

*Annual Report
to Shareholders*

1989

MCA

MCA INC. is a diversified international company engaged in production and distribution of theatrical, “non-theatrical”, television and home video product; operation of a tour of the Company’s motion picture studio; licensing of merchandising rights and film property publishing rights; manufacture and distribution of recorded music, music publishing, operation of amphitheatres, manufacture and licensing of entertainment/sports apparel, non-consumable concessions for sports/entertainment events, and other music entertainment activities; retailing and

mail order of gift merchandise; book publishing; television broadcasting and a 50% interest in a major cable television network; recreation services; and real estate development. The Company has a substantial investment in a corporation primarily engaged in the theatrical exhibition of motion pictures in the United States and Canada.

The Company had approximately 17,000 employees at December 31, 1989 and its common stock is listed on the New York and Pacific Stock Exchanges.

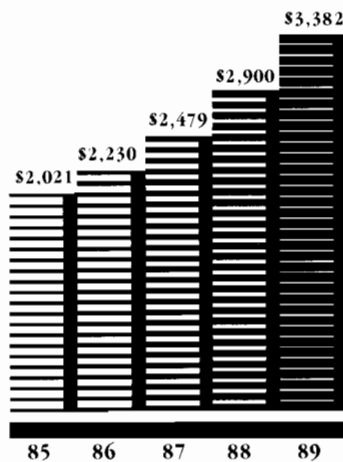
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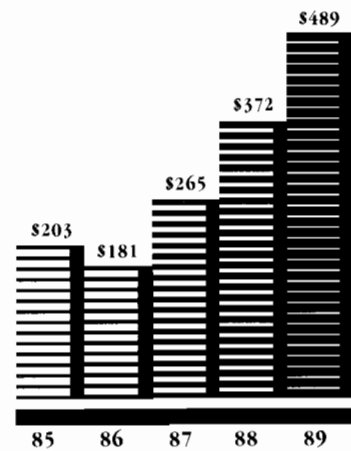
For the year ended December 31, 1989, your Company reported the highest revenues, operating income, income and earnings per share from continuing operations, net income and related earnings per share in its history. Revenues for the year ended December 31, 1989 were \$3,382,344,000 compared to \$2,900,339,000 for 1988, operating income was \$489,490,000 compared to \$372,088,000 for 1988, income from continuing operations was \$244,760,000 or \$3.34 per share compared to \$190,790,000 or \$2.61 per share for 1988 and net income was \$191,773,000 or \$2.62 per share compared to \$164,916,000 or \$2.26 per share for 1988. Operating income increased 32%, income from continuing operations increased 28% and net income increased 16% compared to 1988.

The Filmed Entertainment Group reported record revenues and operating income in 1989 as a result of the very successful group of theatrical films in release in 1989 including such hits as *Back to the Future Part II*, *Parenthood*, *Field of Dreams*, *Twins*, *Sea of Love*, *Uncle Buck*, *Do the Right Thing* and *K-9*. The Group's results also were favorably impacted in 1989 by record attendance levels and results from the studio tour due to the recent expansion program. Home video results were lower in 1989 as a result of the extraordinarily successful videocassette release of *E.T. The Extra-Terrestrial* in 1988. Increased television revenues in 1989 were due to higher network and foreign syndication revenues partially offset by lower domestic syndication revenues. The bankruptcy of Qintex Entertainment had an adverse effect on Group results prompting the

Revenues
(In Millions)



Operating Income
(In Millions)



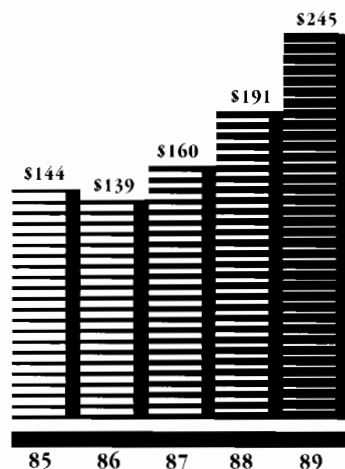
Company to reverse previously recognized revenues regarding *The New Leave it to Beaver* television series.

The Music Entertainment Group reported record revenues but lower operating income in 1989 compared to the 1988 record operating income. Revenues from the sale of record products increased in 1989 due to the high incidence of hit record product while operating income in 1988 was higher because of the Group's domestic videocassette distribution of *E. T. The Extra-Terrestrial*. Book Publishing had a record year reporting the highest revenues and operating income in its history. Retail and Mail Order had higher operating income in 1989 principally as a result of 1988 including a fourth quarter charge for the consolidation and relocation of the mail order operations. Broadcasting and Cable reported record revenues

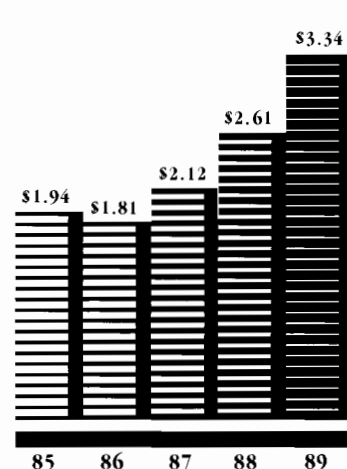
and operating income in 1989 due to improved programming for WWOR-TV and higher equity earnings from USA Network.

Other Operations had increased revenues and operating income in 1989 as a result of a pre-tax gain of approximately \$100,000,000 (\$63,000,000 after-tax) in the fourth quarter from the sale by MCA and IBM of Discovision Associates to Pioneer Electronic Corporation for \$200,000,000. Also, 1989 included an approximate \$10,000,000 gain realized from the sale of the Miller International subsidiary which manufactured and distributed budget-priced audio cassettes in West Germany. In addition, Other Operations includes a loss of \$12,300,000 in 1989, representing the Company's approximately 50% equity share of Cineplex Odeon's losses. This compares to equity earnings for Cineplex of \$15,500,000 in 1988.

Income From Continuing Operations
(In Millions)



Earnings Per Share - Continuing Operations
(In Dollars)



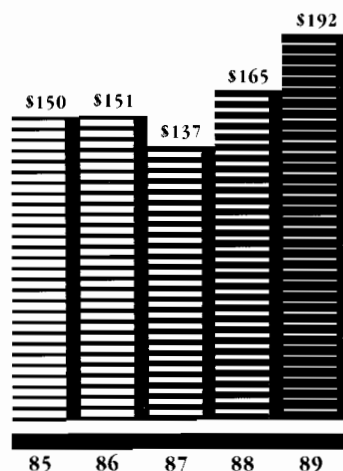
The Company recently decided to sell its LJN Toys subsidiary; therefore, LJN is being reported as a discontinued operation in the Company's 1989 consolidated financial statements. The decision to sell LJN Toys resulted in a \$30,300,000 after-tax provision for estimated loss on the planned sale of LJN. This is in addition to LJN's 1989 operating loss of approximately \$23,000,000 after-tax. The operating results and provision for estimated loss on the planned sale of LJN are excluded from the results of continuing operations.

Investment income in 1989 increased over 1988 as a result of higher investment balances. The investment loss in 1988 resulted from a \$16,400,000 charge related to the reduction in the indicated market value of the Company's investment in the preferred stock of Coleco

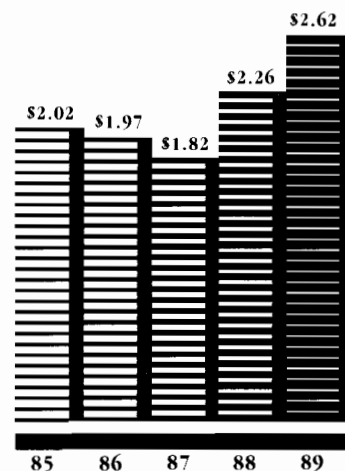
Industries and 1989 includes an additional \$3,900,000 charge for Coleco, which investment is now fully reserved. Interest expense increased in 1989 as a result of higher average interest rates and higher average borrowings compared to 1988. Corporate general administration expense increased in 1989 primarily due to higher executive stock compensation and increased costs of group life and health insurance plans. The effective income tax rate for the year increased to 37% in 1989 from 31% in 1988.

As previously mentioned, Universal Studios Hollywood had record results for the year, particularly since the very successful *Earthquake* attraction opened in March 1989. Record total attendance of over 5,000,000 visitors in 1989 exceeded the previous record by almost one million, while revenues

Net Income
(In Millions)



Earnings Per Share — Net Income
(In Dollars)



of approximately \$143,000,000 exceeded the 1988 record by 38%.

We are pleased to announce that Universal Studios Florida, a 50% joint venture with The Rank Organisation, is presently nearing completion and will open during the second quarter of 1990. Since the state-of-the-art movie studio complex at Universal Studios Florida opened for production on October 1, 1988, numerous television episodes and feature films have been produced there, including this past year's hit film, *Parenthood*, from Universal Pictures and Imagine Films.

The following additions to the Board of Directors occurred during the year:

In March 1989, Senator Howard H. Baker, Jr. was elected a Director of MCA INC. Senator Baker had previously served as a member of your Board of Directors from January 4, 1985 to March 2, 1987, at which time he resigned to accept the position of Chief of Staff to the President of the United States.

In August 1989, Charles S. (Skip)

Paul and Thomas P. Pollock were elected as Directors of MCA INC. and also were elected Executive Vice Presidents of the Company. Mr. Paul joined the Company in 1985 as President of MCA Enterprises and was appointed a Vice President of MCA INC. in 1986. He also serves as a Director of Cineplex Odeon Corporation. Mr. Pollock joined MCA in 1986 as Vice President of MCA INC. and Chairman of its Motion Picture Group.

More complete information on your Company's operating and financial results is contained in the Report on Operations, Management's Discussion and Analysis and the Consolidated Financial Statements. We urge you to read these sections of the Annual Report.

We again wish to express our gratitude to you, our shareholders, for your continued support and to our fellow employees, for their personal commitments and contributions toward the success of our Company.



Lew R. Wasserman
Chairman of the Board and
Chief Executive Officer



Sidney Jay Sheinberg
President and
Chief Operating Officer

January 25, 1990

Five Year Financial Highlights

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	(\$ in thousands)	1989	1988	1987	1986	1985
<i>Summary of Operations</i>	Revenues					
	Filmed entertainment					
	Theatrical	\$ 466,717	\$ 248,616	\$ 194,766	\$ 283,921	\$ 314,785
	Television	605,985	591,774	711,862	663,643	528,419
	Home video & pay television*	489,007	530,599	303,488	249,756	238,319
	Studio tour	142,919	103,460	96,905	84,527	64,504
	Other	34,391	9,364	8,954	18,348	22,971
		1,739,019	1,483,813	1,315,975	1,300,195	1,168,998
	Music entertainment*	764,718	661,028	477,493	386,171	326,440
	Retail and mail order	274,831	312,846	319,950	302,478	295,677
	Book publishing	189,397	175,934	158,964	132,008	138,365
	Broadcasting and cable	171,619	131,520	88,264	1,631	1,791
	Other operations**	242,760	135,198	118,459	107,535	89,807
		\$3,382,344	\$2,900,339	\$2,479,105	\$2,230,018	\$2,021,078
	Operating Income (Loss)					
	Filmed entertainment	\$ 245,722	\$ 222,879	\$ 148,685	\$ 77,983	\$ 144,114
	Music entertainment	56,516	60,480	40,863	33,753	25,087
	Retail and mail order	6,193	403	9,584	15,512	1,021
	Book publishing	23,887	23,278	18,118	16,582	17,521
	Broadcasting and cable	30,857	12,961	3,714	(128)	457
Other operations**	126,315	52,087	43,762	37,014	14,464	
	489,490	372,088	264,726	180,716	202,664	
Not Allocated to Operations						
Corporate general administration	29,681	20,041	16,057	14,133	14,316	
Investment (income) loss	(13,777)	6,181	(20,938)	(16,155)	(14,053)	
Interest expense	85,126	69,176	40,515	6,098	5,643	
	101,030	95,398	35,634	4,076	5,906	
Income From Continuing Operations Before Taxes	388,460	276,690	229,092	176,640	196,758	
Income Taxes	143,700	85,900	68,900	37,800	52,700	
Income From Continuing Operations	244,760	190,790	160,192	138,840	144,058	
Discontinued Operations, Net of Income Taxes***						
Operating (loss) income of LJN Toys	(22,687)	(25,874)	(22,938)	12,064	5,901	
Provision for estimated loss on the planned sale of LJN Toys	(30,300)	—	—	—	—	
	(52,987)	(25,874)	(22,938)	12,064	5,901	
Net Income	\$ 191,773	\$ 164,916	\$ 137,254	\$ 150,904	\$ 149,959	
Earnings (Loss) Per Share						
Continuing operations	\$ 3.34	\$ 2.61	\$ 2.12	\$ 1.81	\$ 1.94	
Discontinued operations	(.72)	(.35)	(.30)	.16	.08	
Net Income	\$ 2.62	\$ 2.26	\$ 1.82	\$ 1.97	\$ 2.02	

Other
Data

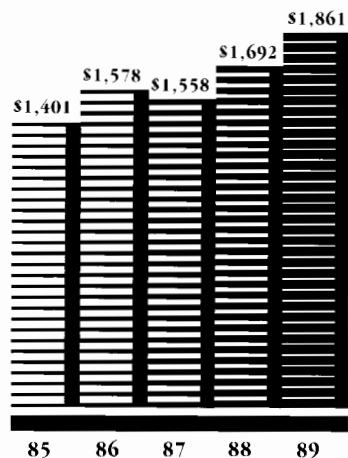
	1989	1988	1987	1986	1985
Working capital	\$ 947,431	\$1,018,483	\$ 724,043	\$ 530,401	\$ 432,650
Total assets	\$4,211,337	\$4,097,083	\$3,522,062	\$2,646,407	\$2,247,314
Long term debt	\$1,131,695	\$1,236,547	\$1,008,285	\$ 258,959	\$ 80,000
Shareholders' equity	\$1,860,878	\$1,691,732	\$1,557,630	\$1,578,094	\$1,400,761
Equity per share	\$ 25.33	\$ 23.17	\$ 21.42	\$ 20.83	\$ 18.69
Cash dividends	\$ 49,817	\$ 49,626	\$ 51,120	\$ 52,657	\$ 45,346
Cash dividends per share	\$.68	\$.68	\$.68	\$.68	\$.61
Average shares outstanding	73,231,880	72,982,254	75,473,188	76,718,875	74,122,508

* Music entertainment revenues include fees for the domestic distribution of home video products (primarily videocassettes). Such fees are excluded from Home Video revenues.

