C

# General Cinema '85

**Contents**



General Cinema

General Cinema has recently adopted a new logo which will appear on all Company communications as well as in our theatres. This new corporate identity was designed to retain our heritage as a theatre company and at the same time better reflect General Cinema's current status as a multi-faceted, consumer-oriented growth company. The new logo was designed by Selame Design, the nationally-recognized design firm which created General Cinema's original G-C-C projector and the snare drum riff that has been familiar to General Cinema theatre patrons across the country since 1964.

General Cinema is a consumer-oriented growth company. Over the past 10 years revenues from continuing operations have increased at an annual compound rate of 10.4% to $967 million, and earnings from continuing operations, excluding nonoperating income, have grown at a compound rate of 19.3% to $88.2 million. The Company's growth has been generated primarily by two businesses: soft drink bottling and movie exhibition.

General Cinema Beverages is the nation's largest independent bottler of Pepsi-Cola products and a major bottler of Dr Pepper, 7-Up and Sunkist products. Through its exclusive franchise territories in nine states, primarily in the Midwest and Southeast, and the District of Columbia, the Division sells the equivalent of more than four and a half billion individual servings of soft drinks each year.

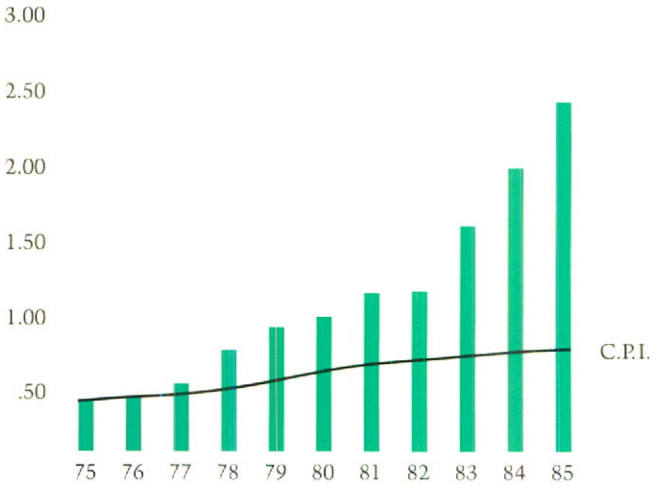
General Cinema Theatres operates the nation's largest theatre circuit, with 1,143 screens in 331 locations in 37 states and the District of Columbia. Its circuit, which consists primarily of first-run, multi-screen units located in regional shopping centers, attracted almost 85 million patrons last year.

The Company has a significant equity investment in Carter Hawley Hale Stores, Inc., a leading national retailer. CHH operates 128 department stores and 171 specialty stores. Its six department store divisions include The Broadway-Southern California, The Broadway-Southwest, Emporium Capwell, Thalhimers, John Wanamaker and Weinstock's. Its four specialty store divisions are Bergdorf Goodman, Contempo Casuals, Holt Renfrew and Neiman-Marcus.

*General Cinema's primary objective is to create value for its shareholders by providing a total return – appreciation in the market value of its shares plus dividends – well in excess of the rate of inflation.*

| *(Dollar amounts in thousands except per share data)* |
|---|
| Revenues |
| Operating earnings |
| After-tax earnings from continuing operations excluding nonoperating income |
| Net earnings |
| Cash flow (b) |
| Cash dividends paid |
| Total assets |
| Shareholders' equity |
| Average shares outstanding (c) |
| *Per share data (d)* |
| After-tax earnings from continuing operations excluding nonoperating income |
| Net earnings |
| Cash flow (b) |
| Common dividends paid |
| Book value |

*Earnings Per Share From Continuing Operations**
**Excluding nonoperating income (deductions)*
*(Dollars)*




Management has set as its primary growth objective the expansion of the Company's earnings at an average annual rate of 5-10% in excess of the inflation rate. Per share earnings from continuing operations over the last decade have increased at an annual compound growth rate of 21.2%, well above the rate of inflation.

