
Time Inc.
Arthur Temple
Group Vice President, Chairman,
Temple-Eastex Inc.
Rawleigh Warner Jr.
Chairman and Chief Executive Officer,
Mobil Corporation
Thomas J. Watson Jr.
Chairman of the Executive Committee
of the Board of Directors, International
Business Machines Corporation

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OFFICERS AND OPERATING EXECUTIVES

OFFICERS

Andrew Heiskell
Chairman of the Board & Chief Executive Officer

Roy E. Larsen
Vice Chairman of the Board

James R. Shepley
President and Chief Operating Officer

Charles B. Bear
Group Vice President & Secretary

Arthur W. Keylor
Group Vice President

Joan D. Manley
Group Vice President

J. Richard Munro
Group Vice President

Arthur Temple
Group Vice President

Richard B. McKeough
Vice President–Finance

Donald M. Wilson
Vice President–Corporate & Public Affairs

Ralph P. Davidson
Vice President

Joe C. Denman Jr.
Vice President

Richard J. Durrell
Vice President

Robert P. Fisler
Vice President

Charles L. Gleason Jr.
Vice President

Clifford J. Grum
Vice President

Peter S. Hopkins
Vice President

Gerald M. Levin
Vice President

Henry Luce III
Vice President

John D. McSweeney
Vice President

John A. Meyers
Vice President

N. J. Nicholas Jr.
Vice President

Bruce L. Paisner
Vice President

E. Gabriel Perle
Vice President

Herbert D. Schutz
Vice President

P. Peter Sheppe
Vice President

Ira R. Slagter
Vice President

Robert M. Steed
Vice President

Kelso F. Sutton
Vice President

Arthur H. Thornhill Jr.
Vice President

J. Garry Valk
Vice President

John A. Watters
Vice President

Barry Zorthian
Vice President

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

Carolyn K. McCandless
Assistant Secretary

CORPORATE EDITORIAL EXECUTIVES

Hedley Donovan
Editor-in-Chief

Ralph Graves
Corporate Editor

Henry A. Grunwald
Corporate Editor

MAGAZINE EXECUTIVES

Arthur W. Keylor
Group Vice President

Kelso F. Sutton
Vice President

Ralph P. Davidson
Publisher, Time

Ray Cave
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

Philip B. Kunhardt Jr.
Editor, Magazine Development

Lawrence M. Crutcher
Director of Circulation

James J. McCluskey
Director of Manufacturing & Distribution

Ira R. Slagter
Director of Subscription Service

BOOK EXECUTIVES

Joan D. Manley
Group Vice President & Chairman, Time-Life Books Inc.

Edward E. Fitzgerald
President, Book-of-the-Month Club, Inc.

Jerry Korn
Managing Editor, Time-Life Books Inc.

John D. McSweeney
President, 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.)

TELEVISION AND FILM EXECUTIVES

J. Richard Munro
Group Vice President

E. Thayer Bigelow
President, Manhattan Cable Television, Inc.

Thomas M. Girocco
Vice President & General Manager, WOTV

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.

FOREST PRODUCTS EXECUTIVES

Arthur Temple
Chairman, Temple-Eastex Incorporated

Joe C. Denman Jr.
President, Temple-Eastex

David H. Dolben
Vice President–Finance & Treasurer

Ward R. Burke
Vice President and General Counsel

Gex P. Condit
President, Eastex Division

Henry H. Holubec Jr.
President, Temple Division

Kenneth Nelson
President, Forests Division

W. Ray Frye
Chairman, AFCO Industries, Inc.

Wayne McDonald
President, Lumbermen's Investment Corp.

Don V. Hackney
President, Temple Associates

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.

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CORPORATE PLANNING
Vice President Henry Luce III heads the company's corporate planning staff. For the past four years this small but specialized team has conducted a "venture capital" operation, investing seed money in new enterprises not necessarily related to Time Inc.'s principal lines of business. One of the first of these investments—Atari electronic games—has already been sold at a profit.