** The Company's equity in the results of Cineplex Odeon (previously reported in the Filmed Entertainment segment) is now included in Other Operations. All prior period amounts have been reclassified to conform to the current period's presentation.

*** The Company has decided to sell its LJN Toys subsidiary; therefore, LJN has been reported as a discontinued operation in all periods.

Shareholders' Equity
(In Millions)



Shareholders' Equity Per Share
(In Dollars)



Filmed Entertainment

Universal Pictures Production and Universal Television are headquartered at Universal City Studios, located on the Company's 420-acre property in Universal City, California, site of MCA INC.'s corporate headquarters and Universal Studios Hollywood (discussed in the Recreation Services section). Theatrical product is distributed in the United States and Canada to motion picture theatres by Universal Pictures Distribution and to pay television by Universal Pay Television. Distribution throughout the rest of the world for theatrical and pay television is done primarily by United International Pictures, which is equally owned by the Company and two other major companies. CIC Theatres, which is equally owned by the Company and another major company, is engaged in theatrical exhibition outside

the U.S. and Canada, and together with partners is building multiplex cinemas in several other countries. Original programming for local television stations is developed by MCA TV in addition to distribution in the U.S. of off-network product. Television distribution is handled throughout the rest of the world by MCA TV International. Original programming for pay television, basic cable and home video is developed by MCA TV Entertainment. Videocassettes and videodiscs are marketed domestically by MCA Home Video and outside the U.S. by CIC Video, which is equally owned by the Company and another major company. The rights to use characters, titles and other material and rights from television and theatrical films and other sources are licensed to manufacturers, retailers and service businesses by Merchandising Corporation of America.

Theatrical

Revenues of the Motion Picture Group increased substantially again in 1989 and were the second highest in Group history. The year 1990 has begun with the national distribution of *Born on the Fourth of July*, the highly acclaimed Oliver Stone directed film starring Tom Cruise, which won four Golden Globe Awards including Best Picture, and with the continuing foreign release of *Back to the Future Part II*. It is especially gratifying to report that in addition to the success at worldwide box offices of the films released during the year, six of the Group's films garnered 17 Academy Award nominations, including *Born on the Fourth of July* and *Field of Dreams* for Best Picture. The total number of nominations was more than any other studio.

Among the releases planned for 1990, which is the 75th Anniversary of Universal Studios, are:

★ *Opportunity Knocks* — Dana Carvey, *Saturday Night Live*'s "Church Lady" stars

in this comedy about a down-on-his-luck con man who stumbles onto the greatest scam of his career. From Imagine Entertainment.

★ *The Guardian* — In his first horror story since *The Exorcist*, Academy Award winning director William Friedkin explores the nightmare of all new parents.

★ *Cry Baby* — Johnny Depp, star of *21 Jump Street*, makes his big screen debut in writer-director John Waters' musical-comedy love story. From Imagine Entertainment.

★ *Back to the Future Part III* — Robert Zemeckis directs the conclusion of the Amblin Entertainment blockbuster trilogy as Michael J. Fox and Christopher Lloyd travel to the Old West.

★ *Bird on a Wire* — Mel Gibson and Goldie Hawn star in this John Badham directed action-packed romantic comedy as two old flames whose romance is reignited when they are plunged into a cross-country run for their lives.

★ *Ghost Dad* — Bill Cosby, America's first father, stars in this family comedy directed by Sidney Poitier as a single parent whose encounter with the supernatural teaches him it's never too late to get in touch with his kids.

★ *The Jetsons* — This new full length animated feature film is based on the classic characters from Hanna-Barbera.

★ *Career Opportunities* — A comedy centering on a 21 year-old charmer who finds himself locked in a department store with a beautiful girl on his first night as its custodian. Written and produced by John Hughes.

★ *Darkman* — A tragic story of doomed love and a thrilling action-adventure drama combine unforgettable characters with state-of-the-art special effects and stunts.

★ *Mo' Better Blues* — Academy Award nominee Spike Lee (*Do The Right Thing*) acts, writes, produces and directs Denzel Washington, also an Academy Award nominee, in this contemporary look at the life of a New York musician forced to choose between his music and his women.

★ *Problem Child* — John Ritter stars in a comedy about an unsuspecting suburban couple who adopt a seemingly lovable child who wreaks havoc on their household. From Imagine Entertainment.

★ *White Palace* — Susan Sarandon stars in this romantic drama as an earthy woman from the wrong side of the tracks who becomes involved with James Spader, a younger, upscale executive.

★ *Childs Play 2* — The murderous Chucky returns in the sequel to the popular 1988 thriller.

★ *Henry and June* — Philip Kaufman directs the film based on the journals of Anais Nin exploring the love affair of that young woman and novelist Henry Miller.

★ *Havana* — Academy Award-winning director Sydney Pollack reteams with Robert Redford for the first time since *Out of Africa* in a love story set against the action and decadence of the 1958 Cuban revolution.

★ *The Hard Way* — Michael J. Fox and James Woods star in this action comedy, directed by John Badham, about a mildly successful movie star who teams up with a tough city cop to research his first dramatic role.

★ *Kindergarten Cop* — Arnold Schwarzenegger reunites with director Ivan Reitman (*Twins*) in the story of a tough cop who must go undercover as a kindergarten teacher to catch a killer. From Imagine Entertainment.

Pay Television

During 1989, the Company's non-exclusive output agreements with HBO-Cinemax, Showtime/The Movie Channel and several regional pay television services yielded significant revenues. Pay television licensing in 1989 included the successful films *Biloxi Blues*, *The Great Outdoors*, *Midnight Run*, and *Batteries Not Included*. The Division also realized significant revenues in 1989 from the U.S. and Canadian pay television distribution rights to *Willow* and the U.S. pay television rights to *Nightmare on Elm Street 4: The Dream Master*. During 1989,

the Pay Television Division participated in the expanding pay-per-view business with the successful airing of *Twins*, *The Great Outdoors*, and *Willow*.

The Division is expecting to benefit from the expanding European markets, including the commencement of new pay television services in Spain, Greece and the United Kingdom as well as the expansion of additional pay television services in Germany and Scandinavia. France continues to be the largest foreign pay television market.

Television

Universal Television continued to be one of the leading suppliers of prime time network television programming in 1989 with four returning series for the 1989/90 season, including *Murder, She Wrote*, the number one dramatic series on CBS, *The ABC Mystery Movie*, *Quantum Leap* and *Coach*. In addition, three new series were ordered for broadcast in the 1989/90 season including CBS' highest rated new comedy, *Major Dad*, *H.E.L.P.* and *Nasty Boys*. The Division has also received a 13 episode order for *Law and Order*, a new show for broadcast by NBC in the Fall of 1990.

MCA TV continues to be successful in first run syndication with series such as *Charles in Charge*, *Out Of This World*, *The Munsters Today*, *My Secret Identity* and *The New Lassie*. Also continuing are *Inside Report*, a daily news magazine, and *Universal Debut Network III*. Upcoming for 1990 are *The New Dragnet* and *The New Adam-12* series; *What A Dummy*, a weekly sitcom; *My Talk Show*, a late-night strip; and *Studio 33, Hollywood*, a daily daytime talk

show featuring Cristina Ferrare and co-host Ron Reagan.

MCA TV Entertainment is currently supervising a minimum of 20 Movies of the Week ordered by USA Network and six movies ordered by Showtime and HBO in addition to a new half-hour comedy series for HBO. The Division is also supervising the development and production of series for WWOR-TV.

MCA TV International once again achieved record results in 1989, with major growth coming from a new private channel in Germany and television series licensing in the U.K. The MCA library of one-hour action shows continues to represent a substantial share of the Division's worldwide television business. In 1989, new sales records were achieved in numerous countries including the U.K., Canada, Italy and Germany. The coming year will see the introduction of private television in Greece, Holland, New Zealand and Spain.

MCA Home Video

MCA Home Video releases cover a wide range of programming including recent and classic Universal Pictures film titles, original productions and independently produced films. The home video market continues to grow, with VCRs now present in two out of three U.S. television households and sales of prerecorded videocassettes of approximately 200 million units.

Included among the successful rental titles released by MCA Home Video in 1989 were: *Twins*, *Midnight Run*, *The Great Outdoors*, *K-9*, *Fletch Lives*, *The 'Burbs*, *The Dream Team* and *Gorillas in the Mist*. In the original production area, *Callanetics* continues to be one of the top-selling exercise videos ever released. *Beginning Callanetics* also proved to be a top seller, as

the new title reached platinum status (sales in excess of 50,000 units and retail sales in excess of \$2,000,000) in less than two months after its release.

In 1989, MCA Home Video sold into the "sell-through" market approximately four million copies of the animated classic, *The Land Before Time*. The George Lucas/Steven Spielberg presentation was supported by one of the biggest home video marketing campaigns, and was one of the first to involve two promotional partners. Unprecedented cross-promotional opportunities with the United States Postal Service and Pizza Hut created a four-month advertising campaign which helped make the film one of the most successful sell-through titles of 1989.

CIC Video, which distributes MCA Home Video product outside of the U.S. and Canada, had another excellent year in 1989. The rental business remained strong in most major territories and the Company began

developing its sell-through business in Spain, Australia and France, while continuing to enjoy excellent growth in the United Kingdom and Japan.

MCA Merchandising

Merchandising Corporation of America generated revenues in 1989 from Universal Pictures' *Back to the Future Part II*, Universal Television's *Miami Vice* and *Knight Rider* series, the *Woody Woodpecker* cartoon series, and the merchandising program which accompanied the 1988 theatrical release of *The Land Before Time*.

A number of projects are being developed in 1990 which should generate revenue in future years including *Back to the Future Part III* and *Nasty Boys* television series. The Division is also working with MCA's Winterland Concessions on the licensing of *New Kids on the Block*.

Music Entertainment

The Music Entertainment Group encompasses MCA Records, MCA Distributing, MCA Music Publishing, the Universal Amphitheatre, MCA Concerts, Facility Merchandising and Winterland Concessions. MCA Records manufactures, markets and releases compact discs, records and tapes on the MCA Records label and is part-owner of Motown Records. MCA Distributing distributes recorded music for MCA Records, Motown Records and others, along with videocassettes and videodiscs for MCA Home Video and others in the United States and Canada. In foreign countries other than Canada and the U.K., MCA compact discs, records and tapes are distributed principally by WEA International. MCA Music Publishing licenses music from a catalog of

over 50,000 copyrights for a wide variety of uses including records, videocassettes, videodiscs, video games, radio, television and motion pictures. Artists concerts are presented and promoted by the Group's Universal Amphitheatre in Los Angeles and Fiddler's Green Amphitheatre in Denver, and by The Starplex Amphitheatre in Dallas and Lakewood Amphitheatre in Atlanta which are both 50% owned by MCA Concerts. Facility Merchandising is a company specializing in on-site distribution of non-consumable merchandise at sports and concert facilities nationwide. Winterland Concessions is an international merchandising company specializing in licensing, design, manufacture and distribution of goods in the music and sports industries.

The year 1989 was one of record revenues for the Music Entertainment Group. MCA Records, according to the music trade publication *Billboard*, concluded the year as the Number One Black Label and the Number One Top 40/Dance Crossover Label and had the nation's Number One album at

year end, Bobby Brown's *Don't Be Cruel*. In the U.S., MCA Records had 13 albums certified platinum (for sales in excess of 1,000,000 copies), including one album selling in excess of 5,000,000 copies and two additional albums selling in excess of 3,000,000 copies, and 14 albums certified

gold (in excess of 500,000 copies). In addition, in the U.K. MCA Records developed several new artists who went on to achieve gold and platinum success in international markets.

In 1989, Bobby Brown continued his recent success and was named *Billboard's* Number One Male Pop Artist, Number One Black Artist and Number One Pop Singles Artist. For the first time in MCA Records' history and the first time in nearly ten years for the industry, MCA Records simultaneously had the Number One, Two and Three albums on *Billboard's* weekly pop charts with Fine Young Cannibals, Bobby Brown and Tom Petty.

MCA Records continued its dominance in the Black Music area with platinum efforts from Bobby Brown, Guy, New Edition, Jody Watley, Heavy D. & The Boyz, and gold album honors to Stephanie Mills. The Country Music Division ended the year as *Billboard's* Number One Country Album Label with releases from superstars George Strait and Reba McEntire both achieving gold status. A compilation of the late Patsy Cline's greatest hits was certified double platinum.

Motown Records, which is distributed by MCA and in which MCA holds a minority ownership interest, continued its success in 1989 on the Black Singles charts with The Boys and Today. In the Jazz field, GRP Records, distributed by MCA, was selected as *Billboard's* Number One Jazz Label.

In the classical field, MCA Records announced an historic and precedent-setting Arts and Electronics venture, where in partnership with the government of the Soviet Union and the audiophile company, Mobile Fidelity, MCA will build recording studios in the Soviet Union and distribute new classical recordings throughout the world by many of the U.S.S.R.'s most important artists.