| 1985 | 1984 | Percent increase (decrease) | 1980 | 5-year annual compound growth | 1975 | 10-year annual compound growth |
|---|---|---|---|---|---|---|
| $966,812 | $916,330 | 5.5% | $740,943 | 5.5% | $358,447 | 10.4% |
| 116,796 | 108,798 | 7.4% | 85,571 | 6.4% | 36,857 | 12.2% |
| | | | | | | |
| 88,231 | 71,367 | 23.6% | 39,678 | 17.3% | 15,066 | 19.3% |
| 88,231 | 110,959 (a) | (20.5%) | 29,931 | 24.1% | 14,522 | 19.8% |
| 135,809 | 111,815 | 21.5% | 73,814 | 13.0% | 31,413 | 15.8% |
| 15,843 | 13,596 | 16.5% | 7,800 | 15.2% | 2,562 | 20.0% |
| 945,213 | 991,448 | (4.7%) | 441,796 | 16.4% | 221,377 | 15.6% |
| 386,253 | 355,922 | 8.5% | 168,542 | 18.0% | 83,809 | 16.5% |
| 37,808 | 37,701 | 0.3% | 44,038 | (3.0%) | 44,468 | (1.6%) |
| | | | | | | |
| 2.33 | 1.89 | 23.3% | 0.90 | 21.0% | 0.34 | 21.2% |
| 2.33 | 2.94 (a) | (20.7%) | 0.68 | 27.9% | 0.33 | 21.6% |
| 3.59 | 2.97 | 20.9% | 1.68 | 16.4% | 0.71 | 17.6% |
| 0.425 | 0.34 | 25.0% | 0.18 | 18.7% | 0.06 | 21.6% |
| 10.62 | 9.46 | 12.3% | 3.84 | 22.6% | 1.90 | 18.8% |

(a) Includes after-tax gain on the sale of Sunkist Soft Drinks, Inc. of $37.0 million, or $.98 per share.

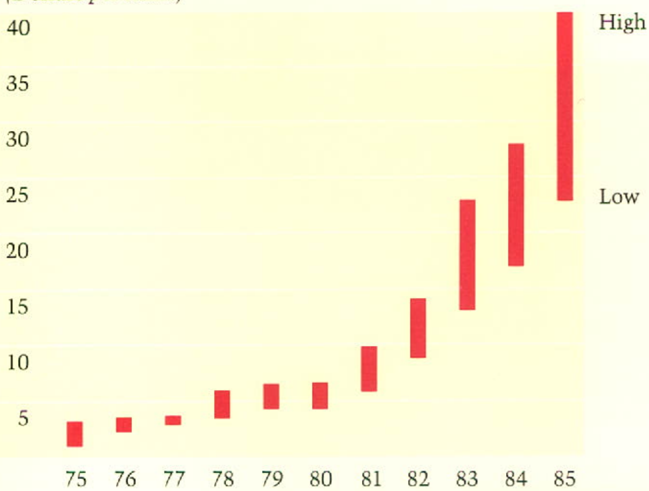
(b) Net earnings excluding nonoperating items, plus noncash charges.

(c) Weighted average number of shares and common share equivalents outstanding, adjusted to reflect stock splits and stock dividends.

(d) Assuming full conversion of Series A into Common Stock.

