

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-K

Annual Report Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

For the fiscal year ended June 30, 1976 Commission File No. 1-3981

CAPITOL INDUSTRIES-EMI, Inc.

(Exact name of registrant as specified in its charter)

New York

(State of Incorporation)

13-045-6258

(IRS Employer Identification No.)

1750 North Vine Street, Hollywood, California

(Address of principal executive offices)

90028

(Zip Code)

Registrant's telephone number, including area code: (213) 462-6252

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

Name of each exchange on
which registered

Common Stock, 10¢ par value

None

Securities registered pursuant to Section 12(g) of the Act:

Not applicable (registration under Section 12(b)
remains in effect).

Indicate by check mark whether the registrant (1) has
filed all reports required to be filed by Section 13 or 15(d) of
the Securities Exchange Act of 1934 during the preceding 12 months
(or for such shorter period that the registrant was required to
file such reports), and (2) has been subject to such filing
requirements for the past 90 days.

Yes X

No _____

As of June 30, 1976 registrant had 3,304,592 shares
of Common Stock outstanding, not including treasury shares and
shares held by a wholly-owned subsidiary.

P A R T I

Item 1. Business.

General

Registrant, CAPITOL INDUSTRIES-EMI, Inc. is a New York corporation organized in 1937. As used in this Item 1 and elsewhere in this report, the term "Capitol Industries" includes the registrant, its predecessors and, unless the context indicates otherwise, its direct and indirect subsidiaries. Capitol Industries is a 98.1%-owned subsidiary of EMI Limited, an English company ("EMI").

Through its subsidiaries, primarily Capitol Records, Inc. ("Capitol Records"), Capitol Industries is engaged in the business of producing and marketing sound products, principally consisting of records and tapes. "Records" in this context means all 12-inch 33-1/3 r.p.m. long playing disk records ("LP albums") and 7-inch 45 r.p.m. "single" records, as well as lacquer recording disks used in the production of records. The term "tape" as used herein includes various types of pre-recorded and blank tape. Pre-recorded tape comprises recordings of voice and/or music in continuous-loop 8-track cartridges (stereophonic and quadraphonic) and compact cassette formats. Blank tape comprises blank sound tape in reel-to-reel, continuous-loop 8-track cartridge, and cassette formats; tape in bulk lengths for processing by third parties for subsequent sale by them in such formats; sound tape for professional use in reel-to-reel and cartridge formats; sprocketed magnetic film; and specialized components manufactured and sold to users in the tape industry.

Except for the disk and tape record manufacturing contract with Warner Communications, Inc. discussed on page 9, there have been no significant changes in the kinds of products produced or services rendered or in the markets or methods of distribution for Capitol Industries' products since the beginning of the fiscal year ended June 30, 1976 ("Fiscal 1976").

In March 1974 Capitol Industries offered to purchase for cash, at \$15.00 net per share, all of its outstanding Common Stock other than that held by EMI. A total of 1,276,221 shares were tendered and purchased pursuant to the

offer, leaving less than 3% of the remaining Common Stock in public hands. During Fiscal 1976 Capitol Industries purchased from offering shareholders an additional 16,903 shares of its Common Stock at \$15.00 net per share.

The following management changes occurred during Fiscal 1976: Mr. Kenneth V. Northrup was elected Treasurer of Capitol Industries on October 21, 1975. Mr. Brown Meggs was elected a Vice President on February 11, 1976, although he subsequently resigned effective July 6, 1976.

The following table indicates the contribution to total revenues from continuing operations by Capitol Industries' records, tapes and other miscellaneous products and services during each of the past five fiscal years ended June 30. The amounts for 1972 and 1973 have been restated to eliminate discontinued operations.

<u>Class of Products</u>	<u>Dollars in Thousands</u>				
	<u>(Restated)</u>				
	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>
Records	\$ 72,361	\$ 76,437	\$ 80,720	\$ 73,071	\$106,912
Tapes	38,826	47,744	55,048	47,215	55,353
Other	<u>5,062</u>	<u>6,797</u>	<u>5,895</u>	<u>4,710</u>	<u>5,896</u>
Total	\$116,249	\$130,978	\$141,663	\$124,996	\$168,161

The principal offices of Capitol Industries and Capitol Records are located in the Capitol Tower, a 13-story circular office building completed in 1955 and located near the intersection of Hollywood and Vine in Hollywood, California. Capitol Industries and Capitol Records also have offices in the Capitol Industries Building at 1370 Avenue of the Americas, New York City.

Records

Capitol Industries believes itself to be among the top four United States companies in the record industry, based on sales. It owns and/or is licensed the use of in excess of 68,000 "masters" (defined below) of individual musical compositions, and currently markets in addition to

single records (7-inch 45 r.p.m.) approximately 2,600 LP albums (12-inch 33-1/3 r.p.m. long playing disk recordings). Its recordings include a wide variety of popular, classical, country and western, jazz, Broadway show, motion picture and TV sound tracks, folk, rock, rhythm and blues, and comedy records. Artists featured on labels sold by Capitol Industries range from The Band, The Beatles, Natalie Cole, Bill Cosby, Dr. Hook, Merle Haggard, Freddie Hart, Paul McCartney and Wings, Anne Murray, Pink Floyd, and Helen Reddy, to Sir John Barbirolli, Otto Klemperer, Yehudi Menuhin, Andre Previn and Beverly Sills, and include among others Cannonball Adderley, Asleep at the Wheel, Sir Thomas Beecham, Berlin Philharmonic, Blue Swede, Sir Adrian Boult, Maria Callas, Glen Campbell, Chicago Symphony Orchestra, Cleveland Orchestra, Nat King Cole, Jessi Colter, Tennessee Ernie Ford, Gentle Giant, Walter Gieseking, Emil Gilels, Jackie Gleason, Grand Funk, Sammy Hagar, George Harrison, Hub, Sonny James, Herbert von Karajan, Igor Kipnis, Leo Kottke, Kraftwerk, La Costa, John Lennon, The Lettermen, London Symphony Orchestra, Victoria de Los Angeles, Los Angeles Chamber Orchestra, Al Martino, Steve Miller, David Oistrakh, Buck Owens, Christopher Parkening, Pilot, Pousette Dart Band, Quicksilver Messenger Service, Susan Raye, Sviatoslav Richter, Linda Ronstadt, Evie Sands, Frank Sinatra, Tom Snow, Ringo Starr, Ruby Starr & Grey Ghost, Status Quo, Barrett Strong, Sweet, The Sylvers, Tapestry, Tavares, Triumvirat, Unicorn, Nancy Wilson and Jimmy Witherspoon.

Capitol Industries from time to time manufactures and markets specialty record albums. Under agreements with Time, Inc. Capitol Industries and Time, Inc. have produced three series of packages entitled, respectively, "As You Remember Them", "The Story of Great Music", and "The Swing Era", which Time, Inc. distributes by mail order.

The records which Capitol Industries and other record companies sell are manufactured from master records (recorded on tape) called "masters". Capitol Industries obtains the rights to manufacture records from masters in three ways: masters are recorded by artists under contract to Capitol Industries at its own studios or at studios rented from others; masters are recorded for Capitol Industries by independent record producers in the United States and abroad; and masters are licensed to Capitol Industries under agreements with record companies outside the United States. Capitol Industries presently has contracts covering the performances of approximately 100 artists and groups.

Masters Recorded by Artists Under Contract to Capitol Industries. Under a recording contract with an artist, the record company usually obtains the exclusive right to all masters recorded by the artist during the term of the contract and almost always obtains perpetual manufacturing and distribution rights in the masters so produced. For example, Capitol Industries is still selling records which were recorded under personal service contracts which expired some time ago, including records by artists who are no longer living.

The provisions of each recording contract are subject to negotiation between Capitol Industries and the artist or his representative and vary from contract to contract. Most recording contracts between Capitol Industries and its artists are for a term of three to seven years if Capitol Industries exercises all of its option rights. Some contracts are for shorter terms and a few have provided for terms of 10 years or more. Such contracts specify the payments to be made to the artist for his performance at recording sessions, generally obligate Capitol Industries to pay for the recording of a minimum number of masters each year, and often contingently provide for minimum annual releases of records. The masters almost invariably are the property of Capitol Industries from recordation, and the artist is paid a percentage royalty for each record sold and not returned.

Masters are produced at recording sessions conducted in acoustically designed recording studios. Capitol Industries has three such studios at the Capitol Tower in Hollywood. It also obtains the use of studios elsewhere on a short term rental basis from time to time as necessary. Capitol Industries as a producer of recordings supervises and coordinates the recording sessions, is responsible for the finished masters, and engages and coordinates the activities of the recording artists, the supporting musicians and the music arrangers (if any are utilized), plus the other creative and technical personnel. Either full-time employees of Capitol Industries or independent contractors engaged for specific recording sessions act as producers at recording sessions of recording artists under contract to Capitol Industries.

The various sound tracks recorded at recording sessions are edited and "mixed" by specially trained technical personnel and the final results are embodied in the master tape from which all records are made. A properly stored master tape can be preserved indefinitely.

Masters Recorded by Independent Record Producers.
Capitol Industries obtains rights from individuals and companies (called "independent producers") which are in the business of producing masters for use by companies having the necessary facilities to manufacture, market and distribute records and tape recordings. Capitol Industries enters into such contracts with independent producers located both in the United States and in foreign countries.

Under such agreements Capitol Industries is usually granted at least the exclusive right during their terms to manufacture in the United States and Canada all types of records and tape recordings from the masters so recorded. Agreements covering such uses almost invariably involve payment of a royalty for each record sold and not returned, and the royalty rates vary depending on the popularity of the artist and/or the relative success of the independent producer involved. Independent producers have recording artists under contract to them. Usually Capitol Industries' rights in masters recorded by independent producers are perpetual although not infrequently (for the more popular artists) the rights may be limited to a specified period after the term of the agreement ends.

Recording contracts with artists and contracts for masters to be recorded by independent record producers have in recent years involved payment by Capitol Industries of guaranteed amounts of royalty. The guaranteed amounts vary depending on the popularity of the recording artist and/or the successful production activities of the independent producers. Competitive conditions result in the record companies bidding against each other for such contracts, and as a result the sums guaranteed are often substantial.

Capitol Industries rents its recording studios and technical equipment in Hollywood to independent producers and makes its technical personnel available to such independent producers from time to time whether or not Capitol Industries will acquire the masters.

Licensing of Masters by and between Capitol Industries and Foreign Record Companies. Capitol Industries also manufactures and markets records from masters, the rights to which are obtained under license agreements with foreign record companies. Under such licenses, Capitol Industries is usually granted the exclusive right to manufacture in the United States and Canada all types of records and tape recordings from the licensed masters.

EMI and its affiliates are the most important foreign record companies with which Capitol Industries has license agreements, but Capitol Industries also has licenses from other foreign companies. Capitol Industries licenses EMI and its affiliates to use masters owned and controlled by Capitol Industries. All such licenses, as well as those under which Capitol uses masters owned and controlled by EMI and its affiliates, are made on terms prevalent in the record industry.

Manufacture of Records. The first step in the manufacture of a disk phonograph record is the transfer of the recorded performance from the master tape to a coated aluminum disk called a lacquer disk. The performance is then transferred in a three-step electroplating process to a metal negative plate called a stamper. Stampers are fitted into hydraulic presses which press them against a preheated vinyl compound to produce the finished two-sided disk record. Labels are impressed on the disk in the stamping process. The finished disk record is enclosed in a protective record sleeve if it is a "single" record.

For LP albums, long-playing records in sleeves are collated into album jackets or boxes on the front of which are usually printed pictures or other artistic material. Textual material concerning the artists and selections featured in the album (called "liner notes") is sometimes printed on the album jacket or box or on an "insert" in the jacket. Capitol Industries' employees usually compose the liner notes. The artistic work in creating pictures or other artistic material for the LP albums sold by Capitol Industries may be performed by Capitol Industries' employees or by outside agencies, usually under the direction of Capitol Industries' Creative Services Department.

Capitol Industries has disk record manufacturing plants in Los Angeles, California; Jacksonville, Illinois; Winchester, Virginia; and Toronto, Canada. By contracts Capitol Industries has assured itself of supplies of vinyl resin (the principal plastic used in the manufacture of disk records) from two sources over the intermediate term. The other raw materials necessary for the manufacture of Capitol Industries' disk records are normally available in ample supply from more than one source.

Lacquer disks are an integral component in the manufacture of disk phonograph records. Capitol Industries' lacquer disks have been used since 1938 for that purpose as well as for instantaneous recording and playback by recording studios. In recent years, the use of disks for the latter purposes has been very nearly discontinued because the use of magnetic tape for those purposes has certain advantages.

Until Fiscal 1975 the manufacture of lacquer disks was carried on at Capitol Industries' facilities in Glenbrook, Connecticut. A plant of approximately 25,000 square feet to manufacture lacquer disks was completed in Winchester, Virginia in September 1974, and the facility in Glenbrook was closed in January 1975. The raw materials for lacquer disks (aluminum disks and cellulose acetate) are in ample supply.