In 1989, revenues from MCA Music Publishing reached an all-time high as the result of increased domestic mechanical and

performance royalty income. MCA received ASCAP's Country Music Publisher of the Year Award. MCA published songs on hit albums by various artists including New Kids on the Block, Tom Petty, Paula Abdul, Anita Baker, Milli Vanilli, Bobby Brown and Randy Travis. MCA Music Publishing expanded its catalog with several new foreign and domestic publishing agreements with artists such as Milli Vanilli, Tom Petty, David Sanborn, Al Jarreau, Starship and El DeBarge.

The Universal Amphitheatre had a record year in 1989, hosting a wide variety of talent and drawing top events such as the MTV Awards telecast and The Who's charity performance of their rock opera *Tommy*. In addition, the Amphitheatre is gaining recognition as a premiere West Coast facility for conventions and trade shows. MCA Concerts added another facility to its roster of outdoor amphitheatres in 1989. The 17,000 seat Lakewood Amphitheatre in Atlanta, Georgia, operated in partnership with PACE Entertainment Group, enjoyed a successful opening season. Negotiations have also been completed for MCA Concerts to assume operation of another premiere outdoor amphitheatre, the Blossom Music Center located outside Cleveland, Ohio.

Winterland Concessions achieved record revenues and operating income in 1989. Winterland services the industry's largest artist roster, having merchandising licenses with such stars as Bruce Springsteen, Madonna, George Michael, Billy Joel, Janet Jackson, The Who and New Kids on the Block, and provides imprinted sportswear for the Hard Rock Cafe, Levi Strauss, Esprit, Greenpeace, Major League Baseball, the National Football League and many others. The Company reached new plateaus in 1989 in its retail distribution due to the merchandising agreement with one of the music industry's hottest new groups, New Kids on the Block, and the Company's thrust into major national retailers,

including J.C. Penney, K-Mart and Sears.

Facility Merchandising, Inc. (FMI) currently holds the exclusive novelty vending rights to over 45 facilities. In 1989, FMI also handled retail sales for the NBA All-Star Game and Major League Baseball's All-Star Game, League Championship Series

and World Series. Expansion plans for FMI in 1990 include novelty vending rights to a half dozen new clients in various cities in addition to FMI's continuing relationships with the National Football League, National Basketball Association and Major League Baseball.

Retail and Mail Order

S Spencer Gifts operates retail gift stores and jewelry stores and kiosks located throughout the U.S., and a direct marketing mail order catalog business in the U.S. The Retail Store Division is made up of two groups of stores: the Spencer and A2Z gift shops, and the Intrigue jewelry stores and kiosks. The

Spencer mail order catalog sells a wide variety of specialized merchandise purchased from both domestic and foreign manufacturers. Spencer's Retail Stores headquarters are located in Atlantic City, New Jersey while the Mail Order headquarters are located in Williamsburg, Virginia.

The Spencer Gifts Retail Store chain has embarked on an aggressive remodeling and upscaling effort during the last several years. In 1989, 35 Spencer Gifts stores were remodeled and upgraded, bringing the total number of stores remodeled to date to 202 of the 437 total retail stores. The customer reaction to these improvements has been most encouraging and Spencer Gifts was named "1989 Retailer of the Year" by the Licensing Industry Merchandisers Association. During 1990, the Division has plans for the opening of 10 new retail stores and the remodeling of 40 additional stores.

The Division closed 33 unprofitable or marginally profitable units during 1989,

most of which were Intrigue jewelry stores and kiosks. Because of the continuing downturn in gold jewelry sales in recent years, the Division is substantially reducing the number of Intrigue jewelry units.

The Direct Marketing Division underwent great change in 1989 as it was downsized and relocated to Williamsburg, Virginia. Four major support facilities were closed and the number of catalogs mailed in 1989 was significantly reduced from 1988 mailings. During 1990, the Direct Marketing Division will be further consolidating its operations in Williamsburg and making further changes in the presentation and assortments of its various catalogs.

Book Publishing

The Putnam Berkley Group publishes adult hardcover books, children's hardcover books, trade paperback books and mass-

market paperback books. The Group also creates and markets non-book paper products including diaries, address books and children's activity products.

The MCA Publishing Group had record revenues and operating income for the third consecutive year in 1989. Its three major

lines of business, G.P. Putnam's Sons adult hardcover publishers, The Berkley Publishing Group mass-market paperback

publishers, and The Putnam & Grosset Group, publishers of books for young readers, all performed well.

Adult hardcover best-sellers released in 1989 include: *All My Best Friends* by George Burns; *Poodle Springs* by Raymond Chandler and Robert B. Parker; *Clear and Present Danger* by Tom Clancy; *Harmful Intent* by Robin Cook; *The Edge* and *Straight* by Dick Francis; *Win, Lose or Die* by John Gardner; *Midnight* by Dean R. Koontz; *Blind Faith* by Joe McGinniss; *Playmates* by Robert B. Parker; *Capital Crimes* by Lawrence Sanders; *Morning Glory* by LaVyrle Spencer; *Majestic* by Whitley Strieber; *The Joy Luck Club* by Amy Tan; and *My Secret History* by Paul Theroux.

Mass-market paperback bestsellers released in 1989 include: *The Silver Tower* by Dale Brown; *The Cardinal of the Kremlin* by Tom Clancy; *Mortal Fear* by Robin Cook; *The Last Princess* by Cynthia Freeman; *The Aviators* by W.E.B. Griffin; *Scorpius* by John Gardner; *The Duchess of Windsor* by Charles Higham; *Lightning* by Dean R. Koontz; *Stolen Blessings* and *Timothy's Game* by Lawrence Sanders; *Wildcart* by Craig Thomas; and *Breathing Lessons* by Anne Tyler.

The 1990 adult hardcover publishing schedule includes new books by Piers

Anthony, Raymond Chandler and Robert B. Parker, Robin Cook, Cynthia Freeman, W.E.B. Griffin, Bob Hope, Larry King, Dean R. Koontz, Charles Kuralt, Charles Osgood, Robert B. Parker, Aline, Countess of Romanones, Lawrence Sanders, LaVyrle Spencer, Amy Tan and Kurt Vonnegut.

The 1990 mass-market paperback publishing schedule includes first mass-market publication of books by Piers Anthony, Lilian Jackson Braun, Dale Brown, Tom Clancy, Alan Dean Foster, Cynthia Freeman, John Gardner, W.E.B. Griffin, Orel Hershiser, Dean R. Koontz, Barbara Michaels, Michael Moorcock, Robert B. Parker, Eugenia Price, Lawrence Sanders, LaVyrle Spencer and Whitley Strieber.

The Putnam & Grosset Group, publisher of books for young readers, had a profitable year with increased revenue, but operating income was lower than in the previous year as a result of a significant increase in competitive activity more than offsetting the effects of modest industry-wide growth. The strong Grosset & Dunlap, Putnam and Philomel backlists and an aggressive new product development program should help to maintain the Group's significant position in this field in 1990, highlighted by the fact that Philomel's *LON PO PO*, illustrated by Ed Young, has been awarded the much coveted Caldecott Medal.

Broadcasting and Cable

WWOR-TV is an independent station telecasting 24 hours a day. Located in Secaucus, New Jersey, WWOR-TV serves the tri-state New Jersey, New York and Connecticut areas.

With a commitment to live, local programming, WWOR-TV has positioned itself as a strong alternative to network owned-and-operated stations in the Nation's number one market. WWOR-TV has also strengthened its audience by scheduling high-quality entertainment shows such as *The Cosby Show*, *Who's The Boss?* and the

The Company has a 50% interest in USA Network, an advertiser-supported cable service providing entertainment and sports programming. USA Network is one of the nation's highest rated basic cable services.

late night hit, *The Arsenio Hall Show*. With a long-established reputation for sports programming, the station will continue to feature New York Mets baseball and New Jersey Nets basketball.

In the Fall of 1989, WWOR-TV introduced a new morning show, *Nine Broadcast Plaza*, a three hour block of

programming which combines news and talk segments before a live studio audience. WWOR-TV has made an outstanding commitment to the community through its *A+ FOR KIDS*, which has been awarded a Presidential C-Flag Citation for Private Sector Initiatives and received the 12th "Point of Light" recognition from President Bush. During this past year, WWOR-TV

received numerous other broadcast awards.

USA Network continued to show growth in the latest year in the number of subscribers, increasing 10% to approximately 51,000,000, and along with improvements in programming and a 22% increase in ratings, reported improved results in 1989.

Other Operations

The MCA Recreation Services Group operates Universal Studios Hollywood which provides a tour of the Company's motion picture studio and is included in the Filmed Entertainment segment for financial reporting purposes.

The MCA Recreation Services Group also provides the lodging, food and other visitor services in Yosemite National Park.

MCA Development develops and manages commercial buildings at Universal City

occupied by the Company or leased to outside tenants; owns the Sheraton-Universal Hotel; has a 50% joint venture interest in the 10 Universal City Plaza office building; and provides real estate services for Company facilities in Universal City and throughout the world.

The Company also has a substantial investment in Cineplex Odeon Corporation, which is primarily engaged in theatrical exhibition of motion pictures in the U.S. and Canada.

Recreation Services

In its most successful year in history, each of MCA Recreation Services' businesses achieved record levels of attendance, revenues and earnings.

During 1989, Universal Studios Hollywood observed its 25th Anniversary in a year-long celebration, entertained its 60 millionth guest and broke the previous one-day and annual attendance records. Over five million people visited Universal Studios Hollywood in 1989, 25% more than 1988 and almost one million above 1987, the previous record year. Primarily responsible for 1989's attendance surge was the March opening of *Earthquake — The Big One*.

Universal Studios will celebrate its 75th Anniversary during 1990 with a year-long series of activities, including a television special honoring the Studio's unparalleled history of entertainment. During 1990, Universal Studios Hollywood will continue its investment program in new attractions, guest services and amenities. New

attractions for 1990 will emphasize promotions and attractions particularly positioned for the entire family and will include a new show based on Steven Spielberg's fantasy adventure, *An American Tail*, and a major new comedy Western Stunt Show Spectacular.

Work will commence on 1991's major new attraction, *E.T.'s Adventure*, as well as the *Starway* escalator which will bring guests directly into the heart of a working motion picture and television studio.

Since MCA INC. acquired Yosemite Park and Curry Co. in 1973, the Company has invested in excess of \$100,000,000 in upgrading and maintaining Park facilities. During 1989, Yosemite Park and Curry Co. celebrated its 90th year serving Yosemite's visitors. The Company continued its innovative programs to minimize the environmental impact of its concession operations in Yosemite National Park. A significant priority of the Company has

been, and continues to be, to support environmental projects, local education and day care, transportation, park interpretation and other programs which maintain, restore and benefit the park as well as benefit the surrounding community and the park's visiting public. This year, the Company received the prestigious "Take Pride in America" Award from President Bush, which acknowledges the Company's accomplishments in supporting the restoration and protection of Yosemite and its surrounding environment. Yosemite National Park celebrates its 100th Anniversary on October 1, 1990 and the year will be highlighted by touring exhibitions, educational programs and other events which commemorate Yosemite's contribution to America.

During 1989, The Rank Organisation, P.L.C., the diversified British leisure and entertainment conglomerate, joined the Company as an equal partner in Universal Studios Florida after acquiring the 50% interest held by Cineplex Odeon. During 1989, the state-of-the-art movie studio complex was used extensively for production of both television and feature films. In addition to the four existing sound stages, two additional 16,500 square foot sound stages and a 51,000 square foot video production and office complex are under construction for use by the Nickelodeon

Cable Channel for virtually all of their television production.

The visitor attraction portion of the Studio is planned for opening in the second quarter of 1990 and will feature both the studio backlot comprised of 150 unique architectural movie facades and the visitor entertainment area. There will be numerous food facilities, including the world famous Hard Rock Cafe, as well as specialty merchandise shops offering unique movie memorabilia and gifts. Universal Studios Florida will feature the most innovative and technically sophisticated shows and movie-themed rides, based on some of Universal's greatest hit films, such as *E.T.'s Adventure*, *Back to the Future*, *Earthquake* and *Jaws*. Attractions developed from other major properties include *King Kong*, the *Ghostbusters* show and from the world of animation, *The Funtastic World of Hanna-Barbera*.

The Company continues to explore opportunities to duplicate the success of Universal Studios Hollywood in other countries. Currently, two locations are being considered for this project, one at Rainham near London and the other at Melun-Senart in the Paris suburbs. Development studies continue for a similar attraction in Japan on a site owned by Nippon Steel Corporation, the Company's partner on this project.

MCA Development

Over the last three years, MCA Development has worked to create a strategic plan for the utilization of the Company's real estate, so that it can continue to expand its commercial real estate activities while allowing for the expansion of existing MCA operations. In cooperation with a talented team of planners, architects and engineers, MCA Development has explored several options for dealing with the challenges of the 21st century, and created a new conceptual plan for development of commercial real estate

at Universal City. MCA is now prepared to begin the next phase of development in September 1990, with the construction of a major innovative "festival" shopping promenade. This unique dining, entertainment and shopping street will link the Tour, Amphitheatre and Cineplex Odeon Theatres by creating a pedestrian walk totally free of vehicular traffic.

Other projects including hotel, office, and retail shopping components are currently being planned by MCA Development at Universal City.

Financial Condition and Liquidity

The Company's overall financial condition as of December 31, 1989 remains strong. Working capital was \$947 million at December 31, 1989 compared to \$1.02 billion and \$724 million at December 31, 1988 and 1987, respectively. Cash and short term investments were \$114 million at December 31, 1989 compared to \$190 million and \$103 million at December 31,

1988 and 1987, respectively. Long term debt was \$1.13 billion at December 31, 1989 compared to \$1.24 billion and \$1.01 billion at December 31, 1988 and 1987, respectively. The Company's strong financial condition, along with its available financing arrangements, is more than adequate to meet current obligations and commitments.