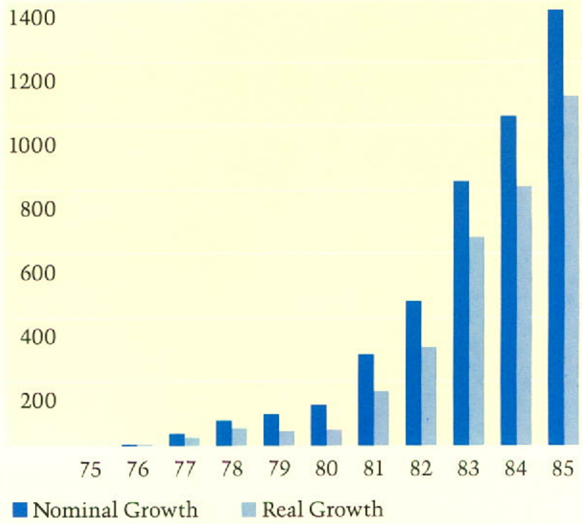
*Common Stock Market Price Range**

**Adjusted to reflect stock splits and stock dividends*
*(Dollars per share)*




*Return On Owning General Cinema Common Stock**

**Assumes no reinvestment of dividends*
*(Percent)*

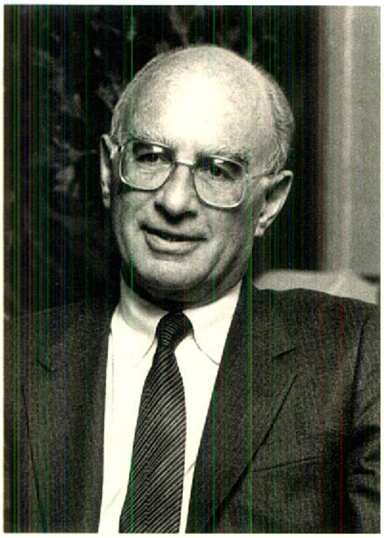



The value of an investment in General Cinema stock has grown dramatically over the last 10 years. For example, if you purchased one share of General Cinema Common Stock on October 31, 1975, at its then market price of $19 3/8, your current holding was worth $284, a 1,336% increase, at October 31, 1985. The value of your investment grew at an annual compound rate of 30.8%, and, when adjusted for inflation, the rate was 28.1%.

## Message to Shareholders

Fiscal 1985 marked the 12th consecutive year and the 24th out of its 25 years as a public company in which General Cinema achieved record operating results.

Earnings from continuing operations excluding nonoperating income increased 23.6% this year to $88.2 million, or $2.33 per share, from $71.4 million or $1.89 per share a year ago.



*"We have just completed the most successful year in General Cinema's history, and we look forward to the future with confidence."*

Richard A. Smith

Revenues from continuing operations rose 5.5% to $966.8 million. The 1984 earnings exclude a $39.5 million, or $1.05 per share, after-tax nonoperating gain primarily from the sale of Sunkist Soft Drinks, Inc.

We believe the strong financial performance of the Company in fiscal 1985 and the steady growth in earnings over the years reflect the success of General Cinema's strategy of focusing its financial resources and management attention on operating businesses we know well and on areas in which we can apply our proven management skills. We view each of our two major operating divisions as dynamic businesses, which, although different in many respects, are characterized by a number of similarities from a management and operating viewpoint. Equally as important, each provides significant opportunities for future growth.

For General Cinema Beverages, which accounted for more than 70% of the Company's operating earnings this year, fiscal 1985 was an unprecedented success. The soft drink industry is in the midst of an exciting period highlighted by new product introductions by the major franchisors and strong consumer interest in nationally branded products.

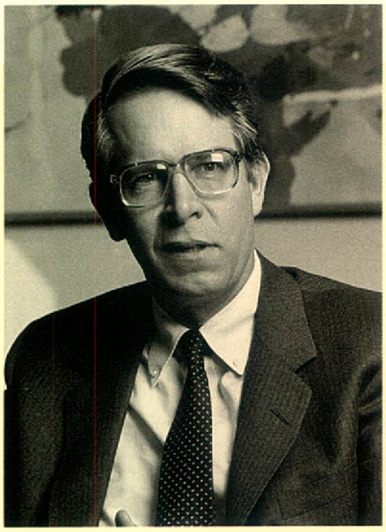
General Cinema Theatres has just finished a disappointing year, but the fundamentals of our first-run theatre business that have made it successful over the years remain intact. Although there are some new challenges before it, movie exhibition continues to hold considerable promise for General Cinema as a profitable, cash generating business.

WGRZ-TV, our NBC affiliate in Buffalo, recorded good progress during the year, and its overall operations were strengthened.

Supplementing results from our operating businesses in 1985 was the increased dividend income from our investments in Carter Hawley Hale Stores, Inc. and R.J. Reynolds Industries, Inc.

General Cinema strengthened its financial position considerably during the year. Shareholders' equity increased to $386.3 million, even after a $43.2 million reduction relating to the repurchase of 1.44 million Common shares late in the fiscal year. Long-term debt, which now consists primarily of fixed-rate subordinated debentures, was reduced to $294.2 million. The strength and consistency of the Company's after-tax cash flow, $135.8 million in 1985, provide the Company with substantial unused borrowing capacity.

Since its initial public offering in 1960, General Cinema has compiled an enviable record of earnings and cash flow growth. Over that 25-year period, the Company has developed and diversified, but in every phase and in every respect the Company has been and will continue to be run for the benefit of its owners. As major shareholders themselves, management has concentrated its energy and efforts on the creation of value for its shareholders. This objective, the focus of the 1985 annual report, is dealt with more fully beginning on page 13.



