AMERICAN BROADCASTING PARAMOUNT THEATRES, INC.

annual report 1955

AMERICAN BROADCASTING—PARAMOUNT THEATRES, INC.

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**a subsidiary of the corporation*

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†deceased February 16, 1956

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

Price Waterhouse & Co., *Independent Auditors*
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CONTENTS

	Page
The Year in Brief	4
President's Letter to Shareholders	5
Operating and Financial Review	6
Theatres	10
Broadcasting	15
Film Syndication	20
Disneyland Park	21
Electronics	21
Records	22
Consolidated Financial Statements and Notes	23

BROADCASTING—ABC Division makes important strides in television

ANNUAL REPORT 1955

THEATRES—showcases for the best in motion picture entertainment

RECORDS—new subsidiary now releasing its initial phonograph records

ELECTRONICS—expanding interest in this growing field

DISNEYLAND PARK—one of the nation's newest amusement centers attracts 2 million visitors

The year in brief

			1955		1954
INCOME	Total, comprising:		$194,662,000		$188,796,000
	Theatre operating income	$110,503,000		$115,916,000	
	ABC operating income	81,117,000		70,424,000	
	Dividends from affiliated companies	508,000		102,000	
	Other income	2,534,000		2,354,000	
EXPENSES	Total, comprising:		$186,444,000		$184,074,000
	Operating and general expenses	$163,469,000		$163,812.000	
	Interest	1,457,000		1,467,000	
	Depreciation	8,174,000		8,390,000	
	State, local and payroll taxes	5,550,000		5,484,000	
	Federal income tax	7,794,000		4,921,000	
NET PROFIT	Operations		$8,218,000		$4,722.000
	Less preferred dividends	$488.000		$534,000	
	Net applicable to common		$7,730,000		$4,188,000
	Per share common		$1.89*		$1.06
	Capital gains		$155,000		$210,000
	Per share common		$ .04*		$ .05
	Combined profit applicable to common		$7,885,000		$4,398,000
	Per share common		$1.93*		$1.11
DIVIDENDS PAID	Total		$5,408,000		$4,501,000
	Per share preferred		$1.00		$1.00
	Per share common		$1.20		$1.00
	Number of preferred shares outstanding at year end		372.851		533,624
	Number of common shares outstanding at year end		4,138,165		3,968,487
FINANCIAL POSITION	Working capital		$30,238,000		$26,080.000
	Fixed assets (net)		73,713,000		78,967.000
	Long term debt		38,723.000		42.002,000
	Net worth	$81,448,000		$78,988,000	
	Less par value preferred	7.457,000		10,672,000	
	Applicable to common		$73,991.000		$68.316.000
	Per share common		$17.88		$17.21

*Based on number of shares outstanding at the end of each quarter.

President's letter to shareholders

I am pleased to report to you on our Company's progress in 1955. Net operating earnings increased 74% over last year—$8,218,000 or $1.89 per share common compared with $4,722,000 or $1.06 per share common in 1954. Operating income of $194,662,000 was $5,866,000 ahead of the previous year.

Common stock dividends to shareholders were increased with the extra payment at the year end of 20¢ a share in addition to the regular quarterly dividends of 25¢ a share. Total dividends paid rose from $4,501,000 in 1954 to $5,408,000 in 1955.

Our theatre gross income was off about 4% from the preceding year. About one-third of this decrease was the result of the progressive disposition of theatres during the comparable periods and the balance is attributed primarily to a lack of top quality pictures released, particularly in the fourth quarter. Accordingly, our theatre earnings, which held up very well for the first eight months as compared with 1954, were down for the year. An analysis of present conditions in the motion picture industry and the prospects for maintaining a healthy level of business in the future will be found in the theatre section of this report.

ABC showed a marked improvement and operated profitably for the year against a loss in 1953 and 1954. The television network with a much stronger program lineup reported a 53% increase in gross time billings. Its program structure is being further strengthened and broadened particularly in daytime television where ABC's major entry in this time period, the MICKEY MOUSE CLUB, is now the highest rated daytime program. ABC should continue to show further improvement from this point on.

Disneyland Park, the amusement center in California in which our Company has approximately a 35% interest, has been well received by the public, with over two million people having visited the Park since its opening last July.

Microwave Associates, Inc., the electronics company in which we have a one-third stock interest, continued to show profitable improvement in 1955. A site has been purchased on which a new plant will be built for its expanding operations. In February, 1956, we entered into an agreement to acquire a stock interest in Technical Operations, Incorporated, a growing manufacturing, research and development concern specializing in electronics and nucleonics. This latest development is in keeping with our plans to enlarge our present participation in these fields.

Our Company entered the phonograph record business last June and Am-Par Record Corp., our subsidiary, is presently distributing its initial releases of records throughout the country.

Our strong financial position has been maintained with working capital higher than last year at $30,238,000. Along with an improvement in income and earnings in 1955, our interests in fields allied to motion picture exhibition and broadcasting have been broadened. We expect to continue to maintain a sound financial structure and further to improve and expand our overall business to merit your support which we have had and which we greatly appreciate.

BY ORDER OF THE BOARD OF DIRECTORS

Leonard H Goldenson

President

March 14, 1956

Operating and financial review

NET PROFIT

Net operating earnings for 1955 were $8,218,000 which represented a 74% increase over 1954 earnings of $4,722,000. These earnings amounted to $1.89 per share common based on the number of shares outstanding at the end of each quarter compared with $1.06 per share common in 1954. At the 1955 year end there were 4,138,165 shares outstanding compared with 3,968,487 shares outstanding at the end of the previous year.