Capital Resources and Requirements

The Company continues to add to its extensive film library which contains unique and irreplaceable films from over 60 years of theatrical production and distribution activities and over 30 years of television production and distribution activities, comprising in excess of 3,400 theatrical features and feature length productions and 13,500 television episodes. During 1990, the Company plans to release approximately 21 theatrical films compared to 16 theatrical films released in 1989. For the 1989/90 season, seven television series are being produced under contract with the networks and an additional 10 series are being produced directly for first-run syndication or pay television (including four joint venture productions). This compares to 10 series produced for the networks and six produced for first-run syndication or pay television (including one joint venture production) during the 1988/89 season. Additionally, for the 1989/90 season the Company has television syndication distribution rights to one series produced by others currently airing on the networks compared to two series in the prior season.

The average cost of both theatrical and television films will vary depending on the type of film produced, casting of stars or established actors, and many other factors. The general trend over recent years has indicated an increase in the average cost of

films primarily as a result of the increased cost of labor, which is the largest single component of film costs.

The amount of revenues derived from a theatrical film is a result of the commercial acceptance by the public, and cannot be projected on the basis of production or marketing costs expended. The Company has attempted to minimize the risks inherent in the film business by producing and investing in a broad range of product, while closely monitoring the cost of individual films.

The worldwide home video market continues to grow, producing significant additional revenues for theatrical film product. The recent trend of an increased proportion of these revenues resulting from "sell-through" product versus rental product is expected to continue. The strong 1990 home video release schedule, including the highly successful *Back to the Future Part II*, is expected to result in another successful year for home video.

The Company's current license agreements with several major domestic pay television services have expired although revenues will be recognized in 1990 for a few remaining theatrical films released before January 1, 1989. Discussions are taking place concerning the future licensing of theatrical film product; however, no agreements have been reached. As a result,

1990 and future domestic pay television licensing revenues may be lower compared to recent years, although licensing of theatrical films to other markets may reduce any such shortfall in revenues. Foreign pay television revenues are expected to increase in 1990 and beyond as pay television service expands in foreign territories.

The home video market, network television and worldwide television syndication licensing are expected to provide substantial additional revenues for theatrical films in 1990 and beyond, in addition to any pay television licensing that may result. The growing worldwide home video market for both rental and sell-through product and the continued expansion of foreign markets in both the television and pay television areas are expected to help reduce the financial risks associated with the investment in production of theatrical product.

Generally, television films are produced under contracts which provide for license fees covering a portion of the anticipated production costs. The gap between license fees and production costs remains a major problem confronting producers, particularly with respect to network shows. The recoverability of the balance of production costs and the realization of profits, if any, are dependent upon the success of subsequent domestic syndication or cable television licenses, foreign syndication licenses, additional network exhibition in non-primetime hours, and other uses such as home video sales. The present condition of the television syndication market has resulted in lower estimates of future domestic syndication revenues for television series. Accordingly, the Company has become more selective in undertaking deficit financing in the production of series for network broadcast. Lower domestic syndication revenues earned by the Company have also resulted from the reduction in the number of successful network series available to license.

Revenues to be recognized in 1990 and subsequent years from existing agreements which license present and future television

films and theatrical motion pictures for exhibition on television and pay television systems total approximately \$770 million compared to \$930 million a year ago.

The amount of revenues to be derived from a number of the Company's other businesses, such as Music Entertainment and Book Publishing, are also dependent upon the commercial acceptance by the public, and also cannot be projected on the basis of production or marketing costs expended.

During 1989, the Company invested approximately \$83 million in various businesses and joint ventures. The Company continued to make capital contributions to Universal City Florida Partners, a joint venture equally owned by the Company and The Rank Organisation, P.L.C. of the United Kingdom (which in April 1989 acquired the 50% interest held by Cineplex Odeon Corporation) formed to construct and operate Universal Studios Florida which is planned to open during the second quarter of 1990. The external financing for this project has been obtained directly by the joint venture under an existing credit agreement with a consortium of banks.

The Company realized proceeds of \$115 million from the sale of two affiliated companies in 1989. In November 1989, the Company and IBM sold Discovision Associates, an equally owned joint venture, to Pioneer Electronic Corporation for \$200 million. In July 1989, the Company sold for approximately \$15 million its Miller International subsidiary which manufactured and distributed budget-priced audio cassettes in West Germany. The operating results of these businesses were not material and their disposition will not significantly affect the future trend of earnings of the Company or any of its business segments.

In October 1989, the Company issued in the international capital markets \$200 million of 5½% convertible subordinated debentures due October 1999. The debentures are convertible into MCA INC. common stock at a conversion price of \$76⅝ per share. The proceeds were predominantly used to refinance existing debt which had higher interest costs.

Results of Operations

1989 compared to 1988

MCA's total revenues increased 17% to \$3,382,344,000 while operating income increased 32% to \$489,490,000 for 1989. Included in revenues and operating income of Other Operations for 1989 was an approximate \$100,000,000 pre-tax gain from the sale of the Company's 50% interest in Discovision Associates.

As a result of the Company's decision to sell its LjN Toys subsidiary, LjN is being reported as a discontinued operation with an after tax loss of \$53,000,000. This loss on discontinued operations consists of a \$30,300,000 provision for estimated loss on the planned sale of the stock of LjN as well as a \$22,700,000 operating loss for 1989 which compared to a \$25,900,000 operating loss for 1988.

The Filmed Entertainment Group's revenues increased by 17% in 1989 while operating income increased 10% as a result of the very successful group of theatrical films in release in 1989 including such hits as *Back to the Future Part II*, *Parenthood*, *Field of Dreams*, *Twins*, *Sea of Love*, *Uncle Buck*, *Do the Right Thing* and *K-9*. During 1989, theatrical film revenues increased 106% and 49% in the domestic and foreign markets, respectively, due to the significantly better box office results for the Group's films released in 1989. The Group's results were also favorably impacted by the studio tour results which improved dramatically due to the recent expansion program. Studio tour paid attendance increased 24.5% and per-capita visitor spending increased 12.5% compared to 1988, resulting in a 38% increase in revenues and 78% increase in the contribution to operating income.

The Filmed Entertainment Group, as a result of the extraordinarily successful home video release of *E.T. The Extra-Terrestrial* in 1988, had lower home video revenues in 1989. Television revenues increased in 1989 compared to the prior year. Network television revenues increased 37% in 1989 due to the reduced production in 1988 caused by the Writers Guild of America strike during the Summer

of 1988. Total episodes delivered to the Networks increased to 158 in 1989 from 106 in 1988. Also, favorably impacting the Group's results were improved foreign syndication revenues which increased 26% in 1989. Television results were adversely affected by the bankruptcy of Quintex Entertainment, prompting the Company to reverse previously recognized revenues regarding *The New Leave it to Beaver* television series, and by a 40% decrease in domestic syndication revenues.

The Music Entertainment Group had a 16% revenue increase and a 7% decrease in operating income in 1989 compared to 1988. Revenues from sales of recorded music increased by 17% in 1989 due to the high incidence of hit record product. Revenues also increased as a result of strong sales by the recently acquired Winterland Concessions in addition to a full year's operation in 1989 compared to only eight months in 1988. Adversely impacting Group results was a decrease in video distribution fees earned in 1989 compared to 1988 which included significant fees earned for the domestic and Canadian distribution of the videocassette *E.T. The Extra-Terrestrial*.

Retail and Mail Order revenues decreased 12% in 1989 while operating income increased as 1988 included a \$4,600,000 non-recurring charge related to the consolidation and relocation of mail order operations. Retail store sales were comparable to 1988 while mail order sales decreased by 57% due to the down-sizing of the mail order business.

Book Publishing Group revenues increased 8% in 1989 while operating income increased 3%. The revenue increase is due to a number of very successful book titles in release in 1989 including Tom Clancy's *Clear and Present Danger* and *The Cardinal of the Kremlin*. The impact of higher revenues in 1989 was somewhat offset by the trend of higher costs of acquiring publishing rights to titles.

Broadcasting and Cable revenues increased 30% in 1989 while operating income increased 138%. The increased

broadcasting revenues are due to further improvements in programming resulting in increased ratings and advertising revenues of WWOR-TV. USA Network continued to improve its programming and operations while adding new subscribers.

Other Operations revenues increased 80% in 1989 while operating income increased 143% due to the inclusion of a pre-tax gain of approximately \$100,000,000 resulting from the sale of the Company's 50% interest in Discovision Associates in late 1989 and an approximate \$10,000,000 gain resulting from the sale of the Miller International subsidiary which manufactured and distributed budget-priced audio cassettes in West Germany. Other Operations also includes losses of \$12,300,000 in 1989 representing the Company's approximately 50% equity share of Cineplex Odeon's losses which compared to equity earnings of \$15,500,000 in 1988.

Investment income for the year increased due to higher average investment balances and interest rates. The investment loss in 1988 resulted from a \$16,400,000 charge related to the reduction in the market value of the Company's investment in the preferred stock of Coleco Industries which compares to an additional \$3,900,000 charge for Coleco in 1989. Interest expense increased as a result of higher interest rates and higher average borrowings compared to 1988. This was partially offset by interest savings resulting from the Company's issuance in October 1989 of \$200,000,000 of 5½% convertible subordinated debentures. Corporate general administration expense increased in 1989 primarily due to higher executive stock compensation costs and increased costs of group life and health insurance plans. The effective income tax rate increased to 37% in 1989 from 31% in 1988, as the 1988 income tax provision included a \$10,500,000 net benefit for additional investment tax credit related to the Company's record masters for years prior to 1982.

1988 compared to 1987

MCA's total revenues increased 17% to \$2,900,339,000 for 1988 while total operating income increased 41% to \$372,088,000 for 1988. The after tax loss of discontinued operations for LJM Toys of \$25,900,000 for 1988 compared to \$22,900,000 for 1987.

The Filmed Entertainment Group's revenues increased by 13% in 1988 while operating income increased 50% as a result of the extraordinarily successful video release of *E.T. The Extra-Terrestrial* late in 1988. Worldwide shipments of *E.T.* videocassettes exceeded the previous industry record by a substantial margin. The Group's results also were favorably impacted in 1988 by the success of the theatrical films released late in the year, which included the box office hits, *Twins* and *The Land Before Time*. During 1988, theatrical film revenues increased 24% and 38% in the domestic and foreign markets, respectively, due to better box office results for the Group's films compared to 1987.

The Filmed Entertainment Group, as a result of the strike by the Writers Guild of America against all major film companies during the Summer of 1988, had lower television revenues from the networks, decreasing by approximately 22% in 1988. Total episodes delivered to the networks decreased to 106 in 1988 from 180 in 1987. Although network revenues were lower, operating income increased in 1988 partially due to the continuation of certain successful series and the positive impact of the growth in foreign television markets. Revenue recognition from television syndication contracts in 1988 was lower compared with significant revenues in 1987 from the availabilities of *Simon & Simon* and *The A-Team* which exceeded the revenues from the 1988 availability of *Kate and Allie* and revenues from the licensing of *Miami Vice* and *Murder, She Wrote* to USA Network, a 50% owned joint venture. Also, favorably impacting the Group's results were improved foreign syndication revenues and revenues from Copyright Tribunal royalties

resulting from a favorable decision by the U.S. Circuit Court of Appeals in early 1988.

The Music Entertainment Group had higher revenues and operating income in 1988 increasing 38% and 48%, respectively, from 1987. Home video distribution fees in 1988 were approximately double the 1987 amount due to fees earned for the domestic and Canadian distribution of the video-cassette *E.T. The Extra-Terrestrial* and higher revenues from the distribution of non-MCA video product. Revenues from sales of record products increased by 10% in 1988 due to increased MCA record label product sales and higher foreign sales. The Music Entertainment Group results were also enhanced by the acquisition of Winterland Concessions in late April 1988, higher domestic mechanical royalties and improved foreign operations in its music publishing operations, and expanded amphitheatre and facility merchandising activities during 1988.

Retail and Mail Order revenues decreased 2% in 1988 while operating income decreased substantially compared to 1987. Although retail store sales increased by 5% due to the opening of additional stores, operating results were negatively impacted by the poor sales of gold jewelry. Mail Order revenues declined by 22% in 1988 due to the discontinuance of the remaining non-gift catalogs and reduced mailings of Spencer gift catalogs. Mail Order results included a \$4,600,000 non-recurring charge in the fourth quarter of 1988 to provide for the consolidation and relocation of mail order operations in 1989.

The Book Publishing Group had improved results as revenues and operating income increased by 11% and 28%, respectively, in 1988 due to the continued success of the Group's established authors and a growing number of best-selling titles.

Broadcasting and Cable revenues and operating income increased 49% and 249%, respectively, in 1988. The increased revenues were due to improved programming for WWOR-TV which resulted in higher advertising revenues being earned; however, negatively impacting results was a

soft advertising market which resulted in lower than expected advertising revenues. USA Network improved its programming and operations, resulting in a higher number of subscribers and increased advertising revenues in 1988.

Other Operations revenues and operating income increased by 14% and 19%, respectively, in 1988. The improved results are due to higher equity earnings related to the Company's 50% interest in Discovision Associates which had increased royalties from its patents related to products in the expanding compact audio disc and video disc markets. Beginning with the fourth quarter of 1988, there is a one quarter delay in reporting the Company's share of Cineplex Odeon's earnings due to the normal time difference in the finalization and release of earnings by Cineplex Odeon. Therefore, no fourth quarter earnings for Cineplex Odeon were included in the Company's results of operations for 1988. As a result, 1988 equity earnings included for Cineplex Odeon were 4% lower than 1987.

