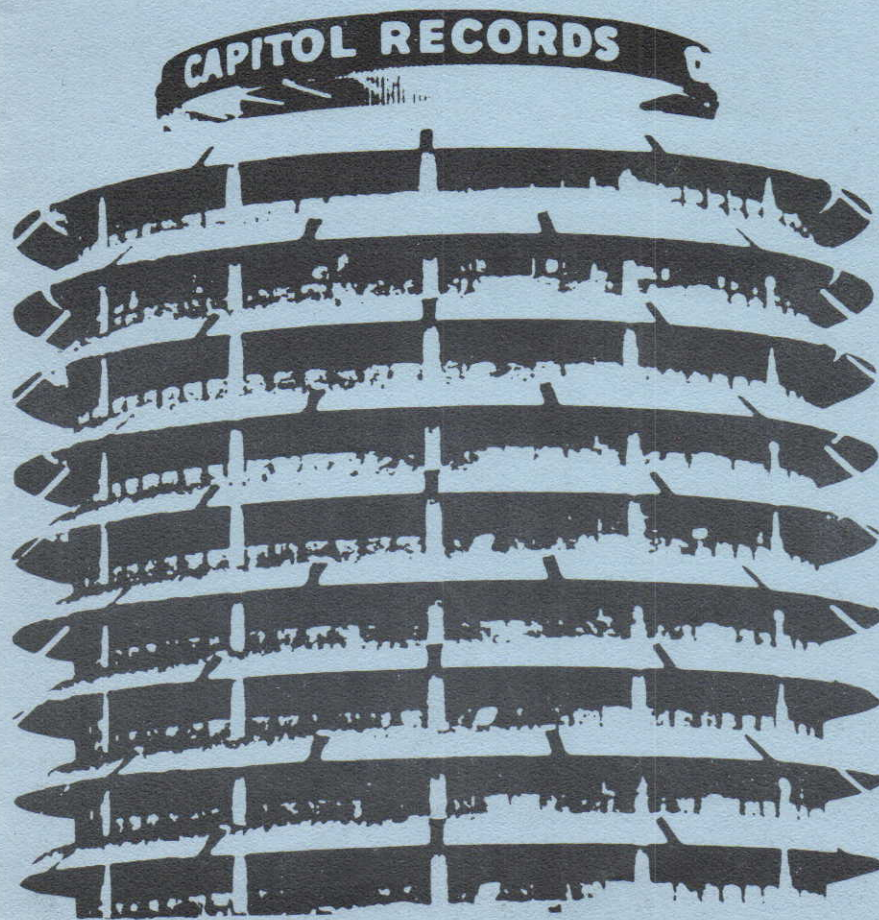


**CAPITOL
RECORDS
INC.
ANNUAL
REPORT
FOR THE YEAR
ENDED
JUNE 30
1966**



1966

CAPITOL RECORDS, INC.

Glenn E. Wallich . . . *Chairman of the Board and Chief Executive Officer*
Alan W. Livingston *President*
Lloyd W. Dunn *Vice President*
Voyle Gilmore *Vice President*
George R. Jones *Vice President*
Eugene L. Mueller *Vice President*
Francis M. Scott III *Vice President*
Robert E. Carp *Vice President, Secretary and Counsel*
MacVal S. Hardy *Treasurer*

DIRECTORS

Nolan Browning *Los Angeles, California*
*Richard Dawes *London, England*
Alan W. Livingston *Beverly Hills, California*
Sir Joseph Lockwood *London, England*
Jonathan B. Lovelace *Beverly Hills, California*
Michael Nidorf *Los Angeles, California*
Glenn E. Wallich *Beverly Hills, California*
Jack Wrather *Beverly Hills, California*

CAPITOL RECORDS DISTRIBUTING CORP.

Stanley M. Gortikov *President*
William B. Tallant *Vice President*
Brown Meggs *Vice President*
Elliot Chaum *Vice President and Secretary*
John Macedo *Treasurer*

*Deceased, April 26, 1966.



CAPITOL RECORDS, INC.

HOLLYWOOD AND VINE · HOLLYWOOD, CALIFORNIA 90028

ALAN W. LIVINGSTON
PRESIDENT

GLENN E. WALLICHS
CHAIRMAN OF THE BOARD
AND CHIEF EXECUTIVE OFFICER

September 20, 1966

To the Stockholders of Capitol Records, Inc.:

We are pleased to report that for the third consecutive year, sales and net income of Capitol Records, Inc., have reached an all-time high. For the fiscal year ending June 30, 1966, net income was \$5.4 million, an increase of 52% over last year.

