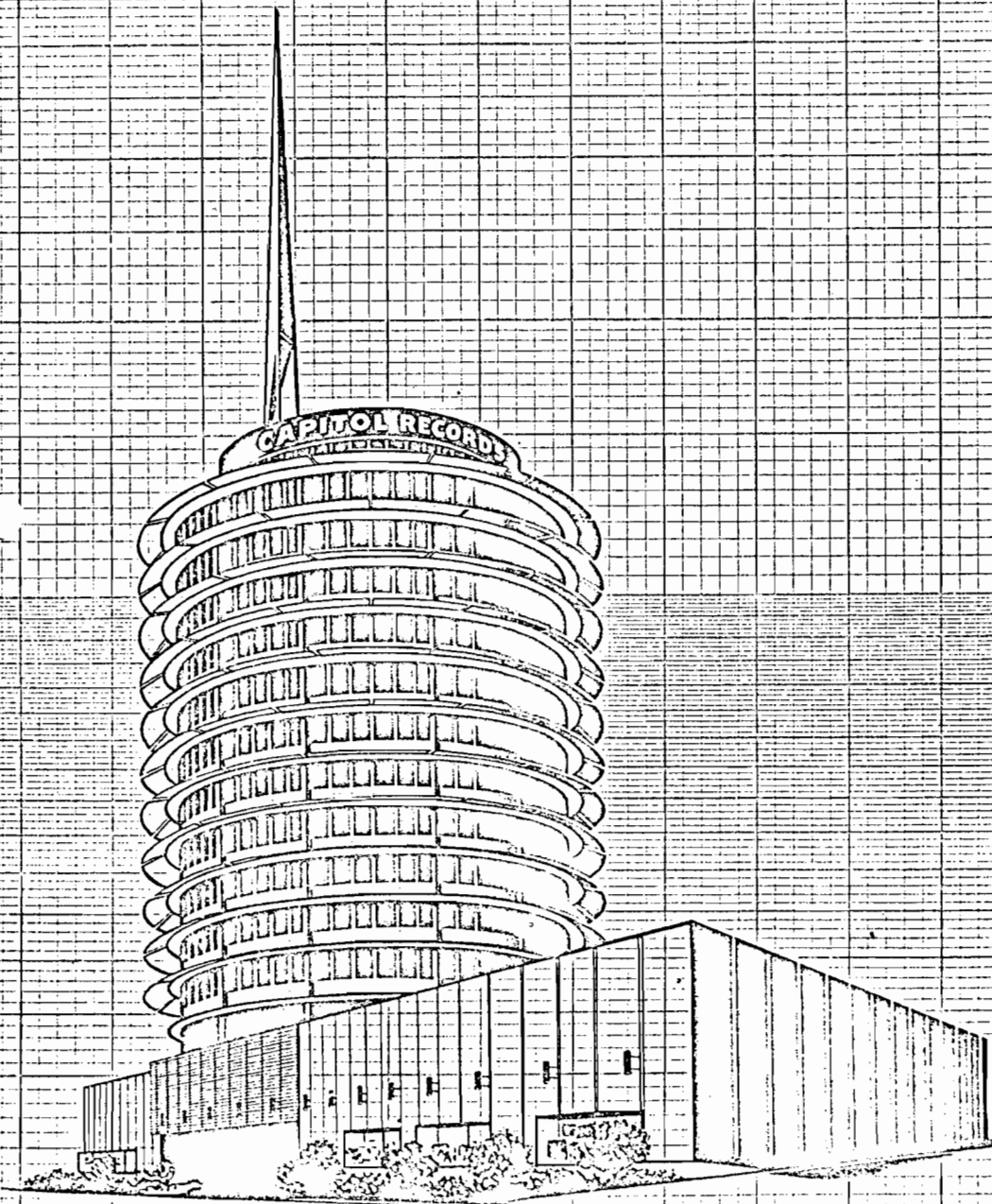


CAPITOL RECORDS, INC. ANNUAL REPORT

FOR THE YEAR ENDED

JUNE 30

1967



1967

CAPITOL RECORDS, INC.

Glenn E. Wallich *Chairman of the Board and Chief Executive Officer*
Alan W. Livingston *President*
Stanley M. Gortikov *Senior Vice 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 General Counsel*
MacVal S. Hardy *Treasurer*

DIRECTORS

Nolan Browning *Los Angeles, California*
Alan W. Livingston *Beverly Hills, California*
Sir Joseph Lockwood *London, England*
Jonathan B. Lovelace *Beverly Hills, California*
Michael Nidorf *Los Angeles, California*
John E. Read *London, England*
Joseph G. Stanford *London, England*
Glenn E. Wallich *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*
P. Vaughn Burdick *Treasurer*



Executive and General Offices

Capitol Records Inc.