NET EARNINGS AFTER TAXES

	1955	*1954*
Operations	$8,218,000	$4,722,000
Capital gains	155,000	210,000
Total	$8,373,000	$4,932,000
Preferred dividends paid	$ 488,000	$ 534,000
Net applicable to common	$7,885,000	$4,398,000
Per share common:		
Operations	$1.89	$1.06
Capital gains	.04	.05
Combined	$1.93	$1.11

DIVIDENDS ON COMMON STOCK

Common stock dividends paid to shareholders in 1955 were $4,920,000, compared with $3,967,000 in 1954. This represented $1.20 per share in 1955 (including a 20¢ per share extra dividend at the year end) as against $1.00 per share paid in the preceding year.

INCOME

Total income of $194,662,000 was the highest in the six year history of the Company. Theatre operating income was $110,503,000 compared with $115,-916,000 in 1954. The ABC Division showed operating income of $81,117,000 an increase of $10,693,000 over last year's figure of $70,424,000. There was an increase in dividend income coming principally from partially-owned theatre subsidiaries which were subsequently sold. Costs were well controlled in all branches of the operation.

TAXES

The Corporation paid or provided for payment $13,323,000 in taxes of which $7,773,000 were Federal income taxes. A breakdown of these taxes is shown below.

TAXES

	1955
Federal income (less $21,000 applicable to capital gains, net)	$ 7,773,000
Real estate, personal property and State franchise	3,771,000
State income	174,000
Payroll taxes	1,016,000
Sales, gross receipts, etc.	589,000
Total	$13,323,000

While the 20% Federal tax on theatre admissions was reduced in April of 1954, it is still our hope that the remaining 10% of this war-time excise tax will be eliminated through Congressional legislation.

SOURCE AND APPLICATION OF FUNDS

Working capital at the year end was $30,238,000 which was an increase of $4,158,000 over the previous year. The cash position remained strong with $24,434,000 in cash and government securities. Inventories at $7,023,000 and receivables at $14,680,000 reflect increases principally attributable to the expansion of commercial business handled by the ABC-TV network. These inventory requirements can be expected to be greater in the future with the growth of the TV network.

Depreciation continued at a high level at $8,174,000 with the theatres accounting for approximately $6,700,000 of this amount. Approximately $2,696,000 of theatre depreciation was reinvested in fixed assets to properly

SOURCE AND APPLICATION OF FUNDS

		1955
Working capital at January 1, 1955		$26,080,000
Source of funds		
Net income from operations	$8,218,000	
Provision for depreciation	8,174,000	
Cash proceeds from capital gains transactions, after taxes thereon	911,000	
Collection of notes receivable	439,000	
Proceeds from exercise of stock options	2,837,000	20,579,000
		$46,659,000
Application of funds		
Dividends paid — Preferred	$ 488,000	
Common	4,920,000	
Purchase and redemption of preferred stock	3,341,000	
Fixed asset additions and replacements	3,772,000	
Prepayments of notes issued under loan agreements	3,216,000	
Other — net	684,000	16,421,000
Working capital at December 31, 1955		$30,238,000

maintain our theatre properties. Capital expenditures for ABC in 1955 were $714,000. In light of the broadcasting division's expanding requirements, it is anticipated that ABC capital expenditures in the future will exceed the amount of its depreciation. Capital expenditures of approximately $362,000 were made in other non-theatre properties.

LONG TERM DEBT

The Company's long term debt with the Metropolitan Life Insurance Company and four banks was $37,234,000 at the year end. In line with our policy to stay one year ahead of maturities, a total of $3,216,000 was pre-paid during 1955 so that the next debt maturity falls due on July 1, 1957.

CHANGES IN CAPITAL STOCK

At the 1955 year end, there were 4,138,165 shares of common stock outstanding compared with 3,968,487 shares at the end of 1954. This increase was due to the exercise by key executives and employees of stock purchase options issued in 1950 under the terms of the stock option plan approved by our stockholders at that time.

150,000 shares of the 5% preferred stock were redeemed on October 20th at the applicable redemption price of $20.80 plus an amount equal to the accrued dividend to such date of 25¢ a share. With the retirement of these 150,000 shares and the shares purchased on the open market, 372,851 shares remain outstanding of the original 608,047 shares issued early in 1953. The Company will continue to purchase preferred stock on the open market for sinking fund purposes when such purchases appear advantageous.

BOOK VALUE OF COMMON STOCK

The book value of the common stock increased from $68,316,000 or $17.21 per share at the end of 1954 to $73,991,000 or $17.88 per share at December 31, 1955. Consolidated earnings for the year were $2,965,000 in excess of dividends paid, or 72¢ per share on the 4,138,165 shares outstanding at the year end. However, book value per share increased only 67¢ since a small premium was paid on retirement of preferred stock and additional shares of common stock were issued at the option price, slightly less than book value.

Theatres

INDUSTRY TRENDS

Our theatre business during 1955 compared favorably with 1954 through the summer months but was off for the year because of disappointing results in the fourth quarter attributed principally to the scarcity of top quality pictures released during that period. A number of fine pictures are expected to be released in 1956, a few of which are illustrated on the following pages.