Tapes

Capitol Industries is also engaged in the manufacture and sale of a wide range of tape products and sprocketed magnetic film, including tape recordings on cassettes and cartridges (utilizing most of the same masters released as disk phonograph records); sound tape for use in cassettes, cartridges and professional and reel-to-reel applications; and cassettes and continuous-loop 8-track cartridges into which tape is loaded. As of July 1, 1974, Audio Devices, Inc., then a wholly-owned subsidiary of Capitol Industries, was merged into Capitol Records and the tape business and operations formerly carried on by Audio were transferred to the newly created Capitol Magnetic Products Division (the "CMP Division").

Capitol Industries produces tape recordings (as well as manufacturing disk phonograph records) at its Jacksonville, Winchester and Toronto plants. In this process, recorded performances from masters are duplicated on tape which is then loaded into cartridges and cassettes for use in the home, in automobiles and elsewhere. Capitol Industries' tape recordings currently include approximately 380 cassettes and 650 8-track cartridges.

Since 1948 Capitol Industries has manufactured magnetic tape. Products include blank tape for professional and general recording of music, speech and other audible range material, and for a variety of specialized applications. Since 1965 Capitol Industries has produced continuous-loop tape cartridges and the lubricated tape used therein for player units in automobiles and for professional and home use. Since 1969 Capitol Industries has produced cassette tape and cassettes. The manufacture of blank tape and magnetic film and related products is carried on in Glenbrook, Connecticut by the CMP Division. A few of the materials for those products have been scarce but it is anticipated that for the foreseeable future adequate supplies can be obtained. They are normally available from more than one source.

Since 1975 Capitol Industries has manufactured at its Jacksonville and Winchester plants by injection molding all of the plastic parts it uses for cartridges and cassettes.

Manufacturing Contract with Warner Communications, Inc.

Effective July 1, 1976 Capitol Records entered into a long-term contract with Warner Communications, Inc. ("WCI") pursuant to which Capitol Records will press records and duplicate pre-recorded tapes for WCI at Capitol Records' plants. Work started in March 1976 under this arrangement.

Music Den

Music Den Retail Corp. ("Music Den"), a subsidiary of Capitol Records, leases and operates eight retail record stores, including three in Iowa, one in Illinois, three in New Jersey and one in New York.

Compliance with Environmental Regulations

In order to comply with federal, state and local requirements relating to environmental control, Capitol Industries made capital expenditures of approximately \$135,000 in Fiscal 1976, the greater part of which was for (1) the solvent recovery system in Glenbrook, Connecticut and (2) equipment for protection of personnel against effects of vinyl chloride monomer in Winchester, Virginia. It is anticipated that approximately \$603,000 will be expended in Fiscal 1977, most of it to complete the solvent recovery system in Glenbrook.

Marketing and Distribution

Records. Most of Capitol Industries' popular ("pop") records are manufactured and sold by Capitol Records on labels bearing the "Capitol" trademark. The "Angel" label is used for most classical recordings, the "Melodiya/Angel" label for the classical recordings made by Russian artists and licensed to Capitol Industries under its former agreement with the cultural agency of the Russian Government, and the "Seraphim" label for low-price classical recordings. The "EMI" and "Harvest" labels are utilized for recordings manufactured under license from EMI and its affiliates. While the "Apple" label has been used for recordings by the group known as the "The Beatles" and by the individual members of that group, Messrs. George Harrison, John Lennon, Paul McCartney, and Ringo Starr, after April 30, 1976 all such records are being manufactured on the "Capitol" label. Capitol also distributes records manufactured by Ariola America, Inc. on the "Ariola" label.

All of the above records, which Capitol Industries manufactures through Capitol Records, are marketed and distributed in the United States by Capitol Records' marketing organization. Its principal customers are retail record dealers, juke box operators, rack jobbers, one stops and other wholesalers (which in turn sell Capitol Industries' products to record dealers and other customers whom they serve). Capitol Records has 7 warehousing facilities and 13 sales offices (see Item 3). All of Capitol Records' customers (including Music Den) also sell the products of other record companies.

The sale of Capitol Industries' products is advanced by extending local promotion and advertising assistance to customers and by national and regional advertising and promotion of records released by it.

Tapes. Tape recordings packaged in 8-track cartridges and cassettes are marketed under the same labels and in the same manner as disk records, by Capitol Records and its customers, including Music Den. Capitol Records markets to record outlets, blank tape manufactured by its Capitol Magnetic Products Division in reel-to-reel, cartridge and cassette formats under the "Capitol" and "The Music Tape" trademarks. Those products are marketed by the CMP Division through its "consumer" sales force. Other tape products and lacquer disks are marketed by the CMP Division through its "professional" sales force. The CMP Division, through four regional offices, its own salesmen and Capitol Records' salesmen, markets Capitol Industries' tape products in every major metropolitan area in the United States.

Backlog. Order backlog is not significant in the record industry. Backlog orders for Capitol Industries' other tape products amounted to approximately \$1,266,000 at June 30, 1976 and \$858,000 at June 30, 1975. It is anticipated that substantially all of the backlog at June 30, 1976 will be filled during the current fiscal year.

Seasonality. The sales of Capitol Industries' products, particularly those of recorded disks and tapes, are usually greater in the first half of its fiscal year due to the Christmas season, but the popularity of the records released in any given period determines the sales volume.

Foreign Operations and Sales

Over the last several years, foreign operations and sales have gradually increased as a percentage of Capitol Industries' total business. In the fiscal year ended June 30, 1976 the increase in foreign operations and sales was small; to approximately 23.1% of Capitol Industries' net sales, from approximately 22.9% in Fiscal 1975. In Fiscal 1976 Capitol Industries experienced a slightly higher rate of pre-tax profit on its foreign operations and sales than that attributable to its domestic operations and sales. Moreover,

profits attributable to foreign operations and sales generally are taxed at a lower rate than domestic profits. Capitol Industries does not believe that the risks attendant to its foreign operations and sales differ materially from those involved in its domestic activities.

Canada. Capitol Industries conducts operations in Canada through CAPITOL RECORDS-EMI of CANADA Limited ("Capitol-Canada") and other subsidiaries of Capitol Industries. Capitol-Canada is licensed to use masters owned or controlled by Capitol Records and by EMI and its affiliated companies. In addition it engages Canadian artists to record masters in Canada and contracts to obtain masters made by independent producers of records in Canada.

Capitol-Canada markets and distributes throughout Canada its own records and tapes, the records and tapes of Arista Records, Inc., Chrysalis Records, Inc., United Artists Records and Vanguard Records. In addition, Capitol-Canada markets and distributes throughout Canada records imported from Capitol Industries and other EMI-affiliated companies in England, France, Germany, Holland, Italy and India. Capitol-Canada's marketing organization sells to retail record dealers, rack jobbers, one stops and other wholesalers, and leases and operates 25 retail stores in Quebec (9 stores), Ontario (9 stores) and Alberta (7 stores).

Capitol-Canada manufactures disk records and produces tape recordings. In 1975 it commenced construction of a 40,000-square-foot facility near Toronto in which to manufacture its own disk records. This facility is producing more than 50% of its planned capacity and is scheduled to be 100% complete by November 1976.

Foreign Sales. "Capitol" label records and tapes are marketed in all commercially significant foreign countries by record companies which manufacture such records and tapes using masters owned or controlled by Capitol Records or which import records and tapes manufactured in the United States from Capitol Records' export corporations which have qualified as Domestic International Sales Corporations. Blank tape manufactured by the CMP Division of Capitol Records in the United States is sold to foreign customers by one of Capitol Records' Domestic International Sales Corporations.

Minority Interests in Japanese Companies (TRM and TMI)

In the second quarter of Fiscal 1975 a non-recurring transaction (the essential elements of which were contracted for in 1961) was concluded whereby Capitol Records' stockholding in Toshiba Record Manufacturing Co. Limited ("TRM") was increased from 10% to 49%. Fiscal 1975 income before income taxes included \$1,040,000 profit related to this transaction. Effective July 1, 1976 Capitol Record's stockholding was further increased to 50%.

A Japanese company, Toshiba-EMI Limited ("TMI"), was formed in April 1969 as a joint venture of Capitol Industries (25%), EMI (25%) and Tokyo Shibaura Electric Company (50%). TMI has since become one of the three largest sellers of records and tapes in Japan.

Competition

The record business is highly competitive, with approximately 40 significant companies. The principal companies with which Capitol Industries competes in the record industry are CBS Inc., Warner Communications, Inc., RCA Inc., A&M Records Inc. and MCA Inc. Although Capitol Industries believes itself to be among the principal U.S. companies in the record industry, a number of its competitors possess greater financial resources. The public acceptance (or lack thereof) of the recording artists under contract to a company and the records released in a particular year can result in fluctuations of its sales and profits. This applies more to a company like Capitol Industries, which is largely dependent on records, than to CBS, WCI, MCA and RCA, which have other significant lines of business.

One major manufacturer (3M Co.) has traditionally dominated the blank tape market. Six other companies (Audio Magnetics Corp., Capitol Records' CMP Division, CBS Inc., Memorex Corp., Ampex Corp., and B A S F Systems Inc.) supply most of the remainder, with perhaps 20 lesser competitors.

The rigorous specifications and technical requirements in the fields of magnetic tape, together with the constant search for new products, materials and production processes, necessitate substantial research and development expenditures on the part of Capitol Industries and other manufacturing companies. During the fiscal year ended June 30, 1976, Capitol Industries expended approximately \$500,000

on research and development activities, as compared with approximately \$600,000 in Fiscal 1975, all of which expenditures were Company-sponsored. Approximately 11 professional employees were engaged full time in those activities. An agreement for exchange of technical information on ferric oxide magnetic tape was concluded with a subsidiary of EMI in Fiscal 1972, which remains in effect.

Capitol Industries owns a number of domestic and foreign patents but considers patents of less importance than technical expertise in the tape, film, cartridge and cassette business.

Other Products and Services

While Capitol Industries' principal business is producing and marketing sound products, including both records and tapes, revenue is derived from the licensing of Capitol Industries' masters to foreign record companies, to record clubs in the U.S., Canada and elsewhere and to a budget line record company in the U.S. and Canada; the production for and sale to independent marketing companies of special records for resale in additional channels of commerce; the production and sale of premium records for equipment manufacturers and others; the licensing of the Capitol production music library for scoring educational, industrial and commercial films and radio and television commercials; and the licensing of copyrighted musical compositions owned by its music publishing subsidiaries.

Employees

Capitol Industries employs approximately 3,270 people, of whom approximately 1,550 are employed in the record manufacturing and tape duplicating plants; 170 are employed in the production of blank tape, cartridges and cassettes and related items; 360 are engaged in executive and administrative functions; 450 are clerical personnel; and 740 are employed in the distribution and marketing of Capitol Industries' products.

Capitol Records has a collective bargaining contract with the International Brotherhood of Electrical Workers covering approximately 300 employees at its Los Angeles plant, expiring April 14, 1979. In addition, Capitol Records has four labor contracts covering 86 employees

performing various functions at its various other facilities. The balance of Capitol Industries' employees are not represented by any labor union at the present time. Capitol Industries considers its employee relations to be satisfactory.

Capitol Industries, and substantially all other United States record companies, are parties to an industry-wide contract with the American Federation of Television and Radio Artists ("AFTRA"), which expires on March 31, 1977. Capitol Records also is a party to the industry-wide contract with the American Federation of Musicians ("AFM") which expires October 31, 1977. In general, agreements with the AFM (United States and Canada) and AFTRA (United States only) cover recording services rendered. While the compensation and other terms governing the rendering of services by featured recording artists are normally the subject of individually negotiated contracts between the producer company and the performer, they are also subject to the provisions of the agreements with AFTRA and AFM. The supporting musicians, conductors and singers, as well as the arrangers and copyists who also contribute services for recording sessions, are covered by such industry-wide agreements.

Item 2. Summary of Operations.

See the financial information on the following pages.