*"We manage the Company's productive assets and financial resources to enhance its earning power and increase its cash flow."*

J. Atwood Ives

Over the past few years, while continually affirming our commitment to our two major operating businesses, we have also devoted considerable time and effort to the search for new growth opportunities for General Cinema.

Our search for acquisitions is focused broadly on the area of consumer products and services. We have considered many opportunities, but our criteria are strict, and we stand firmly on the principle that the way to build value for shareholders is to acquire a business at a price which does not already discount its future growth and to which we can add value by applying our management skills and financial resources. With the frenzy today in the merger and acquisition world, it is becoming increasingly difficult to find and acquire a business to which significant value may be added, but we are always vigilant, and we are confident that the right business – with good growth prospects and at a reasonable price – will be found.

While we would prefer to acquire an operating business, we would consider a major investment in another company, provided it is one with involvement. By "investment with involvement" we mean that after making a significant minority investment in a company, we would participate actively in strategic decisions but leave day-to-day responsibilities to operating management.

In terms of size, General Cinema has the financial resources available to it to consummate a large transaction, although smaller situations with strong growth potential continue to be of great interest.

In 1984 we made a $300 million investment in Carter Hawley Hale preferred stock, convertible into 38.6% of that company's common equity. Through active involvement on its board of directors, we are participating in Carter Hawley Hale's strategic planning and development.

This past year we made an investment of a different sort in Super Video, Inc., a start-up company which is testing the rental of video cassettes through supermarkets. In December, 1985 we purchased control of this venture. We are currently developing Super Video's strategic plan so it can become an important factor in the dynamic home video market.

Reflecting its continued confidence in the Company's prospects, the Board of Directors voted in September to increase the cash dividend on the Common Stock 25.0%. The Board also voted increases on the Series A Stock and on the Class B Stock. This is the 17th consecutive year in which the Board has increased cash payments to the Company's Common shareholders.

*"Both of our two major operating divisions – soft drink bottling and movie exhibition – are dynamic businesses with significant opportunities for future growth."*

Robert J. Tarr, Jr.

*Outlook*

Both our major businesses – soft drink bottling and movie exhibition – bring relatively inexpensive pleasure and enjoyment to millions of Americans of all ages each year. This characteristic, coupled with our experienced management, will ensure their future viability and growth.

Our theatre business has already begun to rebound in the first quarter of 1986 with a good selection of popular films playing to large audiences over the Christmas holiday. The pictures scheduled for release over the balance of 1986 look promising.

The impact of home video on movie-going has been quantified in a meaningful way by our extensive and ongoing consumer research. Based on that research, we believe that the modestly adverse influence of video cassette viewing on theatrical attendance will peak in the 1985-86 period and decline thereafter.

The momentum continues in our soft drink bottling business. Significant unit volume growth is being driven by the tremendous consumer demand for better-tasting diet products and those containing real juice. There will continue to be new products and product line extensions as soft drink franchisors and bottlers meet the increasingly diverse and demanding tastes of consumers in all age and demographic groups, attracting new consumers and expanding the overall market.

We have just completed the most successful year in General Cinema's history, and we look to

*"We pursue only those acquisitions or investment opportunities which we believe over time will enhance shareholder value."*

Samuel Frankenheim

the future with confidence. Our long-term goal of increasing General Cinema's earnings at a rate of 5-10% above the rate of inflation is ambitious but attainable. We will grow through internal development and expansion of our existing businesses, as well as through diversification, while staying primarily within our fields of expertise. We will continue to position our businesses to compete effectively and aggressively in their respective markets.

A special note of appreciation is in order for two directors who will be retiring from the Board this year. Herbert J. Hurwitz, who served as an executive of the Company for 24 years and has been a director since 1977, and Abram T. Collier, a director since 1977, have contributed to General Cinema's growth and progress. Their guidance and advice will be missed.

The breadth and diversity of experience found in General Cinema's senior management has been, we feel, an important ingredient in the success of the Company. But the performance that General Cinema has achieved for its shareholders is largely attributable to the more than 12,000 talented men and women who work throughout the Company. We applaud and thank our dedicated employees for their achievements and contributions.