As we have stated in the past, the patterns of movie going have changed considerably from the post-war period when motion pictures had a virtual monopoly of the entertainment dollar. Today the average family has free television, spends more time both vacationing and working around the house, has more children and increased responsibilities. In short, the demands on leisure time are greater and the public is much more selective than in previous years. However, the very fact that good pictures today gross as much as, and in some cases more than, the big pictures of former years, would indicate that people will go to theatres if the pictures are sufficiently attractive to them despite other interests and diversions.

To meet this changing pattern, producers have been endeavoring to effect a constant and progressive improvement in the quality of pictures produced. This objective has resulted in a decrease in the number of pictures. While quality is paramount, demand for pictures is still greater than supply with the result that film rentals have continued upward in a sellers' market. We believe that this imbalance should be corrected in time either through an increase in the number of pictures, a decrease in the number of theatres or a combination of both. The situation is somewhat more acute than it need be because of the distributor practice of withholding the release of the top quality pictures for the presumed "choice" periods of the year such as the first and third quarters. A more even distribution pattern of releasing pictures throughout the year would give the distributors more playing time when it is more readily available and would also serve to sustain the public's interest in pictures at a high level. We are making every effort to bring this matter to the attention of the distributors and we are hopeful that they will recognize it and take appropriate corrective measures.

To build theatre audiences, it is necessary to merchandise pictures aggressively through the most effective media. We have often stated and firmly believe that among the many effective methods of advertising and promotion, television presents a potent force in serving the motion picture industry. Properly presented, television is able to pre-sell pictures by its extensive exposure in millions of homes of potential movie goers. It can quickly develop new motion picture talent, especially young stars who are so important in attracting the younger theatre goers who comprise the major portion of movie audiences; and television can serve also as a source of story ideas, producers and writers. These potentialities are being realized more and more. Our Company has been furthering this closer relationship between picture production and television through ABC's present association with three major Hollywood companies, Disney, Warner Brothers and MGM whose programs are being presented on the TV network.

The improvement over the past two years in the technology of picture making and screen presentation has been very beneficial to our theatre business. Late in 1955, the Todd-AO process with its initial presentation of OKLAHOMA was presented in a few key theatres in the country. The CinemaScope wide screen process has also been improved. We can expect further experimentation leading to even finer results in picture production and theatre screen presentation. While story content still remains the most important ingredient in picture making, these technological advances are indicative of the industry's efforts to continually enhance the public's enjoyment of pictures in theatres.

THEATRE PROPERTIES

Our theatres are well maintained for the patrons' comfort and enjoyment and have kept abreast of the latest developments in new screen processes. These theatres are located in some 300 important cities and towns particularly in the economic growth areas of the South and Southwest and occupy a lead position in many of the communities in which they compete.

While under the Consent Judgment we are allowed to retain 651 theatres, we will have less than 600 once we have completed the disposition of the few remaining houses required under that Decree. This is pursuant to our past and present policy of disposing of marginal theatres, which for reasons of size, location, shift

Leland Hayward Production for Warner Brothers of "The Spirit of St. Louis," with James Stewart as Lindbergh.

Deborah Kerr and Yul Brynner in Rodgers and Hammerstein's exciting musical "The King and I." Released by 20th Century-Fox in CinemaScope and color.

United Artists' dramatic production, "Trapeze," starring Burt Lancaster, Gina Lollobrigida and Tony Curtis.

scenes from important pictures that will

be shown in theatres in 1956

"The Harder They Fall"—Columbia's gripping story by Budd Schulberg about professional boxing, starring Humphrey Bogart and Rod Steiger.

Bing Crosby, Grace Kelly and Frank Sinatra team up in MGM's glamorous musical, "High Society." In CinemaScope and color.

Tolstoy's epic story, "War and Peace" with Audrey Hepburn, Mel Ferrer and Henry Fonda. A Paramount picture in VistaVision and color.

"The Conqueror"—colorful spectacle of the story of Ghengis Khan, starring John Wayne and Susan Hayward. An RKO picture in CinemaScope.

"Away All Boats"—the Universal-International dramatic war-time sea story starring Jeff Chandler.

in population and the changing complexion of the business, do not have a desirable earnings potential. During the year, 34 houses were disposed of. At the year end, the Company had 605 theatres and has until June 3, 1956 to complete the disposition of its interest in 28 remaining houses, 3 of which may be retained, under the Consent Decree. Additional theatres can be acquired with Court approval once the divestiture program under the Decree is completed. Such acquisitions in growing and profitable areas will be considered where the anticipated return justifies the investment.

Our theatres are operated on a decentralized basis by local theatre management. We are fortunate to have theatre operating executives who are highly regarded in the industry for their experience and ability and in their communities for their leadership in all forms of local activities. The theatre is primarily a local and community institution and these executives and their theatre managers actively participate in the social and economic development of their communities.

The names of the various theatre circuits and the states in which they are located are listed below.