Item 2. Consolidated Summary Of Operations.
(Dollars in thousands except per share amounts)

	For The Years Ended June 30,			
	1972	1973	1974	1975
Net sales (Note E)	\$116 249	\$130 978	\$141 663	\$124 996
Cost of sales	81 351	90 043	93 131	85 047
Gross profit	34 898	40 935	48 532	39 949
Equity in income of Toshiba-EMI Limited	174	303	386	246
Equity in income of Toshiba Record Manufacturing Co. Limited (Note F)				
Interest income	274	852	2 740	1 058
	35 346	42 090	51 658	43 557
Selling, general and administrative expense	29 864	30 300	32 561	33 999
Interest expense	234	130	355	96
	30 098	30 430	32 916	34 095
Income from continuing operations before income taxes	5 248	11 660	18 742	9 462
Federal, state and foreign income taxes (Note E)	2 754	5 921	9 042	4 200
Income from continuing operations	2 494	5 739	9 700	5 262
Loss from discontinued operations, net of applicable income taxes (Note E)	(1 103)	(507)	(3 498)	
Income before the items below	1 391	5 232	6 202	5 262
Extraordinary items, net of applicable income taxes (Note A)	4 869	392	1 120	
Cumulative effect on prior years (to June 30, 1971) of changing to a reserve for records returned for exchange (Note A)	(4 639)			
Net income	\$1 621	\$5 624	\$7 322	\$5 262
Earnings per common share (Note B):				
Income from continuing operations	\$.54	\$1.25	\$2.28	\$1.58
Income (loss) from discontinued operations	(.24)	(.11)	(.82)	
Income before the items below	.30	1.14	1.46	1.58
Extraordinary items	1.06	.09	.26	
Cumulative effect on prior years (to June 30, 1971) of changing to a reserve for records returned for exchange	(1.01)			
Net income	\$.35	\$1.23	\$1.72	\$1.58
Pro forma amounts assuming that the reserve for records returned for exchange is applied retroactively (Note B):				
Income from continuing operations (Note E)	\$2 494			
Income from continuing operations per common share	\$.54			
Net income	\$6 260			
Net income per common share	\$1.36			
Cash dividends per common share			\$.49	\$.32
				\$3.12

See the accompanying notes to consolidated summary of operations.

Item 2. Consolidated Summary Of Operations, Continued.

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Item 2. Consolidated Summary Of Operations, Continued.

Notes to consolidated summary of operations:

A. Extraordinary items and change in accounting practice:

- (1) In August 1971, the Company sold its entire stockholding in Pickwick International, Inc. and recognized a net gain of \$7,077,000 after applicable income taxes of \$4,311,000.

Following a review of corporate properties and manufacturing facilities, a provision of \$2,208,000 after applicable taxes of \$2,397,000 was made at June 30, 1972 for items not considered relevant to the future needs of the Company, including subleased areas of the building in which the Company's New York offices are located.

Prior to July 1, 1971, the Company had followed the acceptable accounting practice of reporting sales net of actual product returned for exchange during the period involved. Developments in the operating practices and performance of the Company regarding sales and acceptance of product returned for exchange indicated it was appropriate to make provisions for estimated future exchanges when the product is sold. Therefore, starting July 1, 1971, the Board of Directors approved the alternatively acceptable accounting method pursuant to which the Company currently makes provisions for estimated future exchanges at the time product is sold. These provisions are based on historical experience.

The cumulative effect on prior years (to June 30, 1971) of establishing the reserve for product returned for exchange was a charge of \$4,639,000 after applicable tax reduction of \$4,639,000. The accounting change reported above, when applied to gross sales and product exchanges permitted during the Fiscal Year 1972, increased operating income by \$1,011,000 or \$.22 per share.

- (2) A tax benefit of \$392,000 was realized during 1973 from operating loss carry-forwards.
- (3) In December 1973, the Company sold 1,025 acres of its citrus groves and recognized a net gain of \$1,120,000 after applicable income taxes of \$604,000.

B. Earnings per common share:

Earnings per common share are based on the weighted average number of common shares outstanding each fiscal year through June 1976 as follows: 1972, 4,579,769 shares; 1973, 4,576,945 shares; 1974, 4,261,940 shares; 1975, 3,327,302 shares; and 1976, 3,311,908 shares.

Item 2. Consolidated Summary Of Operations, Continued.

Notes to consolidated summary of operations, continued:

B. Earnings per common share, continued:

The computation for the Fiscal Years 1972, 1973, 1974 and 1975 does not include employee stock option shares since their inclusion would be antidilutive. No options were outstanding in Fiscal Year 1976.

C. See Note 11 of notes to financial statements for information regarding the repurchase and cancellation of shares of common stock issued under the Company's Restricted Stock Award Plan.

D. Tender offer:

A cash tender offer for all of the approximately 1,350,000 (30%) of its outstanding shares held by shareholders other than EMI Limited was made by the Company on March 4, 1974. The tender price per share was \$15.00 net. As a result of this offer, 1,276,221 shares were purchased at a total cost to the Company of \$19,725,000 including commissions and expenses. This amount was charged \$128,000 to common stock, \$6,445,000 to paid-in capital, and \$13,152,000 to retained earnings.

Commencing in September 1974 (after the tender offer expired) the Company purchased 12,260 shares for \$183,000 through June 30, 1975 and 16,903 shares for \$254,000 during Fiscal Year 1976 from offering shareholders at \$15.00 per share.

E. Reclassification-discontinued operations:

Net sales have been restated to exclude discontinued operations for the years 1972 and 1973 (\$13,439,000, 1972; and \$11,923,000, 1973). All other costs and expenses of discontinued operations have been eliminated from income from continuing operations and are shown separately as income (loss) from discontinued operations.

Income taxes (\$1,218,000, 1972; and \$524,000, 1973) relating to discontinued operations for the years 1972 and 1973 have been reclassified to loss from discontinued operations.

F. Toshiba Record Manufacturing Co. Limited:

During the second quarter of Fiscal 1975, a transaction (the essential elements of which were contracted for in 1961) was concluded whereby the Company's stockholdings in Toshiba Record Manufacturing Co. Limited (TRM), was increased from 10% to 49%. The Company has recognized \$1,058,000 in Fiscal Year 1975 income from continuing operations before income taxes of which \$1,040,000 is related to the above transaction.

Item 2. Consolidated Summary Of Operations, Continued.

Notes to consolidated summary of operations, continued:

F. Toshiba Record Manufacturing Co. Limited, continued:

Substantially all of TRM's income is derived from rental income under an agreement with Toshiba-EMI Limited (TOEMI), an affiliated company. TRM leases all of its property and buildings to TOEMI for an annual rental of \$174,851. The agreement expires on September 30, 1977 but can be renewed for one year.

The accounts are translated into U.S. dollars at the year-end exchange rates except property which is translated at historical rates.

Item 2. Consolidated Summary Of Operations, Continued:

Management's Discussion And Analysis Of The Summary Of Operations

1976:

Net sales increased 35% compared to Fiscal 1975. The increase is attributable to an increased demand for all the Company's products and an increase in custom pressing of records and tapes for other record companies. Sales of newly released albums increased 40% compared to Fiscal 1975 while catalog albums and other Company products increased 33% as compared to Fiscal 1975.

Net income of \$10,349,000 for Fiscal 1976 is an increase of 97% over Fiscal 1975 and is the result of increased sales, effective cost control and a lower effective income tax rate.

1975:

Net sales decreased 12% compared to Fiscal 1974. This decrease reflects a lower demand for the Company's records and tapes which, management believes, is attributable in large part to the economic environment in the United States. While sales of newly released albums were at about the same level as Fiscal 1974, sales of catalog albums and other of the Company's products declined markedly.

Net income of \$5,262,000 in 1975, compared with \$7,322,000 in 1974, decreased 28% and is a result of several factors. In Fiscal 1974, there was an extraordinary gain of \$1,120,000 from the sale of the Company's citrus groves, which was more than offset by losses from the discontinued Merco operations of \$3,498,000. Income from continuing operations declined by 46%, principally because of the decrease in sales levels and because raw materials and labor costs increased during Fiscal 1975.

In the fourth quarter of Fiscal 1975, certain downward adjustments were recorded to current assets and current liabilities, principally changes in estimated income taxes, inventories and accrued costs, which resulted in an \$830,000 increase in net income.

Item 3. Properties.

Capitol Industries operates record and tape manufacturing facilities in Los Angeles, California; Jacksonville, Illinois; Winchester, Virginia; Glenbrook, Connecticut; and Toronto, Canada (see table below). Most of the Glenbrook facility is rented under long term leases. The office and warehouse space in Thousand Oaks, California owned by Capitol Industries (see table below) has been leased to a tenant until January 1977 and the lessee has an option to purchase.

The following table sets forth information concerning Capitol Industries' principal properties:

<u>Location</u>	<u>Approx. Sq. Ft.</u>		<u>Lease Expires</u>	<u>Principal Uses</u>	<u>Principal Users</u>
	<u>Owned</u>	<u>Leased</u>			
Hollywood, California	92,500	17,500	5/78	Executive Offices, Recording Studios	Capitol Industries and CRI
Atlanta, Georgia	--	22,500	12/78	Warehouse, Sales Office	CRI
Bethlehem, Pennsylvania	86,000	--	--	Warehouse	CRI
Dallas, Texas	--	24,400	12/78	Warehouse, Sales Office	CRI
Detroit, Michigan	--	18,400	6/90	Warehouse, Sales Office	CRI*
Glenbrook, Connecticut	--	193,500	1977 - 1982	Manufacturing	CRI
Jacksonville, Illinois	112,000	100,000	6/85	Manufacturing	CRI*
Los Angeles, California	234,500	29,000	2/77	Manufacturing, Warehouse, Sales Office	CRI

*Capitol Industries has an option to purchase.

<u>Location</u>	<u>Approx. Sq. Ft.</u>		<u>Lease Expires</u>	<u>Principal Uses</u>	<u>Principal Users</u>
	<u>Owned</u>	<u>Leased</u>			
Miami, Florida	--	10,300	9/77	Warehouse, Sales Office	CRI
Nashville, Tennessee	1,000	2,500	12/80	Executive Offices	CRI and music publishing subsidiaries
New York City, New York	--	91,500	1/96	Executive Offices, Recording Studio, Sales Offices	Capitol Industries and CRI
Niles, Illinois	40,000	--	--	Warehouse, Sales Office	CRI
Thousand Oaks, California	70,000	--	--	Office, Warehouse	Leased**
Winchester, Virginia	310,000	50,000	year to year	Manufacturing	CRI
Calgary, Canada	--	10,600	6/79	Warehouse, Sales Office	Capitol-Canada
Montreal, Canada	--	19,500	7/79	Warehouse, Sales Office	Capitol-Canada
Toronto, Canada	90,000	--	--	Executive Offices, Warehouse, Sales Office, Record & Tape Manufacturing	Capitol-Canada

**Leased to tenant with option to purchase.

In addition to the above properties, Capitol Records ("CRI" in the table above) has sales offices in Boston, Cleveland, Germantown (Maryland), Minneapolis, Philadelphia and San Francisco; Music Den Retail Corp.

leases and operates retail stores in Iowa (three stores), Illinois (one store), New Jersey (three stores) and New York (one store). Capitol-Canada leases a sales office in Vancouver, British Columbia, executive offices and music publisher offices in Toronto, Ontario, and 25 retail stores.

The registrant considers its facilities to be adequate for its presently contemplated needs.

See Notes 1, 4, 5 and 15 of Notes to Consolidated Financial Statements, in Item 10(a), for additional information regarding properties.

Item 4. Parents and Subsidiaries.

The parent of the registrant and the percentage of voting securities of the registrant owned by the parent at September 9, 1976 were as follows:

<u>Name of Parent</u>	<u>Jurisdiction of Incorporation</u>	<u>Percentage of Voting Securities Owned</u>
EMI Limited	Great Britain	98.1%

All of the subsidiaries of the registrant are wholly-owned and were included in the consolidated financial statements filed herewith. The direct and indirect subsidiaries of registrant at September 9, 1976 were as follows (excluding subsidiaries which, considered in the aggregate as a single subsidiary, would not constitute a significant subsidiary):

<u>Subsidiaries of Registrant</u>	<u>Jurisdiction of Incorporation</u>
1. Capitol Records, Inc.	Delaware
2. Glenwood Music Corporation	California
3. Beechwood Music Corporation	California

Subsidiaries of
Capitol Records, Inc.

Jurisdiction of
Incorporation

- | | | |
|----|--|------------|
| 1. | Capitol Magnetic Products
de Mexico, S.A. de C.V. | Mexico |
| 2. | Capitol Magnetics
Products (Singapore)
Private Limited | Singapore |
| 3. | Capitol Records
Holdings Ltd. | Canada |
| 4. | Electric & Musical
Industries (Canada)
Limited | Canada |
| 5. | Music Den Retail Corp. | New York |
| 6. | Spacevision, Inc. | California |

Subsidiary of Capitol
Records Holdings Ltd.

- | | | |
|----|--|--------|
| 1. | CAPITOL RECORDS-EMI
of CANADA Limited | Canada |
|----|--|--------|

Subsidiary of Electric
& Musical Industries
(Canada) Limited

- | | | |
|----|------------------------------------|--------|
| 1. | Kensington Distributors
Limited | Canada |
|----|------------------------------------|--------|

Subsidiaries of
Spacevision, Inc.