An investment loss was reported in 1988 compared to investment income earned in 1987 due to a second quarter 1988 reduction of \$16,400,000 in the market value of MCA's investment in the preferred stock of Coleco Industries and 1987 gains of \$7,000,000 and \$2,900,000 relating to the Company's investment in Cineplex Odeon and Quantum Media, respectively. Interest expense increased in 1988 as a result of the higher debt levels outstanding during the year.

Net income in 1988 reflected an effective income tax rate of 31% compared to 30% in 1987. The 1988 income tax provision included a \$10,500,000 net benefit for additional investment tax credit related to the Company's record masters for years prior to 1982. The 1987 income tax provision included a benefit of \$5,400,000 for the reduction of deferred tax liabilities required for anticipated future repatriation of unremitted earnings of foreign subsidiaries as a result of the lower corporate tax rate enacted in the Tax Reform Act of 1986.

Consolidated Statement of Income

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(\$ in thousands)	1989	1988	1987
Revenues			
Filmed entertainment	\$1,739,019	\$1,483,813	\$1,315,975
Music entertainment	764,718	661,028	477,493
Retail and mail order	274,831	312,846	319,950
Book publishing	189,397	175,934	158,964
Broadcasting and cable	171,619	131,520	88,264
Other operations	242,760	135,198	118,459
	3,382,344	2,900,339	2,479,105
Costs and Expenses			
Filmed entertainment	1,493,297	1,260,934	1,167,290
Music entertainment	708,202	600,548	436,630
Retail and mail order	268,638	312,443	310,366
Book publishing	165,510	152,656	140,846
Broadcasting and cable	140,762	118,559	84,550
Other operations	116,445	83,111	74,697
	2,892,854	2,528,251	2,214,379
Operating Income			
Filmed entertainment	245,722	222,879	148,685
Music entertainment	56,516	60,480	40,863
Retail and mail order	6,193	403	9,584
Book publishing	23,887	23,278	18,118
Broadcasting and cable	30,857	12,961	3,714
Other operations	126,315	52,087	43,762
	489,490	372,088	264,726
Not Allocated to Operations			
Corporate general administration	29,681	20,041	16,057
Investment (income) loss	(13,777)	6,181	(20,938)
Interest expense	85,126	69,176	40,515
	101,030	95,398	35,634
Income From Continuing Operations Before Taxes			
	388,460	276,690	229,092
Income taxes	143,700	85,900	68,900
Income From Continuing Operations			
	244,760	190,790	160,192
Discontinued Operations, Net of Income Taxes			
Operating loss of LJN Toys	(22,687)	(25,874)	(22,938)
Provision for estimated loss on the planned sale of LJN Toys	(30,300)	—	—
	(52,987)	(25,874)	(22,938)
Net Income			
	\$ 191,773	\$ 164,916	\$ 137,254
Earnings (Loss) Per Share			
Continuing operations	\$ 3.34	\$ 2.61	\$ 2.12
Discontinued operations	(.72)	(.35)	(.30)
Net Income			
	\$ 2.62	\$ 2.26	\$ 1.82

The accompanying notes are an integral part of these consolidated financial statements

Consolidated Statement of Cash Flow

(\$ in thousands)	1989	1988	1987
Cash Flow from Results of Operations	\$1,324,314	\$ 882,552	\$ 731,721
Financing and Capital Activities:			
Additions to debt	200,000	253,262	749,326
Repayment of debt	(307,852)	—	—
Purchase of MCA INC. treasury stock	—	—	(127,545)
Cash dividends paid	(49,817)	(49,626)	(51,120)
Total Financing and Capital Activities	(157,669)	203,636	570,661
Cash Flow before Investing Activities	1,166,645	1,086,188	1,302,382
Investing Activities:			
Film production	1,194,529	764,614	783,700
Property, plant and equipment	91,393	110,212	88,400
Investment in unconsolidated companies	72,352	74,552	21,347
Acquisition of consolidated companies	—	39,805	390,420
Proceeds from sale of affiliated companies	(115,300)	—	—
Other	—	10,000	73,792
Total Investing Activities	1,242,974	999,183	1,357,659
Net Cash (Expended) Generated	(76,329)	87,005	(55,277)
Cash and Cash Equivalents at Beginning of Year	190,186	103,181	158,458
Cash and Cash Equivalents at End of Year	\$ 113,857	\$ 190,186	\$ 103,181

RECONCILIATION OF INCOME FROM CONTINUING OPERATIONS TO CASH FLOW FROM RESULTS OF OPERATIONS

Income from Continuing Operations	\$ 244,760	\$ 190,790	\$ 160,192
Amortization of film costs	971,755	770,973	705,303
Depreciation of plant and equipment	52,541	46,892	42,175
Equity in earnings of unconsolidated companies	(11,772)	(26,887)	(28,900)
Gain on sale of affiliated companies	(110,749)	—	—
Net decrease (increase) in receivables	179,714	(275,918)	(214,789)
Net increase in inventory	(46,258)	(5,073)	(29,120)
Net increase in royalties and participations accrued	42,458	32,401	58,210
Net (decrease) increase in deferred film revenues	(14,681)	53,340	(2,266)
Net (decrease) increase in accounts payable and other liabilities	(5,812)	113,283	72,006
Other changes in assets and liabilities	(9,003)	(8,140)	13,117
	1,048,193	700,871	615,736
Cash Flow from Results of Continuing Operations	1,292,953	891,661	775,928
Cash flow from discontinued operations	31,361	(9,109)	(44,207)
Cash Flow from Results of Operations	\$ 1,324,314	\$ 882,552	\$ 731,721
Interest paid (net of capitalized interest)	\$ 88,800	\$ 73,200	\$ 33,900
Income taxes paid	\$ 113,600	\$ 90,400	\$ 67,500

The accompanying notes are an integral part of these consolidated financial statements

Consolidated Balance Sheet

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(\$ in thousands)	December 31	
	1989	1988
ASSETS		
Current Assets		
Cash and short term investments	\$ 113,857	\$ 190,186
Receivables, less allowances	771,174	918,393
Film costs, net of amortization	577,744	483,551
Inventories	227,760	181,502
Prepaid expenses	174,168	112,623
	1,864,703	1,886,255
Noncurrent Assets		
Film costs, net of amortization	587,547	458,966
Television license fees receivable	241,306	273,801
Investment in unconsolidated companies	510,421	446,112
Intangible assets	345,714	362,652
Deferred charges and other assets	178,147	224,650
	1,863,135	1,766,181
Property, Plant and Equipment, at cost		
Land	12,752	12,796
Buildings and leasehold improvements	474,002	444,273
Furniture, fixtures and equipment	324,779	291,185
	811,533	748,254
Accumulated depreciation	(328,034)	(303,607)
	483,499	444,647
	\$4,211,337	\$4,097,083

The accompanying notes are an integral part of these consolidated financial statements

December 31
1989 1988

LIABILITIES AND SHAREHOLDERS' EQUITY

Current Liabilities

Notes payable	\$ 22,000	\$ 25,000
Accounts payable and accrued liabilities	437,315	409,687
Accrued compensation, royalties and participations	372,327	335,769
Deferred film revenues	62,888	77,569
Income taxes	22,742	19,747
	917,272	867,772

Long Term Liabilities

Long term debt	1,131,695	1,236,547
Accrued compensation, royalties and participations	112,701	106,801
Other obligations payable after one year	69,791	103,231
	1,314,187	1,446,579

Deferred Income Tax Liability

119,000 91,000

Shareholders' Equity

Series A preferred stock, \$1.00 par value

 Authorized shares: 1,500,000

 Issued: none

Common stock, no par value

 Authorized shares: 150,000,000

 Issued:

 1989 — 79,247,815

 1988 — 79,247,815

Retained earnings

	483,947	472,992
	1,595,966	1,454,010
	2,079,913	1,927,002
Treasury stock, at cost:		
1989 — 5,784,232		
1988 — 6,218,404	(219,035)	(235,270)

1,860,878 1,691,732

\$4,211,337 \$4,097,083

Consolidated Statement of Shareholders' Equity

(\$ in thousands)	Common Stock		Retained Earnings	Treasury Stock	
	Shares	Amount		Shares	Amount
Balance at December 31, 1986	79,002,120	\$451,013	\$1,252,586	3,232,278	\$125,505
Net income			137,254		
Cash dividends (\$.68 per share)			(51,120)		
Issued for the acquisition of additional interest in Cineplex Odeon		3,023		(139,600)	(5,412)
Purchase of MCA INC. stock				3,419,000	127,545
Incentive Stock Plan activity, net	36,220	4,818		(87,825)	(3,589)
Activity related to employment agreements		317		(97,600)	(3,788)
Balance at December 31, 1987	79,038,340	459,171	1,338,720	6,326,253	240,261
Net income			164,916		
Cash dividends (\$.68 per share)			(49,626)		
Issued to MCA Employee Stock Ownership Plan		381		(57,939)	(2,192)
Incentive Stock Plan activity, net	209,475	12,365		233,690	7,946
Activity related to employment agreements		1,075		(283,600)	(10,745)
Balance at December 31, 1988	79,247,815	472,992	1,454,010	6,218,404	235,270
Net income			191,773		
Cash dividends (\$.68 per share)			(49,817)		
Incentive Stock Plan activity, net		2,615		(82,172)	(2,965)
Activity related to employment agreements		8,340		(352,000)	(13,270)
Balance at December 31, 1989	79,247,815	\$483,947	\$1,595,966	5,784,232	\$219,035

The accompanying notes are an integral part of these consolidated financial statements

**Note 1 —
Summary of
Accounting
Policies**

Principles of Consolidation

The consolidated financial statements include the accounts of MCA INC. and all significant subsidiaries ("the Company"). All significant intercompany accounts and transactions have been eliminated.

Distribution of theatrical film and pay television product outside of the United States and Canada is performed by United International Pictures (UIP) which is equally owned by the Company and two other major companies. The Company's investment in UIP is stated at cost plus equity in undistributed earnings since formation. The Company includes in its financial statements the revenues and related costs associated with its films distributed by UIP. The distribution fees paid to UIP by the Company, as adjusted for the Company's equity in UIP's profits and losses, are included in Costs and Expenses — Filmed Entertainment.

Film Revenues and Costs

Generally, theatrical films have been first distributed in the theatrical, home video and pay television markets. Subsequently, theatrical films are made available for worldwide television network exhibition and/or television syndication. Generally, television films are first licensed for network exhibition and foreign syndication or home video, and subsequently for domestic syndication or cable television. Certain films are produced and/or distributed directly for initial exhibition by local television stations, advertiser-supported cable television, pay television and/or home video.

Revenues from the theatrical distribution of films are recognized as the films are exhibited. Revenues from television and pay television licensing agreements are recognized in the year that the films are available for telecast. Revenues from the sale of home video product, net of provision for estimated returns and allowances, are recognized upon shipment of the merchandise.

Costs of completed theatrical and television film productions (including applicable capitalized interest and exploitation costs) are amortized and participation expenses are accrued in the proportion that revenue

recognized by the Company during the year for each production bears to the estimated total revenue to be received from all sources, under the individual film forecast method. Estimated total revenues are reviewed quarterly and revisions to amortization rates or write-downs to net realizable value may occur.

Film costs, net of amortization, classified as current assets include the portion of unamortized costs of completed theatrical films allocated to theatrical, home video and pay television distribution; television films in production which are under contract of sale; and a portion of costs of completed television films. The allocated portion of released film costs expected to be realized from secondary television or other exploitation is reported as a noncurrent asset and amortized as revenues are recorded. Other costs relating to film production, including the purchase price of literary properties and related film development costs, are classified as non-current assets. Abandoned story and development costs are charged to film production overhead. Film costs are stated at the lower of unamortized cost or estimated net realizable value as periodically determined on a film-by-film basis.

Broadcast Program Rights

Rights to broadcast programs are frequently acquired in advance of program availability. Once available, the rights are recorded and amortized over their useful lives using accelerated methods. Significant declines in the value of broadcast program rights will cause revisions to amortization rates or write-downs to net realizable value.

Records and Book Publishing Revenues and Costs

Revenues from the sale of records and books, net of provision for estimated returns and allowances, are recognized upon shipment of the merchandise. Advances to artists and writers and direct costs associated with the preparation of record masters and books are expensed as the related royalties are earned or when the amounts are determined to be unrecoverable.

Receivables

Receivables, including television license fees receivable, are recorded net of a provision for doubtful accounts, as well as estimated allowances for merchandise returns.

Treasury Stock

Any excess of market value of shares issued from treasury at the date of issuance over their cost is credited to common stock. Any excess of cost over market value is charged to common stock, but only to the extent of available net credits from previous issuances; otherwise, the excess is charged to retained earnings.

Incentive Stock Plan

Under the Company's Incentive Stock Plan and subject to its forfeiture provisions, shares of common stock are issued to certain employees; such shares are issued either from treasury or from authorized and previously unissued shares. The market value of the shares at the date of issuance (less shares forfeited) is amortized over the estimated incentive periods. Generally, the income tax effect arising from a difference between the market value of incentive stock on the dates vested and the market value on the dates issued is charged or credited, as appropriate, directly to common stock.

Amortization of Excess Cost

The excess of cost of purchased businesses (classified as Intangible Assets in the Consolidated Balance Sheet) and of investments in unconsolidated companies over the amounts assigned to the underlying equity in net assets is being amortized over periods not in excess of 40 years from the date of acquisition. The continuing value of such excess costs is re-evaluated periodically.

Short Term Investments

Short term investments, other than marketable equity securities, are carried at cost, unless the Company believes that a decline in market values represents a permanent impairment of the value. Marketable equity securities are adjusted to the lower of aggregate cost or market at each balance sheet date.

Inventories

Inventories are stated at the lower of cost or estimated realizable value determined on a first-in, first-out basis.