During the fiscal year, there were a number of factors that contributed to Capitol's sales growth and helped it maintain its position as an industry leader. Capitol artists dominated the best-seller chart positions—21 weeks (40% of the year) a Capitol artist was in first position on Billboard's Top LP chart; and for eleven weeks (21%) a Capitol artist was in first place on Billboard's "Hot 100" singles chart.

During that time, eight Gold Records were awarded by the Record Industry Association of America to Capitol artists for albums that exceeded the \$1 million mark in sales. Four other Gold Records were awarded to Capitol artists for singles that topped the million mark during the year.

Supplying the sales impetus for Capitol during the year were such artists as Buck Owens, The Beach Boys, The Beatles, Peter & Gordon, Lou Rawls, Al Martino, Wayne Newton, Nancy Wilson, Sonny James, the late Nat King Cole, Tennessee Ernie Ford, The Lettermen, and George Shearing. There were newcomers too: The Outsiders, David McCallum, Billy Preston, Verdelle Smith, and the comedy sensation of the year, Mrs. Elva Miller.

Capitol continued to strengthen its position in the important Broadway show field. For the coming season, we have obtained the original cast rights to three shows including "Walking Happy" and "At The Drop of Another Hat."

The fiscal year also had a number of noteworthy classical milestones. Angel Records continued its growth pattern with a sales increase of 15% over last year. Some of the many contributors to this growth were Otto Klemperer's new recording of "Messiah"; the long-awaited "Tales of Hoffman"; four new packages by Maria Callas; and the triumphant American debut of soprano Mirella Freni.

The year also saw the introduction of "Good Time" Classics, the highly successful series which is aimed at introducing classical music to the pop album buyer. The Record Club also contributed strongly to this year's growth when sales of fiscal 1966 nearly doubled those of the previous year.

Fiscal '66 was a year of expansion and diversification for your Company:

We opened our third plant in Jacksonville, Illinois, in July, 1965. This plant, called "The World's Most Modern Processing Plant," is already playing an important part in helping supply additional production to support our increased volume.

We completed a license agreement with Pickwick Records, regarded as the most successful budget-line record company in the U.S. Under this license, Pickwick will release many of our inactive masters for the budget market.

In recent years, substantial investment potential has existed in California citrus land due to appreciation and the depletion of citrus acreage by home builders. Recognizing this opportunity, your Company has acquired approximately 1,100 acres of citrus and farm land in the San Joaquin Valley near Bakersfield. We are now actively farming this acreage.

We regret to report the untimely death of our very able Director, Mr. Richard Dawes, on April 26, 1966.

Prospects for the new fiscal year are most encouraging. We expect to continue to maintain our leading position in the record business. In addition, we are looking forward to significant growth in our Record Club activities and also becoming a leader in the stereo tape cartridge field, which is on the verge of becoming an important facet of the recording industry in the coming year.

Alan W. Livingston
President

Glenn E. Wallichs
Chairman of the Board
and Chief Executive Officer

CAPITOL RECORDS, INC. AND SUBSIDIARY COMPANIES
 CONSOLIDATED BALANCE SHEET, JUNE 30, 1966

ASSETS

CURRENT ASSETS:

Cash and short-term investments (less \$5,000,000 reserved for special purposes— see below)		\$ 1,204,000
Receivables:		
Trade (less allowance for possible losses, etc., \$1,827,000)	\$12,595,000	
Other	<u>1,330,000</u>	13,925,000
Inventories (generally at lower of first-in, first-out cost or market)		8,257,000
Prepaid expenses		<u>1,274,000</u>
Total current assets		24,660,000

SHORT-TERM INVESTMENTS RESERVED
 FOR SPECIAL PURPOSES

5,000,000

PROPERTY—at cost (land and buildings of
 \$4,191,000 subject to trust-deed loans
 and lease obligation) :

Land and improvements	2,488,000	
Buildings and improvements	3,871,000	
Machinery and equipment	4,525,000	
Other	<u>2,424,000</u>	
Total	13,308,000	
Less accumulated depreciation	<u>5,089,000</u>	
Property—net		8,219,000

FUTURE UNITED STATES INCOME TAX
 BENEFITS (Note 4)