- | | | |
|----|--|------------|
| 1. | Capitol Disc
International Corp. | California |
| 2. | Capitol Magnetic Products
International, Inc. | New York |
| 3. | Capitol Records
International Corp. | Delaware |

In addition to the foregoing subsidiaries, registrant owns 50% of Toshiba Record Manufacturing Co. Limited ("TRM"), a Japanese company, and registrant and EMI each own 25% of the voting securities of Toshiba-EMI Limited ("TMI"), another Japanese company. The other 50% of TRM and the other 50% of TMI are owned by Tokyo Shibaura Electric Company. Registrant's shares of the after-tax earnings of TMI and TRM are included on an equity basis in Capitol Industries' Consolidated Statement of Income.

Item 5. Pending Legal Proceedings.

(A) On December 13, 1971 a legal action was commenced in the United States District Court for the Central District of California by an ex-employee of Capitol Records on behalf of himself and a class he undertakes to represent against Capitol Industries, Capitol Records, EMI, and certain officers and directors of those three companies, seeking \$30,000,000 in compensatory damages and \$90,000,000 in punitive damages for alleged violations of the Securities Exchange Act of 1934 and the California Corporate Securities Law of 1968 and under principles of common law fraud. Issues to be decided by the court include whether financial information disclosed by the registrant overstated its true earnings and financial condition in order to inflate the market price of its stock. In July 1973 the court ruled that the action could be maintained as a class action on behalf of all persons who purchased registrant's stock from June 1, 1969 through December 31, 1971.

Trial of this action commenced on September 30, 1975 and was completed on June 18, 1976. Briefs are to be submitted by the parties to the trial court over the next several months and a decision by the Court is not anticipated until the first part of 1977, at the earliest.

In prior years, the registrant's independent legal counsel has given its opinion that the registrant would prevail in this litigation. However, in December 1975 the American Bar Association Statement of Policy Regarding Lawyers' Responses to Auditors' Requests for Information was issued, which in pertinent part reads as follows:

"In view of the inherent uncertainties, the lawyer should normally refrain from expressing judgments as to outcome except in those relatively few clear cases where it appears to the lawyer that an unfavorable

outcome is either 'probable' or 'remote'; for purposes of any such judgment it is appropriate to use the following meanings:

(i) probable - an unfavorable outcome for the client is probable if the prospects of the claimant not succeeding are judged to be extremely doubtful and the prospects for success by the client in its defense are judged to be slight.

(ii) remote - an unfavorable outcome is remote if the prospects for the client not succeeding in its defense are judged to be extremely doubtful and the prospects of success by the claimant are judged to be slight.

If, in the opinion of the lawyer, considerations within the province of his professional judgment bear on a particular loss contingency to the degree necessary to make an informed judgment, he may in appropriate circumstances communicate to the auditor his view that an unfavorable outcome is 'probable' or 'remote', applying the above meanings. No inference should be drawn, from the absence of such a judgment, that the client will not prevail."

Within the guidelines set forth in the foregoing portion of the ABA Statement, the Company's independent legal counsel is unable to express any opinion as to the outcome of this litigation.

On May 20, 1976 a suit was filed against Capitol Records in the Superior Court for Los Angeles County, California, by Brian D. Wilson, Dennis C. Wilson, Carl D. Wilson, Michael E. Love and Alan Jardine (a group performing as "The Beach Boys"). The plaintiffs had been under contract to Capitol Records and Capitol Records has paid royalties to them. However, the plaintiffs contend that Capitol Records owes them additional royalties of at least \$469,000 and seek an accounting. The complaint was not served on Capitol Records until July 28, 1976. No discovery has commenced in this action and neither the registrant nor its independent legal counsel is presently in a position to render an opinion regarding the outcome of this litigation.

On July 20, 1976 a suit was filed against Capitol Records in the United States District Court for the Southern

District of New York by Mark Farner, Don Brewer and Mel Schacher (a group performing as "Grand Funk" and "Grand Funk Railroad") and two publishing companies owned by them. Grand Funk had been under contract to Capitol Records and Capitol Records has paid royalties to the group and to the publishing companies. However, the plaintiffs contend that Capitol Records owes additional royalties of at least \$1,663,000, and seek an accounting. No discovery has commenced in this action and neither the registrant nor its independent legal counsel is presently in a position to render an opinion regarding the outcome of this litigation.

(B) On June 13, 1972 a complaint was served in an action brought in the United States District Court for the Middle District of Tennessee by some 20 music writers and 3 music publishers -- on behalf of themselves and classes they purport to represent -- against Columbia Broadcasting System, Inc. and 16 other major U.S. record manufacturers, including Capitol Industries and Capitol Records, seeking treble damages and injunctive relief for alleged violations of the Sherman and Clayton Acts and an accounting of license fees allegedly due. The plaintiffs allege that the defendants, acting in concert, have refused to accept licensing agreements for musical compositions containing certain terms allegedly required by the Copyright Act, and that the defendants have attempted to monopolize the music industry by various practices, including not recording musical compositions owned by the plaintiff writers and members of their class. The litigation is now more than four years old. All of the defendants have filed a number of motions, some of which, if ruled upon favorably, would terminate the litigation without liability. The Court has not ruled on those motions by defendants, most of which were filed several years ago, nor have the plaintiffs' attorneys made any effort to obtain a ruling that the case is a proper class action. Based upon presently known facts, the opinion of the registrant and its independent legal counsel is that registrant will prevail in this action.

Registrant and its subsidiaries are involved in various other lawsuits, claims and enquiries, most of which are routine to the nature of their businesses. In the opinion of registrant, based in part upon consultation with its various independent legal counsel, the resolution of these matters will not result in any material liability.

Item 6. Increases and Decreases in Outstanding Securities.

<u>Common Stock, 10¢ par value</u>	<u>Number of Shares</u>
Balance outstanding, June 30, 1975	3,321,495*
Shares purchased and cancelled	(16,903)
Balance outstanding, June 30, 1976	3,304,592*

* Does not include shares held in treasury (400 at June 30, 1975 and 400 at June 30, 1976) and 136,166 shares held by a wholly-owned subsidiary of the registrant.

Item 7. Approximate Number of Equity Security Holders.

The following table sets forth the approximate number of holders of record of equity securities of registrant as of September 9, 1976:

<u>(1) Title of Class</u>	<u>(2) Number of Record Holders</u>
Common Stock, 10¢ par value	983

Item 8. Executive Officers of the Registrant.

(a) The table below sets forth, as to each executive officer of the registrant, his name, age, positions and offices, and the period during which he has served in such positions and offices. Each such executive officer of the registrant is elected or appointed by its Board of Directors and holds his office until his successor is elected and qualified, or until his earlier death, resignation or removal. There is no "family relationship" between any of the named executive officers.

<u>Name</u>	<u>Age</u>	<u>Positions, Offices and Tenure</u>
V. Bhaskar Menon	42	President and Chief Executive Officer since May 1971; Director since March 1971.
Robert E. Carp	62	Vice President and General Counsel since March 1968; Secretary from March 1968 to October 1974; Director since January 1972.
Charles P. Fitzgerald	46	Vice President, Finance, since August 1971; Treasurer from September 1970 to October 1975; Director since December 1973.
Barry E. Kimmelman	42	Vice President, Administration and Business Development, since December 1973; Vice President, Administration, from August 1971 to December 1973.
David W. Lawhon	52	Vice President, Manufacturing and Operations, since December 1973; Vice President, Operations, of CRI from October 1968 to December 1973.
Charles H. Tillinghast	47	Secretary since October 1974; Director of Law Department and Assistant General Counsel since January 1974; Vice President, Business Affairs, of CRI from May 1973 to January 1974; Assistant General Counsel from April 1971 to May 1973.

Kenneth V. Northrup	40	Treasurer since October 1975; Assistant Treasurer from March 1973 to October 1975; Assistant Controller from November 1971 to March 1973.
Fredric Willms	43	Controller since July 1971.

(b) Each of the foregoing officers, except Mr. Northrup, has been a full-time employee of the registrant or its subsidiaries for more than five years. From September 1968 to November 1971 Mr. Northrup was Administrative Manager for the Western Region of Glidden-Durkee Division of SCM Corporation, a manufacturer and distributor of coatings and resins. Mr. Menon has been a Director of EMI Limited since June 1973, and the terms upon which he became an officer of the registrant were negotiated between Mr. Menon and EMI Limited.

Item 9. Indemnification of Directors and Officers.

New York Statute

In general, Sections 721 through 727 of the New York Business Corporation Law provide that a corporation may indemnify an officer or director against expenses and liabilities incurred in connection with an action or proceeding brought or threatened to be brought against him by reason of his service in such capacity, if certain conditions are met. If such an action is brought by or in the right of the corporation itself, the indemnification may extend only to the expenses of defense, and even the latter are not permitted if the action is settled or disposed of without court approval, or in connection with matters as to which the officer or director is adjudged to have breached his duty to the corporation.

Such sections further provide that an officer or director who is wholly successful in the defense of such an action is entitled to indemnification, that upon application a court shall award indemnification in any case where indemnification is otherwise permitted, and that indemnification shall be authorized by action by the other directors

or by the shareholders, in other cases where permitted. Other provisions specify the procedures for advancing expenses, recovery of advances, notice to shareholders, and applicability of the statute.

Under Section 727, a corporation may purchase insurance to indemnify its officers and directors as to liabilities described in the second preceding paragraph, to indemnify the corporation for any obligation which it might incur as a result of its indemnification of officers and directors, and, provided that the contract specifies a retention amount and co-insurance, to indemnify its officers and directors in other instances. In certain cases where an adverse adjudication results, the insurance may extend only to the cost of defense. The corporation must advise its shareholders of any such insurance which it purchases or renews.

California Statute

Section 830 of the California Corporations Code currently provides that when a person is sued because he is or was a director or officer of a California or other corporation, in any proceeding arising out of his alleged misfeasance or nonfeasance in the performance of his duties or out of any alleged wrongful act against the corporation or by the corporation, indemnity for certain of his expenses may be assessed against the corporation under certain circumstances. Such section also provides that the Board of Directors may authorize the corporation in certain circumstances to pay certain expenses incurred by, or to satisfy a judgment or fine against, a director or officer in an action brought by a third party against such person to impose a liability or penalty on such person for an act alleged to have been committed by such person while a director or officer. The corporation may also pay, in whole or part, the premium on insurance policies indemnifying any of its officers or directors from such liabilities.

The California Corporations Code provisions relating to indemnification have been revised effective January 1, 1977 and will not thereafter be applicable to registrant.

Registrant's By-Laws

Section 6 of Article II of registrant's By-Laws provides that registrant shall indemnify any person made, or threatened to be made, a party to an action or proceeding by reason of the fact that he is or was a director or an officer of registrant, or served, at the request of registrant, in any capacity for another corporation of any type or kind, domestic or foreign, to the full extent permitted by New York laws, and may, for or on behalf of any such person, purchase insurance which is consistent with such laws.

Indemnification Insurance

Registrant does not at present carry liability insurance indemnifying any of its officers or directors.

Item 10. Financial Statements and Exhibits.

(a) The financial statements filed as a part of this report are listed on the accompanying index.

(b) The exhibits filed as a part of this report, including those incorporated by reference, are as follows:

None.

PART II

Part II is omitted from this report pursuant to General Instruction H(a), the registrant having filed with the Commission a definitive proxy statement pursuant to Regulation 14A, which involved the election of directors, since the end of its fiscal year.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CAPITOL INDUSTRIES-EMI, Inc.

By CHARLES H. TILLINGHAST
Charles H. Tillinghast, Secretary

Date: September 27, 1976.

CAPITOL INDUSTRIES-EMI, INC.
And Subsidiaries

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CAPITOL INDUSTRIES-EMI, INC.
And Subsidiaries

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Schedules not listed above are omitted because of the absence of the conditions under which they are required or because the information required by such omitted schedules is set forth in the financial statements or the notes thereto.

The separate financial statements of Toshiba-EMI Limited have been omitted since that company does not constitute a significant subsidiary.

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Shareholders of
Capitol Industries-EMI, Inc.

We have examined the separate and consolidated balance sheets of Capitol Industries-EMI, Inc. and Capitol Industries-EMI, Inc. and subsidiaries at June 30, 1976 and the related separate and consolidated statements of income, shareholders' equity and changes in financial position for the year then ended, and the supporting schedules. Our examination 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. We previously examined and reported upon the separate and consolidated financial statements and supporting schedules of Capitol Industries-EMI, Inc. and Capitol Industries-EMI, Inc. and subsidiaries for the year ended June 30, 1975.

As more fully described in Paragraph (A) of Note 16 of Notes to Financial Statements, the companies are defendants in three legal actions for which the ultimate outcome cannot be determined at this time, and no provision for liability therefore, if any may result, has been reflected in the accompanying financial statements.

In our opinion, subject to any effects on the financial statements of the ultimate resolution of the matters referred to in the preceding paragraph, the aforementioned financial statements (Pages F-5 through F-31, inclusive) present fairly the separate and

consolidated financial position of Capitol Industries-EMI, Inc., and Capitol Industries-EMI, Inc. and subsidiaries at June 30, 1976 and June 30, 1975, and the separate and consolidated results of their operations and changes in financial position for the years then ended, and the related supporting schedules (Pages F-32 through F-39, inclusive) present fairly the information required to be included therein, all in conformity with generally accepted accounting principles applied on a consistent basis.