The Capitol Tower, Hollywood, California 90028, Telephone (213) HO 2-6252

September 20, 1967

To the Stockholders of Capitol Records, Inc.:

We are pleased to report that in the fiscal year ended June 30, 1967, Capitol's sales were the highest and net income the second highest in the company's quarter century of operations. Sales increased 18% over the 1966 fiscal year and marked the fifth consecutive year in which sales were higher than in the preceding year.

Net income was \$4,006,000 equivalent to \$8.13 per share on the 493,071 shares of Common stock now outstanding. This was higher than for any year except fiscal 1966 when net income was \$5,386,000. The decline from last year in large part reflects policies previously adopted of accelerating the development of the Record Club business, where costs of membership development are expensed currently and income flows in future years, and making other investments for long term growth in earnings rather than near term profits.

U.S. Record Club sales increased 78%. This business strengthened its marketing position by signing record club distribution contracts with several other important labels. The Club, with the initiation of new computer and distribution facilities, will be in a position to significantly increase its contribution to profits in the future. The Canadian Record Club also increased its sales significantly, rising 66%.

Tower Records, our new (1965) independent record company, continued its remarkable growth by almost doubling its prior year's sales. This business, which has firmly entrenched itself in the record industry, is capable of achieving considerable sales and income growth in coming years.

Our new rack-jobbing subsidiaries in Canada more than doubled their sales this year, and future growth prospects are excellent.

Phonograph Player Business sales increased over 55%, due to our aggressive endeavors in the new tape cartridge player market. Future prospects are especially bright for us in this rapidly expanding market, as we have exclusive distributor agreements with Universal Tapedex Corp. and Orrtronic, Inc., manufacturers of exceptionally fine tape cartridge players for the home and auto, respectively.

Your company cooperated with Time/Life, Inc., in creation of the album collection titled "The Story of Great Music."

Capitol also signed an historic agreement with the Soviet Union which grants to us the exclusive rights to manufacture, license and distribute in the Western Hemisphere all recordings by Russian artists.

Capitol's roster of artists continues as one of the best in the record industry. Outstanding sales were achieved by The Beach Boys, The Beatles, the late Nat "King" Cole, Tennessee Ernie Ford, Jackie Gleason, Sonny James, The Lettermen, Guy Lombardo, Al Martino, Wayne Newton, Buck Owens, Peter & Gordon, and Nancy Wilson.

In addition, the list of successful newcomers to Capitol's roster includes: Cannonball Adderley, The Buckaroos, Ella Fitzgerald, Bobbie Gentry, Merle Haggard, Matt Monro, Lou Rawls, Sandler & Young, The Seekers, Wynn Stewart, and Senator Everett Dirksen, who recorded what was considered the best-selling spoken-word album of the year.

The directors and officers are optimistic about the future of your company and look for continuing growth in both sales and earnings in the coming years.

Alan W. Livingston
President

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

CAPITOL RECORDS, INC

CONSOLIDATED BALAN

ASSETS

CURRENT ASSETS:

Cash and short-term investment obligations		\$ 3,889,000
Receivables:		
Trade (less allowance for possible losses, etc., \$3,071,000)	\$19,734,000	
Other	<u>2,174,000</u>	21,908,000
Inventories (generally at lower of first-in, first-out cost or market)		11,795,000
Prepaid expenses		<u>1,387,000</u>
Total current assets		38,979,000

PROPERTY—At cost (land and buildings of \$5,274,000 subject to mortgage loans and lease obligation):

Land and improvements	2,847,000	
Buildings and improvements	5,452,000	
Machinery and equipment	5,259,000	
Other	<u>2,328,000</u>	
Total	15,886,000	
Less accumulated depreciation	<u>5,553,000</u>	
Property—net		10,333,000

FUTURE UNITED STATES AND FOREIGN INCOME TAX BENEFITS (Note 1)

.		1,202,000
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OTHER ASSETS:

Investments in shows, music companies, etc.	2,871,000	
Cash value of insurance contracts	847,000	
Other	<u>611,000</u>	
Total other assets		<u>4,329,000</u>
TOTAL		<u>\$54,843,000</u>