Earnings Per Share

Earnings per share are computed based upon the weighted average number of shares outstanding and common stock equivalents, if dilutive, retroactively adjusted to give effect to stock splits and stock dividends.

Property, Plant and Equipment

Buildings and improvements (asset lives of 11-50 years) and furniture, fixtures and equipment (asset lives of 3-18 years) are depreciated on either an accelerated declining balance method or the straight line method. Leasehold improvements are amortized over the lesser of the terms of the respective leases or the lives of the improvements.

Presentation of Cash Flow

Cash and cash equivalents in the Consolidated Statement of Cash Flow includes cash and short term investments that are considered cash equivalents.

Reclassification of Financial Statements

The prior years' consolidated financial statements have been reclassified to reflect the presentation of LJM Toys as a discontinued operation (see Note 3).

**Note 2 —
Preferred
Share Purchase
Rights and
Preferred
Stock**

In July 1987, the Board of Directors of MCA INC. declared a dividend of one preferred share purchase right (the "Right") for each share of common stock outstanding as of July 27, 1987. Under certain circumstances the Rights, as amended on March 1, 1988 and December 6, 1988, (1) may be exercised to purchase one one-hundredth of a share of a new series of the Company's

preferred stock at an exercise price of \$200, (2) "flip-over" and become rights to purchase common stock of any acquiring company having a market value of twice the Right's exercise price, (3) "flip-in" and become rights to purchase a number of MCA's common shares having a market value of twice the Right's exercise price or (4) may be exchanged for the Company's common stock on the basis

of one common share for each Right. The Rights expire in July 1997 and may be redeemed, and under certain circumstances are required to be redeemed, by the Company at a price of \$.02 per Right prior to the acquisition by a person or affiliated group of 10 percent or more of the outstanding common stock of MCA.

The Company has 25,000,000 shares of \$1.00 par value preferred stock authorized for issuance of which 1,500,000 shares have been designated by the Board of Directors as Series A Junior Participating Preferred Stock. These Series A shares have been initially reserved for issuance upon exercise of the Rights. At December 31, 1989, none of these shares was

issued or outstanding. Dividends would be cumulative, paid quarterly and generally equal to the greater of \$1.00 per share or 100 times the aggregate per share amount of all common stock dividends. Each preferred share would have general voting rights equal to 100 votes on all matters submitted to a vote of the shareholders. Both preferred and common shares would vote as one class. Preferred shares would not be redeemable at any time. In liquidation, preferred shareholders would be entitled to receive the greater of \$100 per share plus accrued and unpaid dividends, or 100 times the aggregate per share amount to be distributed to common shareholders.

**Note 3 —
Acquisitions
and Dispositions**

In April 1987, the Company completed its acquisition of WWOR-TV (formerly WOR-TV) from GenCorp Inc. and its subsidiary RKO General, Inc. for a cash acquisition price of \$387,000,000. The acquisition was accounted for as a purchase and MCA's consolidated financial statements include the results of operations from the date of acquisition.

During 1989, the Company sold its 50% interest in Discovision Associates recognizing revenues of approximately \$100,000,000 and a contribution to net income of approximately \$63,000,000.

As a result of a decision by the Company to sell its LJN Toys Ltd. subsidiary (LJN), the results of operations of LJN have been accounted for as a discontinued operation. A provision of \$30,300,000, net of related income tax benefit of \$23,400,000, has been recorded in 1989 for the estimated loss on the sale of LJN. The operating losses of LJN for all periods have been reclassified and are

reported as discontinued operations in the Consolidated Statement of Income. The sale of LJN is expected to be completed during 1990.

Net sales of the discontinued LJN operations were \$106,000,000, \$123,300,000 and \$110,500,000 and the reported losses from discontinued operations are net of income tax benefits of \$11,500,000, \$11,900,000 and \$15,300,000 for the years ended December 31, 1989, 1988 and 1987, respectively. Net assets of the discontinued operations have been segregated in the Consolidated Balance Sheet and are included in Deferred Charges and Other Assets. LJN's net assets at December 31, 1989 and 1988 were \$22,100,000 and \$106,500,000 respectively, consisting primarily of receivables, inventory, other assets and accounts payable. The 1988 net asset balance also includes goodwill.

**Note 4 —
Business
Segments and
International
Operations**

The Company's business activities consist of the following business segments: filmed entertainment, music entertainment, retail and mail order, book publishing, broadcasting and cable, and other operations. Other operations includes recreation services; real estate development, including ownership of the Sheraton-Universal Hotel and a joint venture interest in the 10 Universal City Plaza office building; the Company's equity in the results of Cineplex Odeon; and, prior to its sale in

November 1989, a 50% joint venture interest in Discovision Associates. Previously, Cineplex Odeon was included in the Filmed Entertainment segment. A description of these business segments is included in the Report on Operations section of this Annual Report to Shareholders.

The revenues and operating income of each of these business segments are separately reported in the Consolidated Statement of Income. Revenues between segments are

insignificant. A substantial amount of the Filmed Entertainment segment's revenue is derived from the licensing of film products to the three national television networks.

Revenues from these television networks were \$224,000,000 in 1989, \$164,000,000 in 1988 and \$211,000,000 in 1987.

Business Segments

(\$ in thousands)	1989	1988	1987
Identifiable Assets			
Filmed entertainment	\$2,250,116	\$1,979,992	\$1,803,328
Music entertainment	558,346	620,299	360,173
Retail and mail order	135,734	135,386	142,839
Book publishing	110,710	102,756	73,027
Broadcasting and cable	547,355	536,698	492,670
Other operations	387,806	404,803	369,470
	3,990,067	3,779,934	3,241,507
Corporate assets (primarily cash, short term investments and net assets of discontinued operations)	221,270	317,149	280,555
	\$4,211,337	\$4,097,083	\$3,522,062
Capital Expenditures for Property, Plant and Equipment			
Filmed entertainment	\$ 40,794	\$ 70,018	\$ 57,190
Music entertainment	14,870	15,427	7,799
Retail and mail order	10,313	10,919	16,378
Book publishing	2,512	6,877	657
Broadcasting and cable	2,732	4,611	3,875
Other operations and corporate	29,059	5,818	4,970
	100,280	113,670	90,869
Retirements and sales	(8,887)	(3,458)	(2,469)
	\$ 91,393	\$ 110,212	\$ 88,400
Depreciation of Plant and Equipment			
Filmed entertainment	\$ 23,402	\$ 20,055	\$ 18,731
Music entertainment	5,936	5,650	5,707
Retail and mail order	11,473	11,158	9,915
Book publishing	1,711	1,364	1,165
Broadcasting and cable	4,113	3,673	2,136
Other operations and corporate	5,906	4,992	4,521
	\$ 52,541	\$ 46,892	\$ 42,175

Net income of fully consolidated foreign subsidiaries was \$81,300,000 in 1989, \$58,800,000 in 1988 and \$35,500,000 in 1987. The Company's net investment, including advances, in fully consolidated foreign subsidiaries was \$105,800,000 in 1989, \$70,400,000 in 1988 and \$41,400,000 in 1987.

The Company derived approximately 20% of its consolidated revenues from markets

outside the United States in 1989 compared to 20% in 1988 and 18% in 1987. There is no foreign country in which the Company does business that individually contributed significantly to consolidated revenues.

Export revenues are foreign revenues produced by identifiable assets located in the United States while foreign revenues are generated by identifiable assets located in foreign countries.

International Operations

(\$ in thousands)	1989	1988	1987
Revenues			
United States	\$2,717,787	\$2,328,145	\$2,035,167
Foreign revenues	50,653	82,365	56,944
Export revenues			
Europe	281,559	206,352	191,136
Western Hemisphere	162,453	119,952	108,579
Other	169,892	163,525	87,279
	\$3,382,344	\$2,900,339	\$2,479,105
Operating Income			
United States	\$ 405,068	\$ 280,392	\$ 198,203
Foreign, primarily Europe	84,422	91,696	66,523
	\$ 489,490	\$ 372,088	\$ 264,726
Identifiable Assets			
United States	\$3,812,208	\$3,682,503	\$3,183,248
Foreign	399,129	414,580	338,814
	\$4,211,337	\$4,097,083	\$3,522,062

**Note 5 —
Income Taxes**

(\$ in thousands)	1989	1988	1987
Income from Continuing Operations Before Taxes			
Domestic	\$284,400	\$169,100	\$140,900
Foreign	104,100	107,600	88,200
	\$388,500	\$276,700	\$229,100
Provision for Income Taxes — Continuing Operations			
Current			
Federal	\$ 56,700	\$ 39,300	\$ 36,300
State	28,900	17,400	12,400
Foreign	35,500	35,400	22,500
	121,100	92,100	71,200
Deferred (principally federal)	22,600	(6,200)	(2,300)
	\$143,700	\$ 85,900	\$ 68,900
Components of the Provision for Deferred Income Taxes			
Recognition of television license fees	\$ (28,000)	\$ (44,600)	\$ 1,000
Film cost amortization	(3,000)	(1,300)	(8,500)
Unremitted earnings of foreign subsidiaries and DISC	9,100	(4,800)	6,200
Deferred investment tax credit	30,000	45,000	16,000
Allowance for merchandise returns	5,400	(2,700)	(7,400)
Provision for doubtful accounts receivable	2,000	(300)	(7,000)
Depreciation	13,000	7,800	4,200
Other, net	(5,900)	(5,300)	(6,800)
	\$ 22,600	\$ (6,200)	\$ (2,300)

	1989	1988	1987
Reconciliation of Statutory to Effective Tax Rate			
Federal income tax rate	34.0%	34.0%	40.0%
State taxes, net of federal tax benefit	3.5	3.7	2.7
Investment tax credit	(.4)	(7.3)	(6.8)
Rate reduction for deferred taxes on foreign earnings	—	—	(2.4)
Amortization of excess costs	1.1	1.4	1.6
Other, net	(1.2)	(0.8)	(5.1)
Effective income tax rate	37.0%	31.0%	30.0%

Provisions for both current and deferred federal, state and foreign income taxes are generally made based upon the amounts of pre-tax consolidated income in the current year in accordance with Statement of Financial Accounting Standards No. 96, Accounting For Income Taxes. These provisions are made utilizing statutory tax rates effective in the years that income and expense items are expected to be included in taxable income for income tax purposes.

The income tax provision reflects a \$5,400,000 benefit in 1987 for the reduction in the deferred tax liability required for anticipated future repatriation of unremitted earnings of foreign subsidiaries, as a result of the Tax Reform Act of 1986 lowering the corporate income tax rate.

No U.S. provision has been made for approximately \$100,000,000 of unremitted earnings of foreign subsidiaries at December 31, 1989 as such earnings have been or are intended to be permanently

reinvested. The additional U.S. income tax on the unremitted foreign earnings, if repatriated, would be offset in part by foreign tax credits.

Investment tax credits available on eligible transition property including film costs, equipment and record masters are accounted for as a current reduction of income tax expense and amounted to \$1,500,000 for 1989, \$8,300,000 for 1988 and \$15,500,000 for 1987. In addition, as a result of the resolution of the Company's claims for years prior to 1982, \$10,500,000 of tax benefit for additional investment tax credits related to record masters and \$1,500,000 of tax benefit for the Company's contribution to its Employee Stock Ownership Plan (ESOP) have been included in the 1988 provision for income taxes. The \$1,500,000 tax benefit for the ESOP contribution offsets the Company's expense for such contribution in the same amount which resulted in no effect on net income.

**Note 6 —
Investment in
Unconsolidated
Companies**

The Company has a number of investments in unconsolidated companies which are 50% or less owned or controlled and are carried on the Consolidated Balance Sheet on the equity method at cost plus advances, increased or decreased by the Company's share of earnings or losses, less dividends received.

The significant investments at December 31, 1989 include Cineplex Odeon

Corporation, primarily engaged in theatrical exhibition of motion pictures in the U.S. and Canada (approximate 50% equity interest); 10 UCP Associates, a joint venture in the ownership of the 10 Universal City Plaza office building (50% owned); United International Pictures, a distributor of theatrical and pay television product outside the U.S. and Canada (33% owned); Cinema

International Corporation, primarily engaged in marketing of home video product outside the U.S. and Canada, and theatrical exhibition of motion pictures in territories outside of the U.S. and Canada (49% owned); USA Network, an advertiser-supported cable television service (50% owned); and Universal City Florida Partners, a joint venture in the development and ownership of a motion

picture and television themed tourist attraction and production facility (50% owned). During 1989, the 50% interest in Universal City Florida Partners owned by Cineplex Odeon was acquired by The Rank Organisation, P.L.C.

Summarized financial information is presented below for the Company's investments in unconsolidated companies.

Summarized Balance Sheet Information — Unconsolidated Companies

(\$ in thousands)	1989	1988
Current assets	\$ 456,600	\$ 515,700
Noncurrent assets	1,874,000	1,651,600
Total assets	\$2,330,600	\$2,167,300
Current liabilities	\$ 422,900	\$ 554,800
Noncurrent liabilities	1,011,700	755,000
Equity	896,000	857,500
Total liabilities and equity	\$2,330,600	\$2,167,300
MCA's proportionate share of the net assets of unconsolidated companies	\$ 470,700	\$ 410,200

Summarized Income Statement Information — Unconsolidated Companies

(\$ in thousands)	1989	1988	1987
Revenues	\$1,724,500	\$ 1,376,400	\$1,249,800
Operating income	\$ 103,300	\$ 169,800	\$ 130,100
Net income	\$ 76,700	\$ 121,400	\$ 96,400

Since the fourth quarter of 1988, there has been a one quarter delay in reporting the Company's share of Cineplex Odeon's results due to the normal time difference in the finalization and release of earnings by Cineplex Odeon. As a result, in 1988 no fourth quarter earnings for Cineplex Odeon were included in the Company's results of operations. The delay in reporting does not have a material effect on the Company's reported results of operations.