COOPERS & LYBRAND

Los Angeles, California
August 31, 1976

CAPITOL INDUSTRIES-EMI, INC.
And Subsidiaries

CONSOLIDATED BALANCE SHEET
(Dollars In Thousands)

	June 30, <u>1976</u>	June 30, <u>1975</u>
A S S E T S:		
Current:		
Cash	\$1 029	\$1 697
Short-term marketable securities, at cost which approximates market (Schedule I)	14 490	16 379
Trade accounts receivable (less allowance for doubtful accounts: 1976, \$3,796; 1975, \$3,831; and reserve for product returned for exchange: 1976, \$7,356; 1975, \$8,145) (Note 1) (Schedule XII)	42 941	23 774
Other receivables	712	1 518
Inventories (Notes 1 and 2)	29 704	24 154
Prepaid expenses	3 941	3 293
Total current assets	<u>92 817</u>	<u>70 815</u>
Property, at cost (Notes 1 and 4) (Schedule V):		
Land and improvements	2 310	2 377
Buildings	15 905	13 729
Machinery and equipment	19 958	18 151
Construction in progress	6 186	4 094
	44 359	38 351
Less, Accumulated depreciation and amortization (Schedule VI)	<u>18 423</u>	<u>16 345</u>
Property, net	25 936	22 006
Other assets:		
Investments in music companies, principally at equity; copyrights and others, principally at cost (less allowance for possible losses and amortization: 1976, \$1,550; 1975, \$1,367) (Note 1) (Schedule XII)	5 042	4 686
Notes receivable (6% to 10% interest)	2 402	2 520
Deferred income tax benefits (Notes 1 and 8)	65	234
Total other assets	<u>7 509</u>	<u>7 440</u>
Total assets	<u>\$126 262</u>	<u>\$100 261</u>
The accompanying notes are an integral part of this statement.		
LIABILITIES:		
Current:		
Notes payable and lease obligations due within one year (Note 5)	\$172	\$234
Accounts payable, trade	16 015	11 644
Accrued liabilities:		
Royalties and licenses (Note 1)	22 313	12 245
Salaries, wages and other compensation (Note 9)	3 152	1 914
Other accrued liabilities and taxes	2 764	1 873
Income taxes (Notes 1 and 8):		
Current	9 460	13 774
Deferred	8 044	2 535
Total current liabilities	<u>61 920</u>	<u>44 219</u>
Long-term liabilities:		
Notes payable and lease obligations (Note 5)	1 501	1 673
Royalties payable (Notes 1 and 6)	5 423	5 448
Deferred compensation payable (Note 9)	1 154	1 473
Reserve for future lease costs and loss (Note 1) (Schedule XII)	2 480	2 699
Total long-term liabilities	<u>10 558</u>	<u>11 293</u>
Commitments and contingent liabilities (Notes 15 and 16)		
SHAREHOLDERS' EQUITY:		
(Statement Annexed)		
Preferred stock, no par value (authorized 250,000 shares; outstanding, none)		
Common stock, \$.10 par value (authorized 6,500,000 shares; outstanding, excluding 136,000 shares held by wholly-owned subsidiary: 1976, 3,305,000 shares; 1975, 3,321,000 shares) (Notes 11, 12 and 13)	330	332
Additional paid-in capital (Note 11)	12 753	12 819
Retained earnings (includes undistributed earnings of Toshiba-EMI Limited and Toshiba Record Manufacturing Co. Limited of: 1976, \$3,171; 1975, \$2,715)	40 701	31 598
Total shareholders' equity	<u>53 784</u>	<u>44 749</u>
Total liabilities and shareholders' equity	<u>\$126 262</u>	<u>\$100 261</u>

CAPITOL INDUSTRIES-EMI, INC.

BALANCE SHEET
(Company Only)
(Dollars in Thousands)

	June 30, <u>1976</u>	June 30, <u>1975</u>	June 30, <u>1976</u>	June 30, <u>1975</u>
A S S E T S:				
Current:				
Cash	\$67	\$1 056	\$4	\$4
Short-term marketable securities, at cost which approximates market (Schedule I)	14 490	16 379	648	295
Receivables	12	77	1 840	1 013
Prepaid expenses	1	4	21	15
Total current assets	<u>14 570</u>	<u>17 516</u>	<u>1 128</u>	<u>549</u>
Investments in subsidiaries:			3 641	1 876
Securities of subsidiaries (Notes 1 and 3)	29 794	19 598	1 628	1 400
Indebtedness of subsidiaries (Note 7)	<u>13 391</u>	<u>10 220</u>	8	13
Total investments in subsidiaries	<u>43 185</u>	<u>29 818</u>	<u>2 480</u>	<u>2 699</u>
Property, at cost (Notes 1 and 4):			2 488	2 712
Land and improvements	43	43		
Building, machinery and equipment	<u>45</u>	<u>45</u>		
Less, Accumulated depreciation	88	88		
Property, net	<u>70</u>	<u>73</u>		
Other assets:				
Investments in music company and others, principally on the equity basis	2 385	1 910		
Deferred income tax benefits (Notes 1 and 8)	<u>1 331</u>	<u>1 420</u>		
Total other assets	<u>3 716</u>	<u>3 330</u>	330	332
Total assets	<u>\$61 541</u>	<u>\$50 737</u>	<u>40 701</u>	<u>31 598</u>
			53 784	44 749
			<u>\$61 541</u>	<u>\$50 737</u>

LIABILITIES:

Current:				
Notes payable (Note 5)				
Accounts payable, trade				
Accrued liabilities:				
Salaries, wages and other compensation (Note 9)				
Other accrued liabilities and taxes				
Income taxes payable (Notes 1 and 8)				
Total current liabilities			3 641	1 876
Indebtedness to subsidiaries (Note 7)			1 628	1 400
Long-term liabilities:				
Notes payable (Note 5)			2 480	2 699
Reserve for future lease costs				
Total long-term liabilities			2 488	2 712
Commitments and contingent liabilities				
SHAREHOLDERS' EQUITY:				
(Statement Annexed)				
Preferred stock, no par value (authorized 250,000 shares; outstanding, none)				
Common stock, \$.10 par value (authorized 6,500,000 shares; outstanding, excluding 136,000 shares held by wholly-owned subsidiary: 1976, 3,307,000 shares; 1975, 3,321,000 shares) (Notes 11, 12 and 13)			12 753	12 819
Additional paid-in capital (Note 11)				
Retained earnings (includes undistributed earnings of Toshiba-EMI Limited and Toshiba Record Manufacturing Co. Limited of: 1976, \$3,171; 1975, \$2,715)			40 701	31 598
Total shareholders' equity			53 784	44 749
Total liabilities and shareholders' equity			<u>\$61 541</u>	<u>\$50 737</u>

The accompanying notes are an integral part of this statement.

CAPITOL INDUSTRIES-EMI, INC.
And Subsidiaries

CONSOLIDATED STATEMENT OF INCOME
(In Thousands Except Per Share Amounts)

	For The Years Ended June 30,	
	1976	1975
Net sales	\$168 161	\$124 996
Cost of sales (Note 2)	115 157	85 047
Gross profit from operations	53 004	39 949
Other income:		
Equity in income of Toshiba-EMI Limited and Toshiba Record Manufacturing Co. Limited (dividends received: 1976, \$77 and 1975, \$71) (Note 1)	533	1 304
Interest income	1 491	2 304
	55 028	43 557
Selling, general and administrative expense	37 180	32 833
Provision for doubtful accounts (Schedule XII)	903	1 166
Interest expense	105	96
	38 188	34 095
Income before income taxes	16 840	9 462
Federal, state and foreign income taxes (Notes 1 and 8):		
Currently payable	202	4 527
Deferred	6 289	(327)
	6 491	4 200
Net income	\$10 349	\$5 262
Earnings per common share (Note 14)	\$3.12	\$1.58

The accompanying notes are an integral part of this statement.

CAPITOL INDUSTRIES-EMI, INC.

STATEMENT OF INCOME
 (Company Only)
 (In Thousands)

	For The Years Ended June 30,	
	<u>1976</u>	<u>1975</u>
Income:		
Service charges to subsidiaries	\$2 627	\$2 496
Equity in income of Toshiba-EMI Limited (dividends received: 1976, \$41 and 1975, \$35) (Note 1)	516	246
Interest income	<u>1 013</u>	<u>1 786</u>
	<u>4 156</u>	<u>4 528</u>
Expenses:		
Selling, general and administrative expenses	4 053	3 020
Interest expense	<u>2</u>	<u>2</u>
	<u>4 055</u>	<u>3 022</u>
Operating income before income taxes	<u>101</u>	<u>1 506</u>
Federal, state and foreign income taxes (Notes 1 and 8):		
Currently payable	(213)	549
Deferred	<u>117</u>	<u>111</u>
	<u>(96)</u>	<u>660</u>
Operating income	<u>197</u>	<u>846</u>
Equity in income of subsidiaries, net of taxes	<u>10 152</u>	<u>4 416</u>
Net income	<u>\$10 349</u>	<u>\$5 262</u>

The accompanying notes are an integral part of this statement.

CAPITOL INDUSTRIES-EMI, INC.
And Subsidiaries

STATEMENT OF SHAREHOLDERS' EQUITY
(Company And Consolidation)

For The Years Ended June 30, 1976 And 1975
(In Thousands)

	<u>Total</u>	<u>Common Stock</u>	<u>Additional Paid-In Capital</u>	<u>Retained Earnings</u>
Balance at June 30, 1974	\$40 735	\$333	\$12 867	\$27 535
Add (deduct):				
Net income for the year	5 262			5 262
Cash dividends	(1 065)			(1 065)
Repurchase and cancellation of common stock	(183)	(1)	(48)	(134)
Balance at June 30, 1975	44 749	332	12 819	31 598(A)
Add (deduct):				
Net income for the year	10 349			10 349
Cash dividends	(1 060)			(1 060)
Repurchase and cancellation of 16,903 shares of common stock	(254)	(2)	(66)	(186)
Balance at June 30, 1976	<u>\$53 784</u>	<u>\$330</u>	<u>\$12 753</u>	<u>\$40 701(A)</u>

(A) Includes undistributed earnings of Toshiba-EMI Limited and Toshiba Record Manufacturing Co. Limited of: 1976, \$3,171 and 1975, \$2,715.

The accompanying notes are an integral part of this statement.

CAPITOL INDUSTRIES-EMI, INC.
And Subsidiaries

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
(In Thousands)

	For The Years Ended June 30	1976	1975
Source of funds:			
Operations:			
Income from operations	\$10	349	\$5 262
Items not requiring (providing) funds:			
Depreciation (Note 4) (Schedule VI)	2	386	2 473
Deferred tax on income (Note 8)	169		372
Equity in net income of Toshiba-EMI Limited and Toshiba Record Manufacturing Co. Limited (Note 1)	(456)		(1 234)
Decrease in reserve for future lease costs (Note 1) (Schedule XII)	(219)		(213)
	<u>12 229</u>		<u>6 660</u>
Funds provided from operations	100		76
Net decrease in investments in music companies, copyrights and others	187		1 526
Retirement of property, plant and equipment	1 889		3 830
Decrease in short-term marketable securities			659
Decrease in trade accounts receivable, net	118		68
Decrease in long-term notes receivable	16	568	
Increase in accounts payable, trade			603
Increase in royalties and licenses			2 430
Increase in income taxes, current	5	509	
Increase in income taxes payable, deferred	668		240
Decrease in cash			
	<u>37 268</u>		<u>16 092</u>
Total			
Application of funds:			
Capital expenditures	6	503	5 802
Decrease in other long-term liabilities	516		1 035
Decrease in reserve for loss on discontinued operations			1 188
Purchase of common stock		254	183
Cash dividends paid	1	060	1 065
Increase in receivables	18	361	
Increase in notes payable			62
Decrease in accounts payable, trade			1 958
Decrease in other accrued liabilities and taxes			100
Increase in inventories	5	550	3 169
Increase in prepaid expenses		648	668
Decrease in notes payable and lease obligations due within one year			11
Decrease in salaries, wages and other compensation			215
Decrease in income taxes payable, current	4	314	
Decrease in income taxes, deferred			698
	<u>37 268</u>		<u>16 092</u>
Total			

The accompanying notes are an integral part of this statement.

CAPITOL INDUSTRIES-EMI, INC.
And Subsidiaries

NOTES TO FINANCIAL STATEMENTS
(Company And Consolidation)

1. Summary Of Accounting Policies:

Principles Of Consolidation:

The accompanying consolidated financial statements include all wholly-owned subsidiary companies. The subsidiary companies included in consolidation are the same as those in prior year. Intercompany balances and transactions, including intercompany profits in inventories, have been eliminated in consolidation.