1,203,000

OTHER ASSETS:

Investments in shows, music companies, etc. . . .	1,759,000	
Cash value of insurance contracts	830,000	
Other	<u>391,000</u>	
Total other assets		<u>2,980,000</u>
Total		<u>\$42,062,000</u>

See accompanying notes

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:

Portion of long-term loans due		
within one year		\$ 736,000
Accounts payable and accrued expenses		5,411,000
Income taxes:		
United States (less U.S. Government obligations, at cost plus accrued interest, \$2,368,000)	\$ —	
Foreign	<u>291,000</u>	291,000
Royalties and licenses payable		6,966,000
Dividends payable		909,000
Other		<u>551,000</u>
Total current liabilities		<u>14,864,000</u>

LIABILITIES DUE AFTER ONE YEAR:

Trust-deed loans and lease obligation	1,409,000	
Royalties, services, etc.	<u>3,509,000</u>	
Total liabilities due after one year		4,918,000

STOCKHOLDERS' EQUITY:

Common stock, \$.25 par value a share (authorized, 650,000 shares; outstanding, 454,671 shares)	157,000	
Non-voting Class B common stock, \$.25 par value a share (authorized, 100,000 shares; outstanding, none) (Note 1)	—	
Capital in excess of stated value of stock	1,349,000	
Retained earnings (Note 2)	<u>20,774,000</u>	
Total stockholders' equity		<u>22,280,000</u>
Total		<u>\$42,062,000</u>

to financial statements.

CAPITOL RECORDS, INC. AND SUBSIDIARY COMPANIES
SUMMARY OF CONSOLIDATED INCOME AND RETAINED EARNINGS
FOR THE YEAR ENDED JUNE 30, 1966

GROSS PROFIT FROM OPERATIONS	\$37,334,000
INTEREST INCOME	<u>545,000</u>
Total	37,879,000
SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES	<u>28,228,000</u>
INCOME BEFORE INCOME TAXES	9,651,000
UNITED STATES AND FOREIGN INCOME TAXES	<u>4,265,000</u>
NET INCOME	5,386,000
RETAINED EARNINGS, JULY 1, 1965	<u>16,297,000</u>
Total	21,683,000
DEDUCT CASH DIVIDENDS (\$2.00 per common share)	<u>909,000</u>
RETAINED EARNINGS, JUNE 30, 1966	<u>\$20,774,000</u>

See the accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

1. Stock options are outstanding to officers of the Company to purchase 42,500 shares of the Company's non-voting Class B common stock at prices of \$30 to \$32 a share. The options expire in 1969 and 1970, and are subject to earlier expiration under specified circumstances.

2. Under the provisions of the Company's loan agreements, dividends are restricted to 75% of consolidated net income for the fiscal year in which they are declared or for the preceding fiscal year, whichever is higher, plus amounts aggregating not more than \$300,000 during the remaining terms of the loan agreements. The loan agreements also provide for minimum requirements as to consolidated current ratio, consolidated working capital, and consolidated stockholders' equity and impose certain restrictions on the creation or assumption of additional encumbrances. Substantially all of the retained earnings as of June 30, 1966 were restricted and not available for the declaration and payment of dividends.

3. Provision for depreciation and amortization amounted to \$778,000 for the year ended June 30, 1966.

4. Future United States income tax benefits represent the estimated reduction in United States income taxes expected to be realized when expenses that have been recognized for accounting purposes become deductible for tax purposes. In prior balance sheets these estimated income tax benefits were deducted from the liabilities or asset valuation reserves to which they relate.

HASKINS & SELLS
CERTIFIED PUBLIC ACCOUNTANTS

523 WEST SIXTH STREET
LOS ANGELES 90014

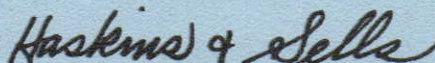
OPINION OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Capitol Records, Inc.:

We have examined the consolidated balance sheet of Capitol Records, Inc. and its subsidiary companies as of June 30, 1966 and the related summary of consolidated income and retained earnings for the year then ended. 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.

In our opinion, the accompanying consolidated balance sheet and summary of consolidated income and retained earnings present fairly the financial position of the companies at June 30, 1966 and the summarized results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

August 19, 1966



TRANSFER AGENT

Bank of America N. T. & S. A., Los Angeles, California

REGISTRAR

Crocker-Citizens National Bank, Los Angeles, California