Finally, we express our gratitude, as well as that of the Board, to you, our shareholders, for your continuing expression of encouragement and support. Be assured that we remain responsive to your interests and that we will work hard to give you a superior return on your investment by making General Cinema an even better company in its next 25 years.

Sincerely,

Richard A. Smith
*Chairman*

J. Atwood Ives
*Vice Chairman*

Robert J. Tarr, Jr.
*President*

Samuel Frankenheim
*Senior Vice President*

*January 6, 1986*

## Review of Operations

### General Cinema Beverages

Fiscal 1985 was the 13th consecutive year in which General Cinema Beverages, the nation's largest independent bottler of Pepsi-Cola products, reported improved operating results. Following a 10% increase in case sales in 1984, the Beverage Division achieved a similar increase in unit volume this year (14% including the new Ft. Myers, Florida franchise). This compares to an estimated overall industry gain of 6%. The Division's overall market share as measured by A.C. Nielsen grew throughout the year and reached an all-time high at year-end.

| *(In thousands)* | 1985 | 1984 | 1983 |
|---|---|---|---|
| Revenues | $599,291 | $512,736 | $473,140 |
| Operating Earnings | 83,599 | 66,673 | 63,121 |
| *Margin* | *13.9%* | *13.0%* | *13.3%* |

These results primarily reflect the successful marketing efforts behind the fast-growing diet segment and brand Pepsi, as well as the highly effective introduction of Slice, Pepsi-Cola's new soft drink with 10% real fruit juice. Sales of our allied brands also improved, as considerable attention was devoted to the quality of retail sales execution and service.

Promotional expenses continued to escalate throughout the year, resulting in a negligible increase in net prices. Positive operating leverage, however, created by producing and distributing more cases through fixed plant and equipment, added disproportionately to operating earnings. In addition, lower direct costs contributed to improved operating margins.

A key factor in the rate of industry growth was the trend toward market segmentation. Product line extensions and new brands created to satisfy the ever-expanding consumer base and changing lifestyles are fueling growth in an industry which only a few years ago was believed to be "mature." This market segmentation is generating tremendous excitement with increased media attention on major national brands. As a result, brand Pepsi – now the nation's number one soft drink – gained market share. Diet products, most of which now are formulated with 100% NutraSweet,® accounted for 70% of industry growth in 1985, and the spotlight will continue to be focused on this high-growth segment.

The emergence of an entirely new category – soft drinks with 10% real juice – also added important incremental sales. Pepsi's introduction of Slice in sugared and diet versions is the first major entry in this new segment. Slice has attracted many new consumers to soft drinks who formerly chose alternative beverages. As a result the majority of Slice's volume has been incremental and not cannibalization of existing soft drink volume.

In 1986 we will further develop our Slice business and expand this product into all channels of distribution. Our overall direct costs should remain relatively stable, and we will continue to exercise tight control over operating expenses.

Budgeted capital spending in fiscal 1986 is somewhat less than the $43.9 million spent in 1985. These funds will finance additional marketing equipment and expansion of our plant and distribution system in anticipation of continuing volume growth.


PEPSI
INSTRUCTIONS
diet Pepsi free
DIET PEPSI


Case sales and market share are currently at record levels and are increasing. We expect these trends will continue throughout fiscal 1986, when General Cinema Beverages should again report record operating results.

**General Cinema Theatres**

Fiscal 1985 was not a good year for our movie exhibition business. With few so-called "blockbuster" pictures released during the year, attendance at our theatres declined by approximately 7%, and, as a result, revenues and operating profits also declined. The last fiscal year in which the Division reported such poor comparative results was 1976. Now, as then, we believe this poor performance was attributable primarily to an insufficient number of films with broad audience appeal.

| *(In thousands)* | 1985 | 1984 | 1983 |
|---|---|---|---|
| Revenues | $341,383 | $350,659 | $353,099 |
| Operating Earnings | 29,094 | 37,610 | 35,505 |
| *Margin* | *8.5%* | *10.7%* | *10.1%* |

Prosperity in the movie exhibition business is closely tied to the supply and popularity of first-run feature films. While the supply of films made available to exhibitors was adequate this past year, it is generally felt that Hollywood failed to capture the public's fancy.