The Company carries its investments in securities of its consolidated subsidiaries at cost plus equity in undistributed earnings since acquisition and these amounts are eliminated in consolidation.

Foreign Operations:

The accounts of foreign subsidiaries are translated into U.S. dollars at the year-end exchange rates except property, inventory and goodwill which are translated at historical rates. Foreign operating results are translated at average exchange rates during each year with the exception of depreciation, which is translated at the rates prevailing when the related assets were acquired. Insignificant amounts of profit and loss resulting from changes in foreign exchange rates were included in the 1976 and 1975 consolidated statements of income.

Toshiba-EMI Limited is considered to be a "corporate joint venture" in that it is owned 50% by the EMI Limited group (25% by the Company and 25% by the Company's parent, EMI Limited) and 50% by Tokyo Shibaura Electric Company. The Company's 25% investment in Toshiba-EMI Limited has been accounted for on the equity basis.

Toshiba Record Manufacturing Co. Limited is owned 49% by one of the Company's subsidiaries and 51% by Tokyo Shibaura Electric Company. At July 1, 1976, the Company's interest in Toshiba Record Manufacturing Co. Limited was increased to 50%. The subsidiary's 49% investment in Toshiba Record Manufacturing Co. Limited has been accounted for on the equity basis (see Note 18).

Continued

CAPITOL INDUSTRIES-EMI, INC.
And Subsidiaries

NOTES TO FINANCIAL STATEMENTS, Continued
(Company And Consolidation)

1. Summary Of Accounting Policies, Continued:

Foreign Operations, Continued:

At June 30, 1976 and 1975, respectively, the Company's investment in Toshiba-EMI Limited was \$2,385,000 and \$1,910,000 and the investment in Toshiba Record Manufacturing Co. Limited was \$1,221,000 and \$1,240,000.

Inventories:

Inventories are stated at lower of cost (principally first-in, first-out) or market.

Property, Plant And Equipment:

Land, buildings, machinery and equipment including betterments to existing facilities are carried at cost. Depreciation is calculated on a straight-line basis.

Annual depreciation rates, which are based on the estimated useful lives of property, generally are 2½% to 10% for buildings and improvements, 9% to 30% for machinery and equipment, and 10% to 20% for furniture and fixtures. Improvements to leased premises are amortized over the terms of the leases or the estimated useful lives of the improvements, whichever is shorter.

Maintenance and repairs are charged to appropriate expense accounts in the year incurred; renewals are charged to property, plant and equipment accounts which are relieved of the items renewed or replaced; material betterments are charged to property, plant and equipment accounts.

Accumulated provisions for depreciation applicable to assets at the date they are retired or otherwise disposed of are eliminated from the reserve. The gain or loss on disposition is credited or charged to income.

Intangible Assets:

Copyrights of published music which were purchased are carried on the books at cost and are amortized over ten years.

Continued

CAPITOL INDUSTRIES-EMI, INC.
And Subsidiaries

NOTES TO FINANCIAL STATEMENTS, Continued
(Company And Consolidation)

1. Summary Of Accounting Policies, Continued:

Royalties:

Royalties earned by artists from sales of Capitol products are charged to cost of sales during the period. Certain artists by agreement may defer royalty payments until future years.

Advances to artists against future royalties are charged to the artists' accounts and a provision for loss on artists' advances, based upon historical experience, is charged to cost of sales at the time the advances are made.

Income Taxes:

The total provision for federal, state and foreign income taxes differs from the provision for income taxes currently payable as shown in the accompanying statements of income, because certain revenues and expenses (principally income from installment sales, depreciation, cash discounts, reserve for future returns and state income taxes) are reported in the statements of income in periods which differ from those in which they enter into the computation of taxable income.

The investment tax credit is recorded following the flow-through method of accounting whereby, in the year available for utilization, it is applied as a reduction of income tax expense.

No provision has been made for federal income taxes on the undistributed earnings of the Domestic International Sales Corporations (DISC). The Company plans to reinvest such earnings. The accumulated earnings of the DISC on which income taxes have not been provided are \$3,551,000 at June 30, 1976.

Continued

CAPITOL INDUSTRIES-EMI, INC.
And Subsidiaries

NOTES TO FINANCIAL STATEMENTS, Continued
(Company And Consolidation)

1. Summary Of Accounting Policies, Continued:

Future Returns For Exchange Of Product:

The Company follows the accounting practice of making provisions for estimated future returns for exchange of product at the time the products are initially sold. These provisions are based upon historical experience. Actual returns are charged against the reserve.

Advertising And Promotion:

The costs of advertising and promotion are charged to expense during the year generally in relation to sales.

Pension Plans:

The Company and its principal subsidiaries have noncontributory pension plans for the benefit of substantially all employees. Costs of these plans amounted to \$622,000 in 1976 and \$598,000 in 1975. The Company's policy is to fund pension cost accrued. Pension costs are determined by independent actuaries.

Reserve For Future Lease Costs:

During 1972, the Company established a reserve for future lease costs in excess of estimated subrental income for subleased areas of the building in which the Company's New York offices are located.

Continued

CAPITOL INDUSTRIES-EMI, INC.
And Subsidiaries

NOTES TO FINANCIAL STATEMENTS, Continued
(Company And Consolidation)

2. Inventories:

Inventories of subsidiaries of the Company at June 30, 1976, 1975 and 1974 used to determine consolidated cost of sales for 1976 and 1975 are summarized as follows:

	<u>1976</u>	<u>1975</u>	<u>1974</u>
Finished goods	\$20 240 000	\$16 788 000	\$14 688 000
Work in process	1 312 000	720 000	1 039 000
Raw materials and supplies	<u>8 152 000</u>	<u>6 646 000</u>	<u>5 258 000</u>
	<u>\$29 704 000</u>	<u>\$24 154 000</u>	<u>\$20 985 000</u>

3. Investment In Securities Of Subsidiaries:

Information concerning the Company's investment in securities of subsidiaries is summarized as follows:

	<u>1976</u>	<u>1975</u>
Balance at beginning of year	\$19 598 000	\$22 986 000
Add (deduct):		
Equity in net income	10 152 000	4 416 000
Subsidiary dividends:		
Capitol Records, Inc.	44 000	(1 759 000)
Merco Enterprises, Inc.		(2 973 000)
Sale of Merco Enterprises, Inc.	<u> </u>	<u>(3 072 000)</u>
Balance at end of year	<u>\$29 794 000(A)</u>	<u>\$19 598 000(A)</u>

The investment in securities of subsidiaries is represented by ownership shares as follows:

- (A) Represented by 100 common shares of Capitol Records, Inc., 25 common shares of Glenwood Music Corporation and 100 common shares of Beechwood Music Corporation. No stock options or warrants have been issued by these subsidiaries. During the year 1975 Merco Enterprises, Inc. was sold.

Continued

CAPITOL INDUSTRIES-EMI, INC.
And Subsidiaries

NOTES TO FINANCIAL STATEMENTS, Continued
(Company And Consolidation)

4. Property:

Property having a depreciated cost of approximately \$3,802,000 (Consolidation) at June 30, 1976 is collateral for certain notes payable and lease obligations (Note 5).

Provision for depreciation for the years ended June 30, 1976 and 1975 computed on the straight-line basis was as follows:

	<u>1976</u>	<u>1975</u>
Consolidation	\$ <u>2 386 000</u>	\$ <u>2 473 000</u>
Company only	\$ <u>3 000</u>	\$ <u>2 000</u>

5. Notes Payable And Lease Obligations:

As of June 30, 1976, notes payable and lease obligations due after one year are as follows:

	<u>Company</u>	<u>Consolidation</u>
Collateralized notes:		
First trust deed note, 6-1/8% due 1987		\$776 000
Long-term lease obligations on plant considered for accounting purposes as having been purchased, 5% due 1985		312 000
First trust deed note, 5-3/4% due 1985		173 000
First trust deed note, 4-1/4% due 1976		6 000
Other long-term obligations, 2% to 8-1/2% due 1978 through 1988	\$ <u>13 000</u>	<u>406 000</u>
	13 000	1 673 000
Less, Portion due within one year	<u>5 000</u>	<u>172 000</u>
Notes payable and lease obligations due after one year	<u>\$ 8 000</u>	<u>\$ 1 501 000</u>

Continued

CAPITOL INDUSTRIES-EMI, INC.
And Subsidiaries

NOTES TO FINANCIAL STATEMENTS, Continued
(Company And Consolidation)

5. Notes Payable And Lease Obligations, Continued:

Maturities of the foregoing notes payable and lease obligations are approximately as follows:

	Company	Consolidation
1978	\$8 000	\$174 000
1979		152 000
1980		157 000
1981		161 000
1982 and thereafter		857 000
	\$8 000	\$1 501 000

6. Royalties Payable:

Royalties payable after one year (Consolidation) represent principally royalties earned by certain artists from sales of Capitol products which by agreements with the artists are payable in future years. Royalties payable are approximately as follows: 1978, \$434,000; 1979, \$383,000; 1980, \$326,000; 1981, \$326,000; and 1982 and thereafter, \$3,954,000.

7. Indebtedness Of Subsidiaries:

Information concerning the net indebtedness of (to) subsidiaries to (from) the Company at June 30, 1976 and 1975 is summarized as follows:

	1976	1975
Capitol Records, Inc.	\$13 391 000	\$10 220 000
Beechwood Music Corporation	(1 342 000)	(1 166 000)
Glenwood Music Corporation	(286 000)	(234 000)
	\$11 763 000	\$8 820 000

The amounts have been eliminated in the accompanying consolidated balance sheet.

Continued

CAPITOL INDUSTRIES-EMI, INC.
And Subsidiaries

NOTES TO FINANCIAL STATEMENTS, Continued
(Company And Consolidation)

8. Income Taxes:

The Company and its domestic subsidiaries file a consolidated United States income tax return. The Company does not require its subsidiaries to record their proportionate share of the total consolidated United States income tax provision or credit on the subsidiaries' books. However, the Company for purposes of its separate financial statements adjusts its equity in earnings of subsidiaries as if such an allocation of United States income taxes had been effected.

The components of tax expense are as follows:

	1976 Company	1975 Company
Current provision:		
Federal	(\$196 000)	\$455 000
State	(17 000)	94 000
Foreign	—	—
Total current provision	(213 000)	549 000
Deferred	117 000	111 000
Total federal, state and foreign taxes	(\$96 000)	\$660 000
	6 491 000	4 200 000
	6 289 000	(327 000)
	202 000	4 527 000
	(\$530 000)	2 677 000
	(32 000)	563 000
	764 000	1 287 000

Continued

CAPITOL INDUSTRIES-EMI, INC.
And Subsidiaries

NOTES TO FINANCIAL STATEMENTS, Continued
(Company And Consolidation)

8. Income Taxes, Continued:

Reconciliation of the total provision for income taxes to the current federal statutory rate is as follows:

	Consolidation	
	1976	1975
Tax computed at 48% of income before income taxes	\$8 083 000	\$4 542 000
Current state income taxes, net of federal income tax benefits	(17 000)	293 000
Benefit from earnings of Domestic International Sales Corporation (DISC)	(469 000)	(409 000)
Investment tax credits	(765 000)	(89 000)
All other items	(341 000)	(137 000)
Total federal, state and foreign taxes	\$6 491 000	\$4 200 000

The components of the deferred tax provision for Consolidation and the tax effect of each were as follows:

	1976	1975
Decrease or (increase) in reserve for records returned for exchange	\$426 000	(\$244 000)
Amortization of future lease costs	114 000	111 000
Net change in provision for state taxes	(298 000)	123 000
Deferral or (recognition) of income from sales on installment basis	6 493 000	(440 000)
Investment tax credits	(765 000)	
Charges against reserve for loss on discontinued operations		256 000
Other, net	319 000	(133 000)
	\$6 289 000	(\$327 000)

Continued

CAPITOL INDUSTRIES-EMI, INC.
And Subsidiaries

NOTES TO FINANCIAL STATEMENTS, Continued
(Company And Consolidation)

8. Income Taxes, Continued:

Reconciliation of total provision for income taxes to current federal statutory rate is as follows:

	Company	
	1976	1975
Tax computed at 48% of income before income taxes	\$48 000	\$723 000
Current state income taxes, net of federal income tax benefit	(4 000)	49 000
Foreign income, net of foreign income tax, not expected to be subject to U.S. tax in foreseeable future	(140 000)	(101 000)
All other items	_____	(11 000)
Total federal, state and foreign tax	(\$96 000)	\$660 000

The components of the deferred tax provision for the Company and the tax effect of each were as follows:

	1976	1975
Amortization of future lease costs	\$114 000	\$111 000
Net change in provision for state taxes	2 000	
Other, net	1 000	_____
	\$117 000	\$111 000

Investment tax credit reflected in the financial statements for Fiscal 1976 increased over Fiscal 1975, primarily because Fiscal 1976 includes an amount relating to master recordings.