ARIZONA PARAMOUNT THEATRES *Arizona*

BALABAN & KATZ THEATRES *Illinois*

FLORIDA STATE THEATRES *Florida*

GREAT STATES THEATRES *Illinois, Indiana, Ohio*

INTERMOUNTAIN THEATRES *Utah, Idaho*

INTERSTATE THEATRES *Texas*

MINNESOTA AMUSEMENT THEATRES *Minnesota, Wisconsin, North and South Dakota*

NEW ENGLAND THEATRES *Massachusetts, Maine, Vermont, New Hampshire, Connecticut, and Rhode Island*

NORTHIO THEATRES *Ohio, Kentucky*

PARAMOUNT GULF THEATRES *Louisiana, Mississippi, Alabama, Florida, Texas*

PARAMOUNT PICTURES THEATRES CORP. *New York, Pennsylvania, California*

PENN PARAMOUNT THEATRES *Pennsylvania*

TENARKEN PARAMOUNT THEATRES *Arkansas, Kentucky, Tennessee*

TEXAS CONSOLIDATED THEATRES *Texas*

TRI-STATES THEATRES *Iowa, Nebraska, Illinois, Missouri*

UNITED DETROIT THEATRES *Michigan*

WILBY-KINCEY THEATRES *Alabama, Georgia, North and South Carolina, Tennessee, Virginia, West Virginia*

Broadcasting

The American Broadcasting Company Division made substantial progress during 1955 in forging a solid position for itself in the highly competitive broadcasting field. This was the first year since the merger in 1953 that the Division operated at a profitable level, with the television network in particular showing a marked improvement in billings, program ratings and advertiser acceptance. As a "growth company," ABC should continue to expand and enlarge its potential in succeeding years, both in the television and radio networks and its radio and television stations.

TELEVISION

During the year, ABC-TV was able to improve and increase its proportionate share of business in the dynamic television broadcasting field which saw total advertising revenues reach an estimated one billion dollars compared with approximately 800 million dollars in the preceding year. For example, gross time billings for the ABC-TV network increased 53% over 1954, a greater percentage increase than for any other network. In the Fall of 1955, ABC came close to filling the 21 prime nighttime hours with sponsored programs. Specifically, 25 hours including 5 daytime hours were sold commercially compared with a total of 13¼ hours in 1954 and 10¼ hours in 1953. One indication of ABC's program improvement is shown by the 56% increase in the amount of time that TV families spent each week viewing ABC programs—from 51 million home hours in December, 1954 to 80 million home hours in December, 1955.

This improvement was primarily attributable to the constant upgrading in the quality of programming with a schedule of different program types aimed at the varied tastes of the viewing audiences.

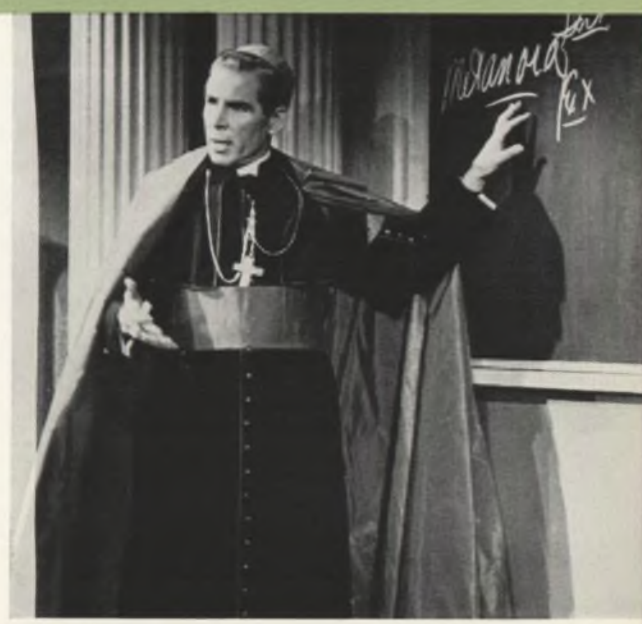
For general family entertainment, there is DISNEYLAND, the Walt Disney program that has consistently ranked among the top ten TV shows since its inception in 1954. This past Fall, two shows produced by major Hollywood motion picture companies, Warner Brothers and MGM, were seen on television for the first time —WARNER BROS. PRESENTS, a series of original dramatic and Western stories, some of which are based on two outstanding pictures from that company, "Casablanca" and "Cheyenne," and the MGM PARADE, bringing to television sequences from that studio's library of past product. With the FAMOUS FILM FESTIVAL, a

VARIETY—THE MICKEY MOUSE CLUB, the highest rated daytime program with Mickey Mouse as host and featuring the talented Mouseketeers

COMEDY—MAKE ROOM FOR DADDY starring Danny Thomas and his TV family—Jean Hagen, Rusty Hamer and Sherry Jackson

some of the many fine shows on ABC

ADULT WESTERN—Hugh O'Brian as the frontier marshal in the exciting adventures of WYATT EARP



INSPIRATION—The eminent clergyman Bishop Sheen on LIFE IS WORTH LIVING

MUSIC—The top-rated popular music of LAWRENCE WELK and his orchestra

FAMILY ENTERTAINMENT—Fess Parker stars as Davy Crockett on DISNEYLAND

elevision catering to all entertainment tastes

INS Photo

DRAMA—Charles McGraw stars in the "Casablanca" series on WARNER BROS. PRESENTS

SPORTS—The middleweight championship match between Tony DeMarco and Carmen Basilio on WEDNESDAY NIGHT FIGHTS ninety-minute program on Sunday evening, ABC was the first to present on a network basis top quality films such as "Red Shoes," "Caesar and Cleopatra" and the Alec Guinness pictures, "Lavender Hill Mob" and "The Promoter."

Dramatic presentations featured the new DU PONT CAVALCADE THEATER, a series of top contemporary dramas, and such other fine dramatic shows as TV READER'S DIGEST, STAR TONIGHT and THE VISE.

In the situation comedy field, there is the award-winning MAKE ROOM FOR DADDY, starring Danny Thomas, and a constant favorite with the public, THE ADVENTURES OF OZZIE AND HARRIET. Two popular programs, TOPPER and ETHEL AND ALBERT appeared on ABC having been moved over from other networks.