PUBLIC AFFAIRS
Time Inc. maintains a relatively small corporate and public affairs staff headed by Vice President Donald M. Wilson (right). In addition to handling the company's press relations and other contacts with the general public, this department also presents the company's views in Washington, when appropriate. This is primarily the job of Vice President Barry Zorthian (left).

ANNUAL MEETING
Thursday, April 20, 1978, 11 a.m.
Time & Life Building
Rockefeller Center, New York, N.Y.

CORPORATE HEADQUARTERS
Time & Life Building
Rockefeller Center
New York, N.Y. 10020
Phone: 212-JU 6-1212

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

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

CO-TRANSFER AGENT AND REGISTRAR
Republic National Bank of Dallas
P.O. Box 2964
Dallas, Texas 75221

COMMON STOCK PERFORMANCE AND DIVIDEND COMPARISON 1977 AND 1976
(New York Stock Exchange—Symbol: TL)
(London Stock Exchange—Symbol: TIMEINC)

		Low	High
1977	First Quarter	33	38¼
	Second Quarter	32	37¼
	Third Quarter	31⅜	38⅛
	Fourth Quarter	31⅜	39½
1977	**YEAR**	**31⅜**	**39½**
1976	First Quarter	30 15/16	34¾
	Second Quarter	28 11/16	33⅛
	Third Quarter	30	35 1/16
	Fourth Quarter	31½	39¾
1976	**YEAR**	**28 11/16**	**39¾**

DIVIDENDS	1977	1976
First Quarter	$ .2875	$ .25
Second Quarter	.325	.25
Third Quarter	.325	.2875
Fourth Quarter	.325	.2875
YEAR	**$1.2625**	**$1.075**

PREFERRED STOCK PERFORMANCE 1977
(New York Stock Exchange—Symbol: TLPRA)

	Low	High
1977: Fourth Quarter	29	31⅞

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., Shareholder Services Division, 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 Carolyn K. McCandless, Assistant Secretary, Time Inc., Time & Life Building, Rockefeller Center, New York, N.Y. 10020.

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TIME INC.'S POSITION ON POSTAL RATES

Time Inc. continues to be greatly concerned about the escalation of postal rates for publishing companies in recent years. And not just out of self-interest. To be sure, since 1970, Time Inc.'s postal costs have increased dramatically from $20 million to $54 million,* and further increases are scheduled. This year we may pay as much as $76 million for postal delivery service that can hardly be said to be improving.

As reported last year, we have been moving in three ways to cope with these soaring postal costs: we have been increasing our magazine prices, participating in rate cases presented to the Postal Rate Commission and, most importantly, exploring alternative methods of distribution.

As the gap between postal rates and the cost of alternative means of delivery continues to narrow, we anticipate the time when alternative means may become more economic than the mails. Whether that happens or not, Time Inc. will be better able to shoulder the burden of higher postal rates (or alternative delivery methods) than many smaller publishing firms. The danger of constantly rising postal costs, in our view, is not so much to our own profitability as to the survival of less well-capitalized magazines and newspapers. In the long range, the concept of a free press is dependent, not upon the survival of a few large publications, but upon the continuing viability of a pluralistic chorus of media voices. We therefore believe that the current trend of postal rates is incompatible with the intent of Congress when the Post Office was established: to encourage the widest possible dissemination of information.

In 1977 the schedule for increasing second-class postage rates was extended somewhat. But it is our hope that, in the year ahead, the Congress and the Administration will act more forcefully to restore Presidential and Congressional control to the postal service and will appropriate funds to support the essential public-service functions of the post office. The experience of the past few years has clearly demonstrated the incompatibility of the twin goals established in the Postal Reorganization Act of 1970: the full recovery of postal costs and the continued provision of traditional services. These goals simply do not appear to be within the realm of economic reality. They appear, in fact, to be mutually exclusive, and the act itself should, therefore, be reconsidered.

* These figures exclude postal costs for Life Magazine, which suspended publication in 1972.

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