The Company is exploring the possibility of obtaining additional investment tax credit related to master recordings. Because a final determination has not been made and the final amount of the credit, if any, for prior years is uncertain, no amount has been reflected in these financial statements.

Continued

CAPITOL INDUSTRIES-EMI, INC.
And Subsidiaries

NOTES TO FINANCIAL STATEMENTS, Continued
(Company And Consolidation)

9. Incentive Compensation Plan:

Under the 1973 Incentive Compensation Plan (the "Plan"), 10% of the amount by which the annual consolidated pretax net income of Capitol Industries-EMI, Inc. and subsidiaries (as defined in the Plan) exceeds 10% of average consolidated shareholders' equity (as defined in the Plan) for the fiscal year, is available, subject to certain limitations, for payment to certain officers and key employees. Upon the recommendations of management, the Board of Directors of the Company selects the key employees who are to receive incentive compensation and allocates all or part of the amount available among them. Incentive compensation is payable after the close of the fiscal year at such dates as the Board of Directors may determine. Incentive compensation expense provided for the year ended June 30, 1976 was \$1,374,000 and the year ended June 30, 1975 was \$660,000.

In addition, incentive compensation of up to \$110,000 per annum is payable to the Chief Executive Officer of the Company.

On June 30, 1968, the Company and its subsidiaries terminated their Deferred Compensation Plans; however, the termination did not affect payments of installments previously accrued under these plans. Deferred compensation is payable upon retirement or death of the participants and is payable approximately \$240,000 per year.

10. Investment Bonus And Pension Plans:

During the year ended June 30, 1971, the shareholders of the Company approved the Capitol Investment Bonus Plan and Trust and the Capitol Retirement Plan and Trust. Under the various retirement plans, substantially all full-time employees who have not attained their 65th birthday are eligible to participate. Benefits under the Plan are provided for by Company contributions based upon an independent actuarial computation. The cost of these Plans for the year ended June 30, 1976 was \$63,000 (Company) and \$844,000 (Consolidation) and for 1975 was \$51,000 (Company) and \$790,000 (Consolidation).

Continued

CAPITOL INDUSTRIES-EMI, INC.
And Subsidiaries

NOTES TO FINANCIAL STATEMENTS, Continued
(Company And Consolidation)

12. Phantom Stock Option Plan, Continued:

and nonqualified stock options previously granted, and options covering 4,000 additional phantom shares were granted in each case at a Base Value of \$15.00 per share. (In respect of each cancelled stock option, on the dates when his remaining installments would have become exercisable, the employee will receive cash for the differential between his stock option exercise price and his new phantom option Base Value of \$15.00 per share.) For phantom options granted thereafter, the Base Value will be determined by multiplying (a) the Company's weighted average earnings per share, as specified in the Phantom Plan, for its latest 12 fiscal quarters, times (b) a multiplier equal to the average price/earnings ratio of the published Standard & Poor's 425 Index of Stocks for the latest 12 months.

Upon the "exercise" of a phantom option or an installment, no actual shares of the Company's common stock are issued, but the Company pays to the optionee cash equal to the difference between the Base Value and the Ending Value of the number of phantom shares on which the option is exercised. The "Ending Value" is determined by applying the formula described above, as of the end of the fiscal quarter preceding the date of exercise.

At June 30, 1976, there were options outstanding covering 135,110 phantom shares. During the year, options covering 17,000 phantom shares were granted, options covering 1,215 phantom shares were exercised and 4,785 options were cancelled. The Company's cost of this plan charged to income for the fiscal year ended June 30, 1976 was \$503,000. These options have base prices of \$13.49 to \$21.40 and an ending value of \$26.67. The options will be exercisable as follows: 1977, 69,895 shares; 1978, 23,640 shares; 1979, 19,475 shares; 1980, 15,900 shares; 1981, 3,400 shares; and 1982, 2,800 shares.

At June 30, 1975, there were outstanding options covering 124,110 phantom shares. During the year, options covering 146,896 phantom shares were granted, options covering 69,026 phantom shares were exercised and 2,400 options were cancelled. The Company's cost of this plan charged to income for the fiscal year ended June 30, 1975 was \$813,000. These

Continued

CAPITOL INDUSTRIES-EMI, INC.
And Subsidiaries

NOTES TO FINANCIAL STATEMENTS, Continued
(Company And Consolidation)

12. Phantom Stock Option Plan, Continued:

options have base prices of \$15.00, \$19.58 and an ending value of \$13.88. The options will become exercisable as follows: 1976, 38,310 shares; 1977, 34,600 shares; 1978, 21,440 shares; 1979, 17,260 shares; and 1980, 12,500 shares.

13. Transactions With Affiliates:

EMI Limited owned 98.1% of the Company's outstanding stock at June 30, 1976. Net sales of \$3,551,000 during 1976 and \$3,157,000 during 1975 to EMI Group Companies and accounts receivable of \$2,627,000 at June 30, 1976 and \$2,467,000 at June 30, 1975 from EMI Group Companies are included in the consolidated financial statements.

The service charges to subsidiaries during 1976 and 1975 arise from the allocation of cost incurred by the Company which are allocated based on subsidiaries' sales.

14. Earnings Per Common Share:

Earnings per common share is based on the weighted average number of shares outstanding during the year. For the years ended June 30, 1976 and 1975 the weighted average number of shares outstanding was 3,311,908 and 3,327,302, respectively. (Common stock equivalents (employee stock options) were not included in the computation of earnings per share for the year ended June 30, 1975, since the effect of their inclusion would be antidilutive.) There were no common stock equivalents during the year ended June 30, 1976.

15. Lease Commitments (Consolidation):

The Company has noncancelable long-term leases principally relating to buildings and retail stores.

Continued

CAPITOL INDUSTRIES-EMI, INC.
And Subsidiaries

NOTES TO FINANCIAL STATEMENTS, Continued
(Company And Consolidation)

15. Lease Commitments (Consolidation), Continued:

Total rent expense was \$3,642,000 in 1976 and \$3,359,000 in 1975 net of sublease rental income of \$756,000 and \$695,000, respectively. Rentals on noncapitalized financing leases of \$210,000 in 1976 and \$209,000 in 1975 are included in the above amounts.

Minimum annual rental commitments under noncancelable leases are as follows:

	<u>Operating Leases</u>	<u>Noncapitalized Financing Leases</u>	<u>Deduct Sublease Rentals</u>	<u>Total</u>
1977	\$2 596 000	\$210 000	\$610 000	\$2 196 000
1978	2 336 000	212 000	512 000	2 036 000
1979	2 199 000	213 000	465 000	1 947 000
1980	1 688 000	213 000	444 000	1 457 000
1981	1 412 000	213 000	353 000	1 272 000
1982-1986	5 830 000	596 000	261 000	6 165 000
1987-1991	4 730 000	290 000		5 020 000
1992-1996	4 279 000	200 000		4 479 000
1997 and subsequent	<u>551 000</u>	<u>160 000</u>		<u>711 000</u>
	<u>\$25 621 000</u>	<u>\$2 307 000</u>	<u>\$2 645 000</u>	<u>\$25 283 000</u>

The above data reflect existing leases and do not include future replacements upon their expiration.

The impact on 1976 and 1975 net income of treating financing leases as leases rather than debt and capital investment was immaterial.

Under many of the leases, the Company is obligated to pay insurance premiums and increases in real estate taxes. Retail store leases have escalation clauses based upon sales volume. The Company's New York Office lease contains escalation clauses measured by real estate tax and labor rate increases.

Continued

CAPITOL INDUSTRIES-EMI, INC.
And Subsidiaries

NOTES TO FINANCIAL STATEMENTS, Continued
(Company And Consolidation)

16. Litigation:

(A) On December 13, 1971, a legal action was commenced in the United States District Court for the Central District of California by an ex-employee of Capitol Records on behalf of himself and a class he undertakes to represent against Capitol Industries, Capitol Records, EMI, and certain officers and directors of those three companies, seeking \$30,000,000 in compensatory damages and \$90,000,000 in punitive damages for alleged violations of the Securities Exchange Act of 1934 and the California Corporate Securities Law of 1968 and under principles of common law fraud. Issues to be decided by the Court include whether financial information disclosed by the registrant overstated its true earnings and financial condition in order to inflate the market price of its stock. In July 1973, the Court ruled that the action could be maintained as a class action on behalf of all persons who purchased registrant's stock from June 1, 1969 through December 31, 1971.

Trial of this action commenced on September 30, 1975 and was completed on June 18, 1976. Briefs are to be submitted by the parties to the trial Court over the next several months and a decision by the Court is not anticipated until the first part of 1977, at the earliest.

In prior years, the registrant's independent legal counsel has given its opinion that the registrant would prevail in this litigation. However, in December 1975, the American Bar Association Statement of Policy Regarding Lawyers' Responses to Auditors' Requests for Information was issued, which in pertinent part reads as follows:

"In view of the inherent uncertainties, the lawyer should normally refrain from expressing judgments as to outcome except in those relatively few clear cases where it appears to the lawyer that an unfavorable outcome is either 'probable' or 'remote'; for purposes of any such judgment it is appropriate to use the following meanings:

Continued

CAPITOL INDUSTRIES-EMI, INC.
And Subsidiaries

NOTES TO FINANCIAL STATEMENTS, Continued
(Company And Consolidation)

16. Litigation, Continued:

- (i) probable - an unfavorable outcome for the client is probable if the prospects of the claimant not succeeding are judged to be extremely doubtful and the prospects for success by the client in its defense are judged to be slight.
- (ii) remote - an unfavorable outcome is remote if the prospects for the client not succeeding in its defense are judged to be extremely doubtful and the prospects of success by the claimant are judged to be slight.

If, in the opinion of the lawyer, considerations within the province of his professional judgment bear on a particular loss contingency to the degree necessary to make an informed judgment, he may in appropriate circumstances communicate to the auditor his view that an unfavorable outcome is 'probable' or 'remote', applying the above meanings. No inference should be drawn, from the absence of such a judgment, that the client will not prevail."

Within the guidelines set forth in the foregoing portion of the ABA Statement, the Company's independent legal counsel is unable to express any opinion as to the outcome of this litigation.

On May 20, 1976, a suit was filed against Capitol Records in the Superior Court for Los Angeles County, California, by Brian D. Wilson, Dennis C. Wilson, Carl D. Wilson, Michael E. Love and Alan Jardine (a group performing as "The Beach Boys"). The plaintiffs had been under contract to Capitol Records and Capitol Records has paid royalties to them. However, the plaintiffs contend that Capitol Records owes them additional royalties of at least \$469,000 and seek an accounting. The complaint was not served on Capitol Records until July 28, 1976. No discovery has commenced in this action and neither the Company nor its independent legal counsel is presently in a position to render an opinion regarding the outcome of this litigation.

Continued

CAPITOL INDUSTRIES-EMI, INC.
And Subsidiaries

NOTES TO FINANCIAL STATEMENTS, Continued
(Company And Consolidation)

16. Litigation, Continued:

On July 20, 1976, a suit was filed against Capitol Records in the United States District Court for the Southern District of New York by Mark Farner, Don Brewer and Mel Schacher (a group performing as "Grand Funk" and "Grand Funk Railroad") and two publishing companies owned by them. Grand Funk had been under contract to Capitol Records and Capitol Records has paid royalties to the group and to the publishing companies. However, the plaintiffs contend that Capitol Records owes additional royalties of at least \$1,663,000, and seek an accounting. No discovery has commenced in this action and neither the Company nor its independent legal counsel is presently in a position to render an opinion regarding the outcome of this litigation.

(B) On June 13, 1972, a complaint was served in an action brought in the United States District Court for the Middle District of Tennessee by some 20 music writers and 3 music publishers -- on behalf of themselves and classes they purport to represent -- against Columbia Broadcasting System, Inc. and 16 other major U.S. record manufacturers, including Capitol Industries and Capitol Records, seeking treble damages and injunctive relief for alleged violations of the Sherman and Clayton Acts and an accounting of license fees allegedly due. The plaintiffs allege that the defendants, acting in concert, have refused to accept licensing agreements for musical compositions containing certain terms allegedly required by the Copyright Act, and that the defendants have attempted to monopolize the music industry by various practices, including not recording musical compositions owned by the plaintiff writers and members of their class. The litigation is now more than four years old. All of the defendants have filed a number of motions, some of which, if ruled upon favorably, would terminate the litigation without liability. The Court has not ruled on those motions by defendants, most of which were filed several years ago, nor have the plaintiffs' attorneys made any effort to obtain a ruling that the case is a proper class action. Based upon presently known facts, the opinion of the registrant and its independent legal counsel is that registrant will prevail in this action.

Continued

CAPITOL INDUSTRIES-EMI, INC.
And Subsidiaries

NOTES TO FINANCIAL STATEMENTS, Continued
(Company And Consolidation)

16. Litigation, Continued:

Registrant and its subsidiaries are involved in various other lawsuits, claims and enquiries, most of which are routine to the nature of their businesses. In the opinion of registrant, based in part upon consultation with its various independent legal counsel, the resolution of these matters will not result in any material liability.