Moreover, with the increased number of films being released annually as compared to a few years ago, the positioning, marketing and distribution of feature films can and should be dramatically improved.

As a result of an ample supply of film product, but fewer hits, film cost as a percentage of box office revenues was lower in 1985 than in the prior year. Although operating margins declined, the Division partially offset the impact of lower attendance through increased per capita refreshment sales, successful efforts in controlling operating costs, and slightly higher average ticket prices.

While the growth in home video in its various forms has had some impact on the moviegoing habits of the American public, for the first time we are able to quantify that impact through extensive research which we have conducted among our patrons over the past 18 months.

This research reveals that more than half of our patrons currently own video cassette recorders, almost double the penetration rate for the population as a whole. Second, it shows that the largest impact on theatrical attendance occurs during the first year of VCR ownership, and that the impact declines significantly thereafter. Third, the decline in attendance is most profound among infrequent movie-goers, not the avid movie-goer who is our prime customer. The research also shows that cable television has had little or no measurable effect on attendance at our theatres. These findings lead us to believe that less than half of the decline in attendance at our theatres during 1985 was attributable to home video, with the balance attributable to the

lack of popular films. The research also indicates that the impact of home video on our business is currently peaking and is expected to decline over the next several years.

Our confidence in the future of the business is now validated by extensive consumer research. Because of our conviction that Hollywood will provide exhibitors with more commercially successful films, we continue to take appropriate steps to strengthen our theatre business. The expansion of our circuit included the addition of 80 new screens in 1985. We will see a significantly higher number opened in fiscal 1986, when our circuit will approach 1,300 screens nationwide. General Cinema's proposed units now average more than seven screens per location. Encouraged by the high rate of return new multiplex theatres offer on invested capital, we have substantially increased planned capital spending in 1986 over the $23.3 million spent in fiscal 1985. This capital will primarily fund new theatre construction and modernization of existing units with special emphasis on upgrading our concession facilities.

Expansion of our circuit protects our market share, establishes important new locations in growth areas and enhances our proven sites where more screens are needed to properly serve the existing patron base. Our larger multiplex units offer more product choices to patrons and enjoy significant operating efficiencies and dramatically higher operating margins than our older units.

We enter fiscal 1986 optimistically, predicated on the reasonably good performance of the films released over the Christmas season. The film product for the balance of the year looks promising. The continuation of the higher level of film production in Hollywood should provide adequate product for the foreseeable future for the home video market, as well as for the theatres.

The Division's results in 1986 will benefit from the additional screens opened during 1985 and from a decision to implement a general increase in matinee ticket prices. If the films released for the balance of the year are modestly successful at the box office, then fiscal 1986 should be a considerably better year than 1985 for General Cinema Theatres.

**WGRZ-TV**

The results reported by WGRZ-TV, our NBC affiliate in Buffalo, New York, are very gratifying. We have made substantial investments in people and equipment since acquiring the station in 1983. These investments are now beginning to pay off. The station turned in strong operating gains due to the improved performance of its news department and increased advertising sales. We anticipate that WGRZ will continue to make progress in 1986.

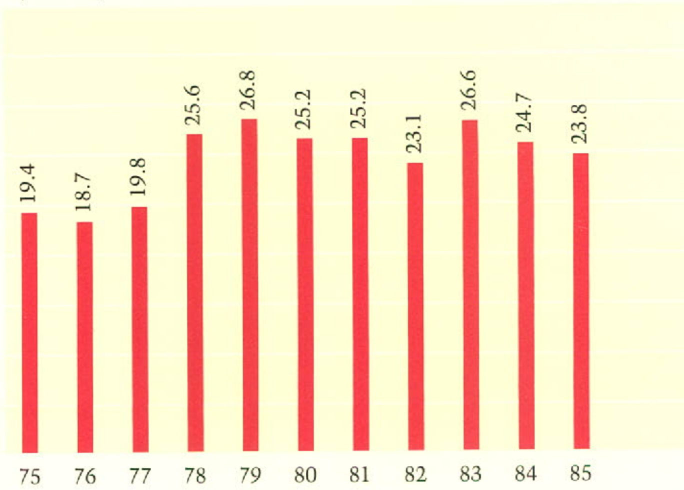
## Creation of Value – A Continuing Priority

Since General Cinema became a public company 25 years ago, management's primary objective has been the creation of value. We have sought to accomplish this objective by managing General Cinema as a growth company. We believe that we can create lasting value for our shareholders by actively managing our productive assets and financial resources so as to enhance the Company's earning power and generate a consistent and expanding cash flow.