Musical shows included the new, increasingly popular and highly rated LAWRENCE WELK program, THE VOICE OF FIRESTONE, recipient of the 1955 Sylvania Award as the best network musical series, and OZARK JUBILEE and GRAND OLE OPRY, for those who enjoy country music.

The network carried a number of quiz, audience participation and variety programs, such as YOU ASKED FOR IT, starring Art Baker, Bert Parks in STOP THE MUSIC and BREAK THE BANK, MASQUERADE PARTY with Peter Donald, DOWN YOU GO with Dr. Bergen Evans as host and DOLLAR A SECOND, featuring Jan Murray.

Among the new programs to premiere this past Fall season on ABC-TV were WYATT EARP, an exciting adult Western drama series, the renowned Bishop Sheen with his stimulating talks on LIFE IS WORTH LIVING, CROSSROADS, a documentary drama about clergymen and their work, and MEDICAL HORIZONS, an interesting and informative series about medical accomplishments in this country.

Sports were well represented on the television schedule with the very popular WEDNESDAY NIGHT FIGHTS, switching to the ABC network, and coverage of the Sugar Bowl football classic as well as professional football games.

John Daly continued to garner honors as an outstanding news commentator. In the field of news and public affairs, ABC carried several new programs which gained widespread interest — OUTSIDE U.S.A. with commentator Quincy Howe, TOMORROW'S CAREERS, presented through the cooperation of John Hopkins University, COLLEGE PRESS CONFERENCE and the eminent clergyman, the Very Rev. James A. Pike, Dean of The Cathedral of St. John the Divine, in a stimulating program of his own.

Programs for the family group included such popular shows as RIN-TIN-TIN, KUKLA, FRAN and OLLIE, THE LONE RANGER, SUPER CIRCUS and Walt Disney's MICKEY MOUSE CLUB. The latter program marked ABC's major entry into daytime television. The MICKEY MOUSE CLUB, which was completely sold to advertisers on a firm 52-week basis prior to its October premiere, ranks not only as the number one daytime show but its rating is the highest ever attained for any daytime television series. More children view this program than any other day or evening show except DISNEYLAND and it attracts a larger audience of women than the average adult daytime program.

ABC's plans for the coming years include improved programming and further broadening in its program structure, particularly in the daytime period. In this connection, a new series of films never before seen on television, was recently scheduled on the network at 3:00 to 5:00 P.M. (NYT) preceding the MICKEY MOUSE CLUB. In addition, more than eleven new presentations, including a ninety-minute weekly dramatic series, are being prepared by some of the finest television producers for possible use in the 1956-57 season.

These very commendable results to date have been achieved despite ABC's inability to get full clearances for its programs in a number of large cities which still are limited to one or two TV stations. The clearance problem has been improving each year and the network now comprises about 215 affiliates. However, when the FCC does approve additional stations and ABC is able to get consistent program clearances and basic affiliations in such major markets as Boston, Miami, Pittsburgh and St. Louis, the network will be better able to compete on an equal basis with the other networks; revenues should show a corresponding increase; advertisers' needs will be better served; and the public will benefit by being given an opportunity to enjoy a greater selection of programs.

The public as well as advertisers and broadcasters can be expected to benefit from color television. To date, color set sales have been relatively limited. ABC will be prepared to broadcast in color when there is a sufficient number of color sets to justify public and advertiser interest.

RADIO

Radio has been going through a transition period since the advent and rapid growth of television. Despite a general industry decline in network radio business, this medium remains a dominant force in broadcasting attested by the extensive coverage of radio—96% of the homes in this country—and the continued high volume of radio set sales.

What has happened to radio under the impact of television is not so much a decline in people's radio listening as a change in their listening habits. The significant effect of television has been to change radio's role from the family entertainment medium to the individual's personal listening service and companion.

ABC has created programs to appeal to the personalized needs and tastes of radio listeners. Morning radio, for example, after opening with Don McNeill's BREAKFAST CLUB, presents stories for young housewives as they work around the home. Afternoon radio presents Martin Block's musical program, MAKE BELIEVE BALLROOM, for relaxation at home by mothers and the family and for pleasant listening to people on the job or to the very substantial and increased listening audience driving in automobiles.

In nighttime programming, ABC inaugurated this past Fall an entirely new program concept of half-hour segmented shows covering 2½ hours nightly and designed to advise, educate and entertain listeners in a lively and intimate manner. Together with this reprogramming, the network embarked on a new overall sales and promotional plan directed particularly to attract new sponsors through the sale of shorter program segments.

ABC radio has continued to maintain its high program standards in all fields —cultural, sports, entertainment, music, public affairs and news. This diversified program schedule included the renowned METROPOLITAN OPERA series, Bishop Sheen, the heavyweight championship Marciano-Moore fight which attracted the greatest home radio audience in seven years and THE GREATEST STORY EVER

TOLD in its ninth year and recipient of numerous honors from the press, religious and educational groups. In addition, there were many special public service features, including an enlightening series on the United Nations as well as extensive coverage of the important news events and personalities throughout the world.

The future level of radio network business is difficult to predict at this time. However, the new concepts of radio programming, the value of this medium to advertisers in terms of its effectiveness and its efficiency, the vast audience potential, and the large volume of set sales with future increases when smaller, transistor portable sets become readily available, all point to radio's continued importance in the communications field.