The Company amortizes the difference between the investment and the underlying equity in the net assets of its unconsolidated and 50% or less owned companies over periods ranging from 7 to 40 years.

MCA's operating income reported in the Consolidated Statement of Income includes the net equity in the earnings (losses) of its unconsolidated companies reported in the following business segments:

(\$ in thousands)	1989	1988	1987
Filmed entertainment	\$ 5,719	\$10,399	\$ 7,530
Music entertainment	1,631	(36)	—
Broadcasting and cable	24,021	15,365	3,008
Other operations	(2,093)	30,312	24,068
Operating income	\$29,278	\$56,040	\$34,606
Distributions received by MCA INC. from earnings of unconsolidated companies	\$16,750	\$27,450	\$21,350

In 1987, investment income in the Company's Consolidated Statement of Income included approximately \$9,900,000 of non-recurring gains relating to certain transactions of its equity investees, Cineplex Odeon and Quantum Media.

The investment in Cineplex Odeon, considered by the Company to be a long term investment, is carried in the Consolidated Balance Sheet at approximately \$224,000,000 at December 31, 1989. The market value of

this investment was approximately \$159,400,000 at December 31, 1989 and \$132,800,000 at January 25, 1990.

In connection with the Universal City Florida Partners joint venture, the external financing for the project has been obtained directly by the joint venture under a credit agreement with a consortium of banks. Under the credit agreement, MCA and The Rank Organisation have guaranteed completion of the project.

*Note 7 —
Film Costs,
Net of
Amortization*

(\$ in thousands)	December 31	
	1989	1988
Theatrical Film Costs		
Released	\$ 521,239	\$437,536
Completed but not released	2,565	—
In process	208,336	104,073
	732,140	541,609
Television Film Costs		
Released	329,650	253,714
In process and unreleased	5,563	42,530
	335,213	296,244
Broadcast Program Rights (WWOR-TV)	97,938	104,664
Total Film Costs	\$1,165,291	\$942,517
Current Film Costs	\$ 577,744	\$483,551
Noncurrent Film Costs	587,547	458,966
Total Film Costs	\$1,165,291	\$942,517

Unamortized costs related to released theatrical and television films aggregated \$850,900,000 at December 31, 1989. The Company currently anticipates that approximately 80% of the

unamortized released film costs will be amortized under the individual film forecast method during the three years ending December 31, 1992.

*Note 8 —
Details of
Balance Sheet
Accounts*

(\$ in thousands)	December 31	
	1989	1988
Cash and Short Term Investments		
Cash	\$ 38,115	\$ 45,338
Time deposits	5,905	7,166
Short term investments	69,837	137,682
	\$ 113,857	\$ 190,186
Receivables and Television License Fees Receivable*		
Gross receivables		
Current portion	\$ 897,465	\$1,048,206
Noncurrent portion	250,698	285,555
	1,148,163	1,333,761
Reserves for doubtful accounts and merchandise returns	(135,683)	(141,567)
	\$1,012,480	\$1,192,194
Intangible Assets		
Excess cost of net assets acquired	\$ 376,914	\$ 386,020
Accumulated amortization	(31,200)	(23,368)
	\$ 345,714	\$ 362,652
Accounts Payable and Accrued Liabilities		
Accounts payable	\$ 110,697	\$ 103,725
Accrued expenses	168,861	163,089
Dividends payable	12,486	12,415
Other current liabilities	145,271	130,458
	\$ 437,315	\$ 409,687
Accrued Compensation, Royalties and Participations — Current		
Compensation	\$ 23,517	\$ 23,866
Royalties	108,235	98,791
Participations	240,575	213,112
	\$ 372,327	\$ 335,769

*The provision for doubtful accounts receivable was \$500,000 in 1989 compared to \$1,000,000 in 1988 and \$21,900,000 in 1987, respectively, and is included in Costs and Expenses. The decreases in the 1989 and 1988 provision were due to better experience with the collection of television syndication accounts.

**Note 9 —
Employee
Benefit Plans**

The aggregate expense for all of the Company's pension and profit sharing plans was \$19,900,000, \$18,200,000 and \$19,100,000 for 1989, 1988 and 1987, respectively. The Company funds such costs of the plans as incurred.

The Company participates in various multiemployer defined benefit and defined contribution pension plans under union and industry agreements. These plans include substantially all participating film production employees covered under various collective bargaining agreements. In addition, the Company has a defined contribution profit

sharing plan covering certain other domestic employees and several other defined benefit and defined contribution plans, none of which is significant, covering other domestic and foreign employees of various subsidiary companies.

Amortization of deferred charges relating to the Company's Incentive Stock Plan amounted to \$6,100,000 in 1989, \$8,500,000 in 1988 and \$10,500,000 in 1987. At December 31, 1989, 553,000 shares remained authorized for issuance under the Incentive Stock Plan previously approved by the shareholders.

**Note 10 —
Long Term
Debt**

(\$ in thousands)	December 31	
	1989	1988
Commercial paper, at a weighted average interest rate of 8.5%, with various maturities of up to 3 months	\$ 423,695	\$ 479,008
Notes payable to banks under lines of credit	—	195,000
Unsecured medium term notes, at a weighted average interest rate of 7.8%, with maturities ranging from 8 months to 8 years	208,000	250,000
5½% convertible subordinated debentures, due 1999, convertible at a rate of \$76% per share	200,000	—
5½% convertible subordinated debentures, due 2002, convertible at a rate of \$69% per share	300,000	300,000
Other	—	12,539
	\$1,131,695	\$1,236,547

Note: Interest rates indicated are for outstanding balances at December 31, 1989.

At December 31, 1989, the Company had loan agreements providing \$1,750,000,000 in unsecured lines of credit including \$1,250,000,000 with five banks and an additional \$500,000,000 with a syndicate of major international banks.

The loan agreements for the \$1,250,000,000 line of credit provide for both domestic dollar and Eurodollar revolving loans through June

1992 which may be converted at any time prior to that date into five-year term loans, payable in 20 equal quarterly payments. In addition to other provisions, the revolving loans bear interest at a rate not to exceed Libor plus .20% or prime, while the term loans bear interest at a rate not to exceed Libor plus .50% or prime plus .25%. The domestic loan agreements provide for lower

rates as may be negotiated by the parties.

The loan agreement for the \$500,000,000 line of credit provides for a revolving loan and a competitive bid option through October 1994. In addition to other provisions, the loan bears interest at a rate not to exceed Libor plus .175% or the certificate of deposit rate, as specified in the agreement, plus .3%, or at such lower rates as may be negotiated.

The Company pays a commitment fee on the unused portion of the \$1,250,000,000 line of credit at an annual rate of .125% and a facility fee of .0625% on the \$500,000,000 line of credit. In addition to other provisions, the loan agreements require the Company to maintain a minimum shareholders' equity and working capital balance.

The Company's commercial paper and medium term note principal payments due within the next 12 months are classified as noncurrent as they are intended to be refinanced on a long term basis.

The principal payments on medium term notes due within the next five years are as follows (\$ in thousands):

1990	\$38,650
1991	\$39,650
1992	—
1993	\$43,800
1994	\$ 2,500

**Note 11 —
Capitalization
of Interest**

Total interest costs were \$108,000,000, \$89,700,000 and \$58,200,000 in 1989, 1988 and 1987, respectively, of which \$3,200,000, \$5,400,000 and \$2,900,000 related to discontinued operations. The Company

capitalized approximately \$19,700,000, \$15,100,000, and \$14,800,000 which was incurred primarily in connection with the production of films.

**Note 12 —
Commitments and
Contingencies**

The Company occupies facilities and rents equipment under operating lease agreements which expire at various dates through 2012. The majority of these leases are for Spencer Gifts' retail store facilities. All of the leases of store facilities expire by 2003; however, certain of these leases provide Spencer with renewal options at a fixed minimum rental amount for periods of five-year increments (maximum 10 years). The rental payments under a store facility lease are based on a minimum rental plus a contingent rental calculated as a percentage of a store's sales in excess of stipulated amounts.

Total rent expense was \$42,300,000 in 1989, \$41,000,000 in 1988 and \$36,800,000 in 1987 of which \$3,200,000 in 1989, \$3,700,000 in 1988 and \$3,700,000 in 1987 represented contingent rentals.

The following schedule summarizes the future minimum rentals under the terms of the Company's leases at December 31, 1989;

certain of these leases also provide for payments of taxes, insurance and maintenance.

(\$ in thousands)	Store		Total
	Facilities	Other	
1990	\$ 19,054	\$ 16,627	\$ 35,681
1991	18,754	14,876	33,630
1992	17,690	12,467	30,157
1993	16,683	11,098	27,781
1994	15,171	9,788	24,959
Remaining years	39,238	41,964	81,202
	\$126,590	\$106,820	\$233,410

The Company is involved in various lawsuits, claims and inquiries. Management and its legal counsel believe that resolution of these matters will not have a material adverse effect on the financial position of the Company or the results of its operations.

Common Stock and Dividend Information

Cash dividends paid by the Company were \$49,817,000 (\$.68 per share) and \$49,626,000 (\$.68 per share) in 1989 and 1988, respectively. As of January 31, 1990, the number of holders of the Company's common stock based on the transfer agent's records was approximately 7,800.

MCA INC.'s common stock is listed on the New York and Pacific Stock Exchanges with the major portion of trading occurring on the New York Stock Exchange. The following market prices are rounded to the nearest eighth and are as reported on the New York Stock Exchange — Composite Transactions.

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
1989				
Stock price				
High	\$ 56 ³ / ₈	\$ 62 ³ / ₈	\$ 71 ³ / ₈	\$ 70 ¹ / ₄
Low	\$ 45 ³ / ₈	\$ 53 ⁵ / ₈	\$ 56 ⁷ / ₈	\$ 60 ³ / ₈
Quarter end	\$ 52 ³ / ₄	\$ 57 ³ / ₈	\$ 67 ¹ / ₈	\$ 62 ¹ / ₄
Price earnings ratio*	23.3	21.0	25.0	23.8
Dividends	\$.17	\$.17	\$.17	\$.17
1988				
Stock price				
High	\$ 48 ⁷ / ₈	\$ 47 ³ / ₈	\$ 47 ¹ / ₄	\$ 50 ¹ / ₈
Low	\$ 34 ⁵ / ₈	\$ 37 ³ / ₄	\$ 39 ¹ / ₄	\$ 42
Quarter end	\$ 43 ³ / ₄	\$ 42 ¹ / ₄	\$ 44	\$ 45 ³ / ₈
Price earnings ratio*	24.2	30.2	28.9	20.1
Dividends	\$.17	\$.17	\$.17	\$.17

*Based upon quarter end price and net income for the previous four quarters

Quarterly Financial Information

Certain quarterly financial information for the two years ended December 31, 1989 is presented below. This information was subjected to review by the Company's independent accountants in accordance with standards established by the American

Institute of Certified Public Accountants. The review procedures do not constitute an audit and, accordingly, the Company's independent accountants do not express an opinion on the interim financial information.

(\$ in thousands)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
1989				
Revenues	\$703,346	\$828,256	\$894,422	\$956,320
Operating income	\$ 65,562	\$ 97,563	\$125,411	\$200,954
Income from continuing operations, net of income taxes	\$ 26,287	\$ 44,172	\$ 62,677	\$111,624(1)
Discontinued operations, net of income taxes	\$ 1,054	\$ (2,200)	\$ (11,853)	\$ (39,988)
Net income	\$ 27,341	\$ 41,972	\$ 50,824	\$ 71,636(1)
Earnings per share — continuing operations (2)	\$.36	\$.61	\$.85	\$ 1.46
Earnings (loss) per share — discontinued operations (2)	\$.01	\$ (.03)	\$ (.16)	\$ (.51)
Earnings per share — net income (2)	\$.37	\$.58	\$.69	\$.95

(1) Fourth quarter 1989 includes an after-tax gain of approximately \$63,000,000 resulting from the sale of the Company's investment in Discovision Associates.

(2) Aggregated earnings per share ("EPS") for the individual four quarters of 1989 do not equal the 1989 EPS amount reported in the Consolidated Statement of Income as the fourth quarter calculation reflects the dilutive effect of common stock equivalents which had an immaterial effect on the full year EPS calculation.

(\$ in thousands)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
1988				
Revenues	\$584,251	\$616,081	\$767,896	\$932,111
Operating income	\$ 42,756	\$ 82,441	\$100,519	\$146,372
Income from continuing operations, net of income taxes	\$ 29,148(1)	\$ 31,224(2)	\$ 53,623	\$ 76,795
Discontinued operations, net of income taxes	\$ (2,287)	\$ (23,143)	\$ 637	\$ (1,081)
Net income	\$ 26,861(1)	\$ 8,081(2)	\$ 54,260	\$ 75,714
Earnings per share — continuing operations	\$.40	\$.43	\$.73	\$ 1.05
Earnings (loss) per share — discontinued operations	\$ (.03)	\$ (.32)	\$.01	\$ (.01)
Earnings per share — net income	\$.37	\$.11	\$.74	\$ 1.04

(1) First quarter 1988 includes approximately \$10,500,000 related to a net tax credit from the resolution of the Company's claims for additional investment tax credits for years prior to 1982.

(2) Second quarter 1988 includes an approximate \$10,000,000 after-tax charge related to the Company's investment in the preferred stock of Coleco Industries, Inc.

Report of Independent Accountants

Price Waterhouse

400 South Hope Street
Los Angeles, CA



January 25, 1990

To the Board of Directors and Shareholders of MCA INC.