See accompanying notes

AND SUBSIDIARY COMPANIES
 CE SHEET, JUNE 30, 1967

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:

5½ % short-term bank loans	\$ 4,000,000
Portion of long-term loans and lease obligation due within one year	122,000
Accounts payable and accrued expenses	3,514,000
United States income taxes	546,000
Royalties and licenses payable	7,227,000
Dividends payable	1,000,000
Other	<u>734,000</u>
Total current liabilities	22,143,000

LIABILITIES DUE AFTER ONE YEAR:

Mortgage loans and lease obligation	\$ 1,538,000
Royalties, services, etc.	<u>4,261,000</u>
Total liabilities due after one year	5,799,000

STOCKHOLDERS' EQUITY:

Common stock, \$.25 par value a share (authorized, 650,000 shares; outstanding, 493,071 shares) (Note 2)	169,000
Non-voting Class B common stock, \$.25 par value a share (authorized, 100,000 shares; outstanding, none) (Note 2)	
Capital in excess of stated value of stock	2,957,000
Retained earnings (Note 3)	<u>23,775,000</u>
Total stockholders' equity	<u>26,901,000</u>
TOTAL	<u><u>\$54,843,000</u></u>

to financial statements.

CAPITOL RECORDS, INC.
AND SUBSIDIARY COMPANIES

SUMMARY OF CONSOLIDATED INCOME
AND RETAINED EARNINGS
FOR THE YEAR ENDED JUNE 30, 1967

GROSS PROFIT FROM OPERATIONS		\$44,290,000
INTEREST INCOME		<u>384,000</u>
Total		44,674,000
SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES . . .		<u>37,617,000</u>
INCOME BEFORE INCOME TAXES		7,057,000
UNITED STATES AND FOREIGN INCOME TAXES		<u>3,051,000</u>
NET INCOME (Note 5)		4,006,000
RETAINED EARNINGS, JULY 1, 1966		<u>20,774,000</u>
Total		24,780,000
DEDUCT:		
Cash dividends (\$2.00 per share)	\$ 1,000,000	
Cost of shares of common stock purchased	<u>5,000</u>	<u>1,005,000</u>
RETAINED EARNINGS, JUNE 30, 1967		<u><u>\$23,775,000</u></u>

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

- FUTURE UNITED STATES AND FOREIGN INCOME TAX BENEFITS:**
Future United States and foreign income tax benefits represent the estimated reduction in United States and foreign income taxes expected to be realized when expenses that have been recognized for accounting purposes become deductible for tax purposes.*
- STOCKHOLDERS' EQUITY**
The \$1,608,000 increase in capital in excess of stated value of stock during the year ended June 30, 1967 represents the excess of the amounts received upon the exercise of options for 35,000 shares of Non-voting Class B common stock and the sale to key employees of 10,500 shares of common stock over the par value of such shares sold.
On June 12, 1967, the Board of Directors authorized the conversion of the Non-voting Class B common stock into common stock. The accompanying June 30, 1967 consolidated balance sheet gives effect to the July 14, 1967 conversion of the 35,000 shares of Non-voting Class B common stock then outstanding into 28,000 shares of common stock in accordance with the terms of the Board of Directors' authorization.
- DIVIDEND RESTRICTION:**
Under the provisions of a mortgage loan agreement, 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 term of the loan agreement. Retained earnings in the approximate amount of \$20,435,000 as of June 30, 1967 were restricted and not available for the declaration and payment of dividends.
- DEPRECIATION AND AMORTIZATION:**
Provision for depreciation and amortization amounted to \$825,000 for the year ended June 30, 1967.
- NET INCOME PER SHARE:**
Net income per share, after giving effect to the conversion described in Note 2, amounted to \$8.13 on the 493,071 shares outstanding and \$8.78 on the average number of shares outstanding during the year.

HASKINS & SELLS
Certified Public Accountants

One Wilshire Building
Los Angeles 90017

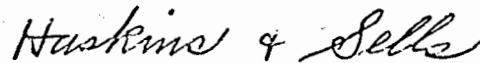
OPINION OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Capitol Records, Inc.:

We have examined the consolidated balance sheet of Capitol Records, Inc. and its subsidiary companies as of June 30, 1967 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 above-mentioned financial statements present fairly the financial position of the companies at June 30, 1967 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 14, 1967



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

REGISTRAR
Crocker-Citizens National Bank, Los Angeles, California