OWNED STATIONS

ABC owns and operates five television and four radio stations (plus a one-half interest in radio station WLS in Chicago), which are located in five of the seven leading markets in the country—WABC (TV, AM, FM)—New York; WBKB (TV)—Chicago; WXYZ (TV, AM, FM)—Detroit; KGO (TV, AM, FM)—San Francisco and KABC (TV, AM, FM)—Los Angeles.

Their overall business, which has shown profitable improvement year-to-year, reflected the growing audience popularity of the improved network and local programs carried by these stations, and the increased attractiveness of these programs to national, spot and local advertisers. This is particularly true of the television stations which have excellent physical facilities to meet the requirements of local programming and maximum transmission power providing extensive coverage and proper reception to local audiences.

Film syndication

ABC Film Syndication, Inc., a subsidiary of our Company, expanded its operations considerably during the year. Its billings of television film programs, distributed to local stations and local, regional and national advertisers were nearly double the previous year's volume.

In addition to its film series "Racket Squad," "Passport to Danger," "The Playhouse," and "Kieran's Kaleidoscope," three new properties for television syndication were acquired in 1955 and are being sold in television markets throughout the United States and Canada. These programs are "Douglas Fairbanks, Jr. Presents," "Sheena, Queen of the Jungle," and the "Anniversary Package," a group of fifteen top quality feature films. Two more properties, "The Three Musketeers" and "Code Three" are planned for distribution in 1956 and several others are in various stages of completion.

Film syndication should also benefit in time with the growth of television in other countries and ABC Film Syndication will be prepared to distribute its current and future properties to these foreign markets.

Disneyland park

The July opening of the Disneyland Park in Anaheim, California, which included the largest remote telecast of any program to that date by the ABC-TV network, was one of the most publicized events in the entertainment field in 1955. The Park has been well received by the public and over two million people from all parts of the country have visited this amusement center since the summer opening.

Our Company paid $500,000 for approximately a 35% stock interest in Disneyland, Inc. At the year end, we had advanced, on a basis proportionate to our stock interest, $1,241,200 which is subordinated to a bank loan in the original amount of $4,400,000, since reduced to $3,650,000 at March 1, 1956. (This is more fully described in Note A to Financial Statements herein.) As additions or improvements are necessary for the successful operation of the Park, we expect to advance our pro rata share of any additional financing needed.

The Park also serves advantageously as the setting for a number of the Disney programs carried by ABC. These already include the recently launched ABC radio network show, Walt Disney's MAGIC KINGDOM, and sequences for the MICKEY MOUSE CLUB and DISNEYLAND programs on television.

Electronics

Microwave Associates, Inc., which designs and produces microwave equipment, magnetrons, radar components and other electronic devices, continued to show profitable improvement in its business in 1955.

Our Company has a one-third stock interest in Microwave. The association with Western Union Telegraph Company, which purchased a one-third stock interest from Microwave during the year, is expected to accelerate the growth of this electronics concern. A site has been purchased in Burlington, Massachusetts, for the construction of a new plant which will provide additional space for its expanding operation.

In February, 1956, our Company and Western Union each entered into an agreement to purchase a 22% stock interest with options to increase such respective stock interests to 25%, in Technical Operations, Incorporated, of Arlington, Massachusetts. Technical Operations, composed of a very highly competent group of scientists, is a growing manufacturing, research and development organization participating broadly in various scientific fields with emphasis on nucleonics, operations research, chemistry and electronics. It is our feeling that this acquisition will further the development of our interests in the electronics field.

Records

Am-Par Record Corp., a subsidiary company, was organized in June, 1955 to engage in the phonograph record business. Experienced management was obtained and distribution outlets have been set up in the major cities and in Canada. Its initial release was the recorded songs from the MICKEY MOUSE CLUB television show, with sales indicating that these are among the top selling children's records on the market today. Starting in November, a number of records in the popular music field were released under the "ABC-Paramount" label featuring many new young artists. The public response to these first releases has been encouraging and additional recordings are being planned in the popular as well as other musical fields.

Shareholder relations

At the year end, there were 24,746 registered holders of common stock and 1,043 registered holders of preferred stock of this Corporation representing individual men and women, banks, brokerage houses, institutions and investment companies. Many thousands more shareholders have their stock registered in the names of nominees.

We are very pleased that our 1954 Annual Statement to shareholders was again chosen as the best report of its industry in the Financial World survey of corporate annual reports. This marks the third consecutive year that our Company has received this commendation.

It is with deep sorrow that we record the passing on February 16, 1956 of Walter W. Gross, General Counsel, Vice-President and a Director of our Company since its inception. Mr. Gross was a man of outstanding integrity, ability and kindliness. He rendered wise counsel and outstanding services to the Company throughout the years. His associates have lost a true friend. The directors, officers and stockholders are profoundly grateful for the invaluable contributions made by Mr. Gross to the welfare of the Company.

PRICE WATERHOUSE & CO.

56 PINE STREET

NEW YORK 5

March 14, 1956.

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

In our opinion, the accompanying consolidated balance sheet and related statements of profit and loss and surplus, together with the explanatory notes, present fairly the position of American Broadcasting-Paramount Theatres, Inc. and consolidated subsidiary companies at December 31, 1955 and the results of their operations for the fiscal year (52 weeks) then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Our examination of these statements was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

PRICE WATERHOUSE & CO.