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of income, shareholders' equity and cash flow present fairly, in all material respects, the financial position of MCA INC. and its subsidiaries at December 31, 1989 and 1988, and the results of their operations and their cash flow for each of the three years in the period ended December 31, 1989, in conformity with generally accepted accounting principles. These financial statements are the responsibility of MCA INC.'s management; our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

Price Waterhouse

Board of Directors

LEW R. WASSERMAN*[‡]
*Chairman of the Board and
Chief Executive Officer*

SIDNEY JAY SHEINBERG*
*President and
Chief Operating Officer*

HOWARD P. ALLEN[‡]
*Chairman of the Board and
Chief Executive Officer
SCEcorp*

HOWARD H. BAKER, JR.[†]
*Senior Partner
Baker, Worthington,
Crossley, Stansberry & Woolf*

MARY GARDINER JONES[†]
*President
Consumer Interest Research Institute*

THOMAS V. JONES[‡]
*Chairman of the Board
Northrop Corp.*

CHARLES S. PAUL
Executive Vice President

THOMAS POLLOCK
Executive Vice President

FELIX G. ROHATYN[†]
*General Partner
Lazard Frères & Co.*

ROBERT S. STRAUSS[‡]
*Partner
Akin, Gump, Strauss, Hauer & Feld*

THOMAS WERTHEIMER*
Executive Vice President

* Executive Committee
† Audit Committee
• Nominating Committee
■ Incentive Stock Plan Committee
‡ Stock Awards Plan Committee

The nature of the businesses with which the outside Directors are affiliated:
SCEcorp is a holding company which owns both Southern California Edison, a public utility, and other non-utility businesses.
Consumer Interest Research Institute is a nonprofit research organization.
Northrop Corp. is a diversified aerospace corporation involved in aircraft, electronics and communications, and services.
Lazard Frères & Co. is an investment banking firm.
Akin, Gump, Strauss, Hauer & Feld and Baker, Worthington, Crossley, Stansberry & Woolf are law firms.

Corporate Officers

LEW R. WASSERMAN
*Chairman of the Board and
Chief Executive Officer
Member — Executive Committee*

SIDNEY JAY SHEINBERG
*President and
Chief Operating Officer
Member — Executive Committee*

CHARLES S. PAUL
*Executive Vice President
President — MCA Enterprises*

THOMAS POLLOCK
*Executive Vice President
Chairman — Motion Picture
Group*

THOMAS WERTHEIMER
*Executive Vice President
Member — Executive Committee*

RICHARD E. BAKER
*Vice President and
Controller*

JAMES N. FIEDLER
*Vice President
President — MCA
Technology Management, Inc.*

LAWRENCE P. FRAIBERG
*Vice President
President — MCA Broadcasting Group*

PHYLLIS GRANN
*Vice President
President — The Putnam
Berkley Group*

HAROLD M. HAAS
*Vice President, Treasurer and
Chief Financial Officer*

ROBERT D. HADL
*Vice President and
General Counsel*

STUART K. MANDEL
*Vice President
Industrial Relations*

ALVIN RUSH
*Vice President
Chairman — MCA Television
Group*

MICHAEL SAMUEL
Vice President and Secretary

DANIEL E. SLUSSER
*Vice President
Senior VP — General Manager
Universal City Studios*

GEORGE SMITH
*Vice President and
General Tax Counsel*

LAWRENCE D. SPUNGIN
*Vice President
President — MCA Development*

JAY S. STEIN
*Vice President
President — MCA Recreation
Services Group*

ALVIN N. TELLER
*Vice President
Chairman — Music
Entertainment Group*

PAMELA F. CHERNEY
Assistant Treasurer

DENNIS F. DALLARA
Assistant Controller

CHRISTINE R. HANSON
Assistant Secretary

RICHARD C. SCHILLER
Assistant Secretary

Motion Picture Group

THOMAS POLLOCK — *Chairman*
 FREDRIC BERNSTEIN — *Senior VP*
 JOSEPH A. FISCHER — *Senior VP*
 JAMES. A. BURK — *VP*
Finance
 ANN BUSBY — *VP*

Universal Pictures Production

CASEY SILVER — *President*
 JOSHUA DONEN — *Executive VP*
Production
 DONNA SMITH — *Senior VP*
Production & Post Production

BERT BERMAN — *Senior VP*
Music

Universal Pictures Marketing

SIMON M. KORNBLOT — *Executive VP*
 PERRY KATZ — *Senior VP*
Marketing & Research
 DAVID SAMETH — *Senior VP*
Creative Advertising

SALLY VAN SLYKE — *Senior VP*
National Publicity & Promotion

Universal Pictures Distribution

FRED MOUND — *Executive VP*

MCA Home Entertainment Group

ROBERT BLATTNER — *President*
MCA Home Video
 SONDRA BERCHIN — *Executive VP*
 LOUIS A. FEOLA — *Executive VP*
MCA/Universal Home Video
 PHIL PICTAGGI — *Senior VP*
Operations & Business Development
 BLAIR M. WESTLAKE — *Senior VP*
Business Affairs and Administration
 JERRY H. HARTMAN — *VP*
Universal Pay Television
Sales & Marketing
 STEVEN C. JARMUS — *VP*
International
 DAVID A. SHIBA — *VP*
Finance

MCA Television Group

ALVIN RUSH — *Chairman*
 EDWARD S. MASKET — *Executive VP*
Administration
 JEROME F. CLARK — *VP*
Finance
 MARTHA BURKE-HENNESSY — *VP*
International Co-Production

Universal Television

KERRY MCCLUGGAGE — *President*
 EARL J. BELLAMY — *Executive VP*
Production
 RICHARD LINDHEIM — *Executive VP*
Creative Affairs
 IRV SEPKOWITZ — *Executive VP*
Administration

CHARMAINE BALIAN — *Senior VP*
Dramatic and Long Form Programming

MCA TV

SHELLY SCHWAB — *President*
 JAMES M. KRAUS — *Senior VP*
Director of Sales

BOBBI FISHER — *Senior VP*
Sales

DAVID H. BRENNER — *Senior VP*
Advertiser Sales

KEN ARBER — *Senior VP*
Program Development

MORTON A. SLAKOFF — *Senior VP*
Creative Services

MCA TV International

COLIN P. DAVIS — *President*
 ALBERTA BARTEE — *VP*
Product Services

KATARINA FRANZ — *VP*
Publicity & Promotion

PETER HUGHES — *VP*
Marketing

MCA TV Entertainment

TOM THAYER — *President*
 NED NALLE — *Executive VP*
 JAMES WATTERS — *Executive VP*
Production
 ROBERT KELLEY — *Senior VP*
Business Affairs
 BARBARA FISHER — *VP*
Creative Affairs

Music Entertainment Group

AL TELLER — *Chairman*
 ZACH HOROWITZ — *Executive VP*
 LANCE GRODE — *Senior VP*
Business/Legal Affairs
 DAN MCGILL — *Senior VP*
Finance

MCA Records

RICHARD PALMESE — *Executive VP*
General Manager
 PAUL ATKINSON — *Executive VP*
A & R
 LOUIL SILAS, JR. — *Executive VP*
A & R/Artist Development Black Music
 A. D. WASHINGTON — *Senior VP*
Black Music Promotion

STEVE MEYER — *Senior VP*
Product Development

BILLY BRILL — *Senior VP*
Promotion

BRUCE HINTON — *President*
Nashville Division

TONY BROWN — *Executive VP*
A & R Nashville Division

MCA Distributing (Records & Home Video)

JOHN BURNS — *Executive VP*

ROBERT SCHNEIDERS — *Senior VP*
Sales & Distribution

MCA Records International

TONY POWELL — *Managing Director*
MCA Records U.K.

ROSS B. REYNOLDS — *President*
MCA Records Canada

MCA Music Publishing

LEEDS LEVY — *President*

JOHN MCKELLEN — *Executive VP*

JOHN BRANDS — *Managing Director*
MCA Music International

Universal Amphitheatre and MCA Concerts

MARC BENSON — *President*

ROB BINIAZ — *Executive VP*
MCA Concerts

LARRY VALLON — *Executive VP*
Universal Amphitheatre

Facility Merchandising

MILT ARENSON — *President*

Winterland Concessions

DELL FURANO — *President*

DON HUNT — *Executive VP*

MCA Publishing Group

PHYLIS GRANN — *President & Chief Executive Officer*

DAVID SHANKS — *Senior VP President of The Berkley Publishing Group*

ROBERT W. COPP — *Executive VP & Chief Operating Officer*

ROGER COOPER — *Publisher & Senior VP of The Berkley Publishing Group*

NEIL S. NYREN — *Publisher & V.P. of G. P. Putnam's Sons*

NEIL SIGMAN — *President of The Putnam & Grosset Book & Activity Group*

MARGARET FRITH — *President of The Putnam & Grosset Book Group*

Spencer Gifts

JOHN P. HACALA — *President & Chief Executive Officer*

GEORGE MOSER — *President Mail Order*

CHARLES DANENBERG — *Senior VP Finance*

GENE CAREY — *Senior VP Operations*

JOHN GUEST — *Senior VP Merchandising*

LAURIN LETART — *Senior VP Administration*

Merchandising Corp. of America

VICTOR TEMKIN — *President*

SID KAUFMAN — *Executive VP*

Studio Operations Executives

DANIEL E. SLUSSER — *Senior VP General Manager*

WILLIAM DECINCES — *Senior VP Studio Operations*

JAMES LUSK — *Senior VP Post Production*

BETH KENNEDY — *Senior VP Planning & Administration*

MICHAEL J. CONNOR — *Senior VP Finance*

MCA Recreation Services Group

JAY S. STEIN — *President*

JACK MCDANIEL — *Executive VP*

DAVID WEITZNER — *President Marketing*

BARRY UPSON — *Executive VP Planning & Development*

BERNARD I. FISHER — *Executive VP*

ANTHONY F. SAUBER — *Executive VP Business & Legal Affairs*

STEFAN DIETRICH — *VP Controller*

Universal Studios Hollywood

RONALD BENSON — *President & Chief Operating Officer*

Universal Studios Florida (a 50% owned joint venture)

STEVEN W. LEW — *President & Chief Executive Officer*

TOM WILLIAMS — *Executive VP General Manager*

Yosemite Park and Curry Co.

EDWARD C. HARDY — *President & Chief Operating Officer*

DANIEL R. JENSEN — *Executive VP*

MCA Broadcasting Group

LAWRENCE P. FRAIBERG — *President*

MICHAEL B. ALEXANDER — *Executive VP General Manager, WWOR-TV*

BARBARA L. LANDES — *Senior VP Finance & Operations, WWOR-TV*

DONALD ZAPATA — *Senior VP Sales & Marketing, WWOR-TV*

MCA Development

LAWRENCE D. SPUNGIN — *President*

WILLIAM E. HICKEY — *Senior VP*

JAMES E. HESCOX — *Senior VP*

MCA Enterprises

CHARLES S. PAUL — *President Member of Executive Committee of Cineplex Odeon Corporation*

MCA Enterprises International

J. ANTHONY YOUNG — *President*

FRANK STANEK — *Executive VP*

ROBERT GIOVANNETTONE — *Senior VP*

Other MCA Activities

ROBERT BINGAMAN — *Investor Relations*

GEORGE BRENNER — *Corporate Information Systems*

MICHAEL BRODIE — *MCA International — Managing Director*

MARY BURKE — *Corporate Planning*

CHARLES MORGAN — *Senior Legal Executive*

TERRY REAGAN — *Internal Audit*

JOHN S. SURABIAN, JR. — *Risk Management*

LINDA VELONIS — *Corporate Accounting*

MARTIN S. WILSON — *Corporate Financial Reporting*

Executive Offices

100 Universal City Plaza
Universal City, California
91608
(818) 777-1000

445 Park Avenue
New York, New York 10022
(212) 759-7500

Outside Legal Counsel

Rosenfeld, Meyer & Susman
9601 Wilshire Boulevard
Beverly Hills, California 90210

Independent Accountants

Price Waterhouse
400 South Hope Street
Los Angeles, California 90071

Stock Exchange Listings

Common Stock
New York Stock Exchange
Pacific Stock Exchange
Ticker Symbol — MCA

Transfer Agent & Registrar

The Chase Manhattan Bank, N.A. acts as transfer agent, registrar and dividend paying agent for the Company's common stock, and maintains all shareholder records for the Company.

Shareholders may obtain information relating to their share position, dividends, transfer of stock, lost certificates and other related matters by calling or writing:

The Chase Manhattan Bank, N.A.
1 New York Plaza
14th Floor
New York, New York 10081
(212) 676-5754

Notifying the Transfer Agent of a change of address is very important. This helps eliminate delayed or lost dividend payments. A change should be reported either by returning the address change card enclosed with every dividend check, or by writing directly to the Transfer Agent.

Be sure to include your name, tax identification number and current address in all communications with The Chase Manhattan Bank.

Cash Dividend Reinvestment Plan

This plan is available free of expense to all MCA INC. shareholders who wish to reinvest their cash dividends in MCA INC. stock; additional cash payments of \$10 to \$1,000 monthly are also permitted. Complete details may be obtained by writing to The Chase Manhattan Bank, N.A., Dividend Reinvestment Services, P.O. Box 283, Bowling Green Station, New York, New York 10004.

Annual Meeting

The 1990 Annual Meeting of Shareholders will be held at 10:00 a.m. on Tuesday, May 8, 1990 at The First Chicago Center, One First National Plaza, Chicago, Illinois. A notice of the meeting together with the proxy statement and a form of proxy will be mailed to each shareholder of record who was such as of the close of business March 23, 1990.

Form 10-K

A copy of the Company's annual report on Form 10-K, as filed with the Securities and Exchange Commission, will be furnished without charge (excluding exhibits) to any shareholder upon written request to the Secretary, MCA INC., 100 Universal City Plaza, Universal City, California 91608.