17. Supplementary Profit And Loss Information:

	1976	1975
	<u>Company</u>	<u>Consolidation</u>
Repairs and maintenance	\$14 000	\$15 000
Depreciation	3 000	2 000
Amortization	181 000	184 000
Taxes, other than federal, state and foreign income taxes:		
Canadian Manufacturers' sales	1 602 000	1 031 000
Payroll	141 000	118 000
Other	8 000	829 000
Rent	149 000	118 000
Royalties and licenses	44 000	4 054 000
Advertising and promotion	31 707 000	15 474 000
	<u>\$5 000</u>	<u>\$10 685 000</u>

Continued

CAPITOL INDUSTRIES-EMI, INC.
And Subsidiaries

NOTES TO FINANCIAL STATEMENTS, Continued
(Company And Consolidation)

18. Toshiba Record Manufacturing Co. Limited:

During the second quarter of Fiscal 1975, a transaction (the essential elements of which were contracted for in 1961) was concluded whereby the Company's stockholdings in Toshiba Record Manufacturing Co. Limited (TRM), was increased from 10% to 49%. The Company has recognized \$1,058,000 in Fiscal Year 1975 income from continuing operations before income taxes of which \$1,040,000 is related to the above transaction.

Substantially all of TRM's income is derived from rental income under an agreement with Toshiba-EMI Limited (TOEMI), an affiliated company. TRM leases all of its property and buildings to TOEMI for an annual rental of \$174,851. The agreement expires on September 30, 1977, but can be renewed for one year.

The accounts are translated into U.S. dollars at the year-end exchange rates except property which is translated at historical rates.

CAPITOL INDUSTRIES-EMI, INC.
And Subsidiaries

SCHEDULE I - MARKETABLE SECURITIES - OTHER SECURITY INVESTMENTS
(Company And Consolidation)
As At June 30, 1976
(In Thousands)

<u>Col. A</u>	<u>Col. B</u>	<u>Col. C</u>	<u>Col. D</u>
<u>Name of Issuer and Title of Each Issue</u>	<u>Number of Shares or Units - Principal Amount of Bonds and Notes</u>	<u>Amount at Which Shown in the Balance Sheet (a)</u>	<u>Value Based on Market Quotations at Balance Sheet Date</u>
U.S. Treasury Notes, C.P.	\$500	\$500	\$500
General Electric Credit, C.P.	800	800	800
Texaco, Inc., C.P.	1 000	993	997
Irving Trust Co., C.P.	1 000	1 039	1 039
Federated Acceptance, C.P.	1 000	993	997
ITT Financial Corp., C.P.	1 000	990	994
National Rural Utilities, C.P.	1 000	990	990
Home Savings, S.A.	33	33	33
Great Western Savings, S.A.	31	31	31
American Savings, S.A.	24	24	24
California Federal Savings, S.A.	1 009	1 009	1 009
Home Savings, S.A.	1 019	1 019	1 019
Great Western Savings, S.A.	1 016	1 016	1 016
American Savings, S.A.	1 015	1 015	1 015
Great Western Savings, S.A.	1 015	1 015	1 015
American Savings, S.A.	1 011	1 011	1 011
Home Savings, S.A.	1 011	1 011	1 011
Great Western Savings, S.A.	1 001	1 001	1 001
	<u>\$14 485</u>	<u>\$14 490</u>	<u>\$14 502</u>

Note:
(a) At cost which approximates market.

C.P. - Commercial paper.
S.A. - Savings accounts.

CAPITOL INDUSTRIES-EMI, INC.
And Subsidiaries

SCHEDULE I - MARKETABLE SECURITIES - OTHER SECURITY INVESTMENTS
(Company And Consolidation)
As At June 30, 1975
(In Thousands)

<u>Name of Issuer and Title of Each Issue</u>	<u>Col. A</u>	<u>Col. B</u>	<u>Col. C</u>	<u>Col. D</u>
	Number of Shares or Units - Principal Amount of	Bonds and Notes	Amount at Which Shown in the Balance Sheet (a)	Value Based on Market Quotations at Balance Sheet Date
Sears Roebuck Acceptance Corp., C.P.	\$ 1 000		\$ 1 000	\$ 1 000
Ford Motor Credit Corp., C.P.	1 000		1 000	1 000
1st Penn. Bank, N.A., C.D.	1 000		1 000	1 011
C & H Sugar, C.P.	1 000		995	999
Chemical Bank, C.D.	1 000		1 005	1 017
Bank of America, C.D.	385		385	386
1st National City Bank, N.Y., C.D.	1 000		1 005	1 017
Zale Corp., C.P.	1 000		995	997
G.M.A.C., C.P.	1 000		1 000	1 000
Equico Lessors, Inc., C.P.	1 000		993	996
Sohio Pipeline Co., C.P.	1 000		993	996
Texaco, Inc., C.P.	1 000		986	995
Phillip Morris, Inc., C.P.	1 000		1 013	1 018
Bankers Trust, N.Y., C.D.	1 000		1 006	1 015
Crocker National Bank, C.D.	1 000		1 000	1 001
Bank of America, C.D.	1 000		1 010	1 011
1st National City Bank, N.Y., C.D.	1 000		1 010	1 011
	<u>\$16 385</u>		<u>\$16 379</u>	<u>\$16 455</u>

Note:

(a) At cost which approximates market.

C.D. - Certificate of deposit.

C.P. - Commercial paper.

CAPITOL INDUSTRIES-EMI, INC.
And Subsidiaries

SCHEDULE V - PROPERTY, PLANT AND EQUIPMENT
(Consolidation)
For The Year Ended June 30, 1976
(In Thousands)

<u>Col. A</u>	<u>Col. B</u>	<u>Col. C</u>	<u>Col. D</u>	<u>Col. E</u>	<u>Col. F</u>
<u>Classification</u>	<u>Balance at Beginning of Period</u>	<u>Additions at Cost</u>	<u>Retirements</u>	<u>Other Changes - Add (Deduct) - Describe (a)</u>	<u>Balance at End of Period</u>
Land and improvements	\$2 377		\$30	(\$37)	\$2 310
Leasehold improvements	2 888	\$107	134	83	2 944
Buildings	10 841	20	53	2 153	12 961
Machinery and equipment	18 151	286	274	1 795	19 958
Construction in progress	4 094	6 090(b)	4	(3 994)	6 186
	<u>\$38 351</u>	<u>\$6 503</u>	<u>\$495</u>	<u>-</u>	<u>\$44 359</u>

Notes:

- (a) Transfers and reclassifications.
- (b) Plant additions in progress.

CAPITOL INDUSTRIES-EMI, INC.
And Subsidiaries

SCHEDULE V - PROPERTY, PLANT AND EQUIPMENT
(Consolidation)

For The Year Ended June 30, 1975
(In Thousands)

<u>Col. A</u>	<u>Col. B</u>	<u>Col. C</u>	<u>Col. D</u>	<u>Col. E</u>	<u>Col. F</u>
<u>Classification</u>	<u>Balance at Beginning of Period</u>	<u>Additions at Cost</u>	<u>Retirements</u>	<u>Other Changes - Add (Deduct) - Describe (a)</u>	<u>Balance at End of Period</u>
Land and improvements	\$2 403	\$134	\$160		\$2 377
Leasehold improvements	2 620	327	118	\$59	2 888
Buildings	10 100	373	884	1 252	10 841
Machinery and equipment	17 731	603	1 211	1 028	18 151
Construction in progress	<u>2 292</u>	<u>4 365(b)</u>	<u>224</u>	<u>(2 339)</u>	<u>4 094</u>
	<u>\$35 146</u>	<u>\$5 802</u>	<u>\$2 597</u>	<u>-</u>	<u>\$38 351</u>

Notes:

- (a) Transfers and reclassifications.
- (b) Warehouse additions in progress.

CAPITOL INDUSTRIES-EMI, INC.
And Subsidiaries

SCHEDULE VI - RESERVES FOR DEPRECIATION AND
AMORTIZATION OF PROPERTY, PLANT AND EQUIPMENT
(Consolidation)

For The Year Ended June 30, 1976
(In Thousands)

<u>Col. A</u>	<u>Col. B</u>	<u>Col. C</u>	<u>Col. D</u>	<u>Col. E</u>	<u>Col. F</u>
<u>Description</u>	<u>Balance at Beginning of Period</u>	<u>Additions Charged to Costs and Expenses</u>	<u>Retirements</u>	<u>Other Changes - Add (Deduct) - Describe (a)</u>	<u>Balance at End of Period</u>
Land and improvements	\$46			(\$46)	
Leasehold improvements	1 479	\$218	\$120	(1)	\$1 576
Buildings	3 950	364	3	53	4 364
Machinery and equipment	10 870	1 804	185	(6)	12 483
	<u>\$16 345</u>	<u>\$2 386</u>	<u>\$308</u>	<u>-</u>	<u>\$18 423</u>

Note:

(a) Transfers and reclassifications.

CAPITOL INDUSTRIES-EMI, INC.
And Subsidiaries

SCHEDULE VI - RESERVES FOR DEPRECIATION AND
AMORTIZATION OF PROPERTY, PLANT AND EQUIPMENT
(Consolidation)

For The Year Ended June 30, 1975
(In Thousands)

<u>Col. A</u>	<u>Col. B</u>	<u>Col. C</u>	<u>Col. D</u>	<u>Col. E</u>	<u>Col. F</u>
<u>Description</u>	<u>Balance at Beginning of Period</u>	<u>Additions Charged to Costs and Expenses</u>	<u>Retirements</u>	<u>Other Changes - Add (Deduct) - Describe</u>	<u>Balance at End of Period</u>
Land and improvements	\$42	\$4			\$46
Leasehold improvements	1 324	221	\$66		1 479
Buildings	3 829	339	218		3 950
Machinery and equipment	9 748	1 909	787		10 870
	<u>\$14 943</u>	<u>\$2 473</u>	<u>\$1 071</u>		<u>\$16 345</u>

CAPITOL INDUSTRIES-EMI, INC.
And Subsidiaries

SCHEDULE XII - VALUATION AND QUALIFYING ACCOUNTS AND RESERVES
(Company And Consolidation)
For The Year Ended June 30, 1976
(In Thousands)

<u>Col. A</u>	<u>Col. B</u>	<u>Col. C</u>		<u>Col. D</u>	<u>Col. E</u>
<u>Description</u>	<u>Balance at Beginning of Period</u>	<u>(1) Charged to Costs and Expenses</u>	<u>Additions (2) Charged to Other Accounts - Describe</u>	<u>Deductions - Describe</u>	<u>Balance at End of Period</u>
Allowance for doubtful accounts (Consolidation)	\$ 3 831	\$ 903		\$ 938(a)	\$ 3 796
Allowance for possible losses of music companies and accumulated provision for amortization of copyrights (Consolidation)	1 367	183			1 550
Reserve for product returned for exchange (Consolidation)	8 145	12 856		13 645(b)	7 356
Reserve for future lease costs (Company and Consolidation)	<u>2 699</u>	<u>(219)</u>			<u>2 480</u>
	<u>\$16 042</u>	<u>\$13 723</u>		<u>\$14 583</u>	<u>\$15 182</u>

Notes:

- (a) This amount represents write-offs of uncollectible accounts.
- (b) Returns, including returns on sales made during the fiscal year.

CAPITOL INDUSTRIES-EMI, INC.
And Subsidiaries

SCHEDULE XII - VALUATION AND QUALIFYING ACCOUNTS AND RESERVES
(Company And Consolidation)
For The Year Ended June 30, 1975
(In Thousands)

<u>Col. A</u>	<u>Col. B</u>	<u>Col. C</u>	<u>Col. D</u>	<u>Col. E</u>
<u>Description</u>	<u>Balance at Beginning of Period</u>	<u>Additions</u>	<u>Deductions - Describe</u>	<u>Balance at End of Period</u>
		(1) Charged to Costs and Expenses	(2) Charged to Other Accounts - Describe	
Allowance for doubtful accounts (Consolidation)	\$ 3 864	\$ 1 166	\$ 1 199(a)	\$ 3 831
Allowance for possible losses of music companies and accumulated provision for amortization of copyrights (Consolidation)	1 618	184	435(b)	1 367
Reserve for product returned for exchange (Consolidation)	7 639	15 235	14 729(c)	8 145
Reserve for future lease costs (Company and Consolidation)	2 912	(213)		2 699
Reserve for loss on discontinued operations (Consolidation)	1 188		1 188(d)	
	<u>\$17 221</u>	<u>\$16 372</u>	<u>\$17 551</u>	<u>\$16 042</u>

Notes:

- (a) This amount represents write-offs of uncollectible accounts.
- (b) This amount represents write-offs of show investments which became worthless.
- (c) Returns, including returns on sales made during the fiscal year.
- (d) This amount represents expenses of the discontinued operations.