ASSETS

	December 31, 1955	January 1, 1955
CURRENT ASSETS:		
Cash	$ 20,731,782	$ 19,556,871
United States government securities (at approximate market or redemption value)	3,702,085	4,363,800
Accounts and notes receivable, less reserves:		
Accounts receivable, trade	13,205,624	11,363,902
Notes receivable from disposal of theatre interests since January 1, 1950	241,490	296,481
Affiliated companies	81,585	100,662
Officers and employees	98,487	97,077
Sundry notes and accounts	1,052,688	1,056,691
Broadcasting program rights, film costs and production advances, less amortization	6,034,154	2,457,675
Inventory of merchandise and supplies, at cost or less	988,703	1,149,873
Total current assets	$ 46,136,598	$ 40,443,032
INVESTMENTS, LESS RESERVES (See Note A):		
Affiliated companies:		
Capital stocks	$ 1,708,194	$ 1,844,767
Advances	1,503,051	1,401,958
Notes receivable from disposal of theatre interests since January 1, 1950, due after one year	1,084,374	1,418,773
Other notes and accounts due after one year	366,434	441,035
Miscellaneous	2,034,926	1,758,581
	$ 6,696,979	$ 6,865,114
FIXED ASSETS (See Note B):		
Land	$ 22,945,406	$ 22,800,011
Buildings, equipment and leaseholds	115,521,405	118,225,497
Less—Reserves for depreciation and amortization	(64,754,189)	(62,058,571)
	$ 73,712,622	$ 78,966,937
INTANGIBLES, at cost	$ 8,756,620	$ 8,756,620
OTHER ASSETS:		
Deposits to secure contracts	$ 816,738	$ 912,497
Prepaid expenses and deferred charges	2,474,348	2,432,449
	$ 3,291,086	$ 3,344,946
	$138,593,905	$138,376,649

LIABILITIES AND CAPITAL

	December 31, 1955	January 1, 1955
CURRENT LIABILITIES:		
Accounts payable and accrued expenses (including unremitted collections of admission and payroll taxes — December 31, 1955, $540,549)	$ 12,659,429	$ 13,134,052
Federal taxes on income, estimated	8,166,004	5,758,928
Less — U. S. Treasury notes	(5,316,288)	(4,672,778)
Notes and mortgages payable within one year	389,030	143,280
Total current liabilities	$ 15,898,175	$ 14,363,482
FUNDED DEBT DUE AFTER ONE YEAR:		
Notes issued under Loan Agreements (See Note C)	37,234,000	40,450,000
Other notes and mortgages	1,488,944	1,552,168
OTHER LIABILITIES:		
Advance payments, self-liquidating	555,217	546,234
Miscellaneous	1,202,766	494,133
Total liabilities	$ 56,379,102	$ 57,406,017
RESERVE FOR CONTINGENCIES (See Note D)	$ 515,830	$ 1,728,466
INTEREST OF MINORITY STOCKHOLDERS IN CAPITAL AND SURPLUS OF SUBSIDIARY COMPANIES	$ 250,745	$ 254,351
CAPITAL STOCK AND SURPLUS (See Note E):		
5% Preferred stock, authorized 372,855 shares, $20 par value Outstanding 372,851-88/100ths shares	$ 7,457,038	$ 10,672,482
Common stock, authorized 5,000,000 shares, $1 par value Outstanding 4,138,165-33/38ths shares	4,138,166	3,968,487
Capital surplus	45,809,304	43,268,208
Earned surplus	24,043,720	21,078,638
	$ 81,448,228	$ 78,987,815
CONTINGENT LIABILITIES (See Note F)		
	$138,593,905	$138,376,649

PROFIT AND LOSS ACCOUNT

	1955	1954
INCOME:		
Theatre receipts and rentals	$110,503,384	$115,916,322
Television and radio time and program sales, less discounts, rebates and commissions to advertising agencies	81,116,634	70,423,348
Dividends from affiliated companies	508,311	102,042
Other income	2,533,739	2,353,993
	$194,662,068	$188,795,705
EXPENSES:		
Theatre and broadcasting operating, selling, general and administrative expenses, including film rentals, rents, real estate and other taxes	$169,001,711	$169,276,665
Interest expense	1,457,203	1,467,093
Depreciation and amortization of buildings, equipment and leaseholds	8,173,765	8,390,176
Profits applicable to minority holders of stocks of subsidiary companies	17,766	19,260
Federal income tax	7,793,606	4,920,724
	$186,444,051	$184,073,918
PROFIT FROM OPERATIONS	$ 8,218,017	$ 4,721,787
CAPITAL GAINS, net, after applicable Federal income tax	155,356	209,700
PROFIT FOR THE YEAR	$ 8,373,373	$ 4,931,487

SURPLUS ACCOUNTS

	Earned	*Capital*
BALANCE AT BEGINNING OF YEAR	$ 21,078,638	$ 43,268,208
ADD or (DEDUCT):		
Profit for the year	8,373,373	
Dividends paid in cash:		
5% Preferred stock at $1.00 per share	(487,963)	
Common stock at $1.20 per share	(4,920,328)	
Proceeds in excess of par value of 170,590 shares of common stock issued upon exercise of stock purchase options		2,666,322
Purchase or redemption price in excess of par value of 160,770 shares of 5% Preferred stock retired		(125,939)
Other changes		713
BALANCE AT END OF YEAR	$ 24,043,720	$ 45,809,304

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

BASIS OF CONSOLIDATION:

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

NOTE A—INVESTMENTS:

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

Investments in and receivables from affiliated companies include $500,000 stock investment and $1,241,200 advances to Disneyland, Inc. During the year 1955, in accordance with its previous obligation, the Company caused funds in the amount of $4,400,000 to be lent to Disneyland, Inc. by a banking institution. This loan is payable by Disneyland, Inc. in instalments through April, 1962, and the related note is secured by mortgage on the real property and certain personal property of Disneyland, Inc. as well as pledges of the revenues to be derived from leasehold contracts and also from television broadcasting contracts between the Broadcasting Division of the Company, Walt Disney Productions, and Disneyland, Inc. In the event of default by Disneyland, Inc. and notice of acceleration of due date is given by the bank, the Company has agreed to purchase the note for the unpaid balance, in which event the Company may exercise all rights under the security provisions of the mortgage indenture and exploit the residuals of the television programs until such funds are recovered. At March 1, 1956 the bank loan had been reduced to $3,650,000.

The miscellaneous investments include an aggregate amount of $1,303,751 in respect of certain sales of stock interests and properties since January 1, 1950 under contracts which provide for the payment of sales prices totalling $8,103,200 over a period of years. The uncollected balance of the sales prices at December 31, 1955 amounted to $7,452,957. The difference between the uncollected balance of the sales prices and the amounts carried under miscellaneous investments represents unrealized profit on the sales, which is being taken into the profit and loss account on a pro-rata basis as payments on account of the sales prices are received.

NOTE B—FIXED ASSETS:

The fixed assets, with minor exceptions, are carried at cost, less depreciation, to the predecessor companies, Paramount Pictures Inc. and American Broadcasting Company, Inc., to American Broadcasting-Paramount Theatres, Inc., or to subsidiaries. Three properties of a consolidated subsidiary carried at a book value of $304,603 are subject to a mortgage in the maximum amount of $346,667 pledged to secure performance under certain leases of such subsidiary.

NOTE C—NOTES ISSUED UNDER LOAN AGREEMENTS:

These notes comprise (1) $3,400,000 of 3¼% notes, due $400,000 semi-annually from July 1, 1957 to and including July 1, 1960 and $600,000 on January 1, 1961, and (2) $33,834,000 of 3½% notes payable in semi-annual instalments of $1,208,000 each from July 1, 1957 to and including January 1, 1971.

NOTE D—RESERVE FOR CONTINGENCIES:

Reserve for contingencies was reduced during the year by $929,183 in respect of payments in settlement of certain litigation and costs in connection therewith, and by an additional amount of $283,453 transferred to appropriate liability accounts to provide for certain payments determined to be required over a period of years. The reserve is intended to provide for settlements of anti-trust litigation and other contingencies applicable to the period prior to December 31, 1949.

NOTE E—CAPITAL STOCK AND SURPLUS:

There were outstanding on December 31, 1955 option warrants issued to officers and employees under the Common Stock Option Plan which entitled the holders to purchase 39,190 shares of the Company at $16.63 per share on or before December 15, 1957. Options with respect to 170,590 shares were exercised during the year. Option warrants for an additional 35,000 shares permitted to be issued under the Plan remained unissued at December 31, 1955.

The Company is required in each year to set aside cash as a sinking fund for the redemption of 24,322 shares of 5% Preferred Stock. The sinking fund redemption price is presently $20.60 and reduces periodically until it becomes $20 after June 30, 1958. The Company may take credit, at the sinking fund redemption price, for any shares which it may have purchased or redeemed otherwise than through the sinking fund. To December 31, 1955, the Company had purchased or redeemed 235,192 shares of 5% Preferred Stock, of which 72,966 shares have been applied in full satisfaction of sinking fund requirements through the year 1955. The balance of 162,226 shares is available for sinking fund requirements of subsequent years.

Under the Loan Agreement there are certain restrictions on the Company in declaring or paying any dividends (otherwise than in shares of capital stock of the Company) or making, or permitting any subsidiary to make, any purchase, redemption, or retirement of, or any other distribution upon, any of the shares of capital stock of the Company (otherwise than in such shares), said "stock payments" being permitted only to the extent of $8,500,000 plus the consolidated net earnings of the Company (excluding amounts representing capital gains, less applicable taxes thereon) since January 2, 1954. These restrictions had the effect of making the capital surplus and $15,854,059 of the consolidated earned surplus at December 31, 1955 unavailable for such stock payments.

NOTE F—CONTINGENT LIABILITIES:

Guaranty of notes of an affiliated company, principal amount $50,000.

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

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

NOTE G—RENTALS UNDER LEASES OF REAL PROPERTY:

American Broadcasting-Paramount Theatres, Inc. and its consolidated subsidiaries were liable as of December 31, 1955 under 345 leases of real property expiring subsequent to December 31, 1958 under which the minimum annual rental was approximately $6,197,000. The minimum annual rentals stipulated in these leases which expire during the three five-year periods ending December 31, 1973 and subsequent to that date are as follows:

Leases expiring:	
During the 5 years ending:	
December 31, 1963	$2,046,000
December 31, 1968	1,660,000
December 31, 1973	760,000
Subsequent to December 31, 1973	1,731,000
	$6,197,000

NOTE H—CONSENT JUDGMENT:

The Consent Judgment dated March 3, 1949 entered in the anti-trust proceedings entitled United States of America v. Paramount Pictures Inc., et al, as amended by subsequent orders, requires the Company and its subsidiaries to dispose of certain wholly owned theatres and terminate joint interests in theatres (except with investors) not later than June 3, 1956.

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