We firmly believe that the quality of corporate growth is more important than nominal growth. We want General Cinema to get better, not just bigger. Management, therefore, has set as its objective for real growth the expansion of the Company's earnings at an average annual rate of 5-10% in excess of the inflation rate. Over the last 10 years, we have exceeded our objective: General Cinema's earnings from continuing operations excluding nonoperating income, were up, on an annual compound basis, 19.3%, and corresponding earnings per share increased 21.2%. Both were up substantially more than the average annual increase in the Consumer Price Index (C.P.I.) over this period.

Another way of creating value is to earn a high return on the shareholder capital entrusted to management. Over the last 10 years General Cinema's return on average shareholders' equity (excluding nonoperating and discontinued items) has averaged 24.0%. This return is significantly above the 13.9% average annual rate earned by the Standard & Poor's 400 companies over the same period.

*Return On Average Equity*
*(Percent)*

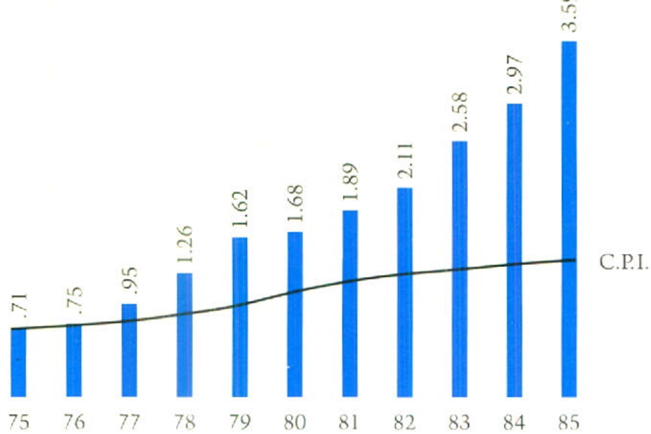


The true value of an enterprise, in our opinion, is dependent upon its ability to generate a cash return, not just reportable earnings. For this reason, we have directed the Company's resources into consumer-related businesses with above-average growth potential that generate significant cash earnings. In addition, our investment activities generate a positive after-tax cash flow. As a result, cash flow per share over the last 10 years has increased at an annual compound rate of 17.6%. This cash flow has been and will be available for reinvestment in the expansion of our operating businesses, as well as in new activities, to augment the Company's future growth. The strength and consistency of this cash flow have also enabled General Cinema to use leverage prudently but aggressively.

Nowhere is the creation of value concept applied more rigorously than in

*Cash Flow Per Share**

**Based on net earnings excluding nonoperating items, plus noncash charges*
*(Dollars)*

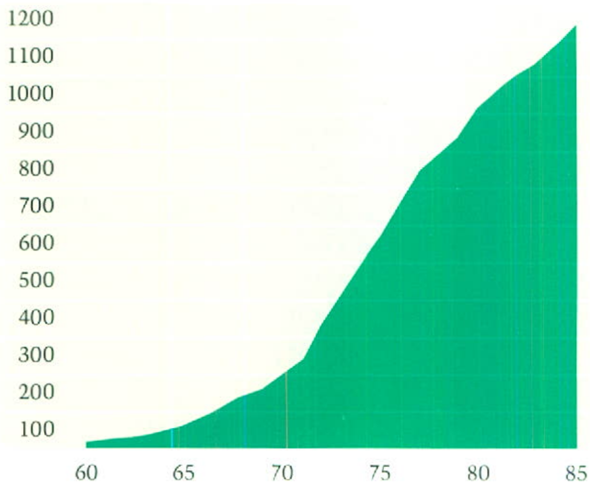



**Theatrical Pioneer**

Since 1960, when General Drive-In first issued stock to the investing public, management has sought to enhance the value of those shares for its owners. One of the first strategic decisions made in this regard was the Company's commitment to pioneer the development of multi-screen theatres in suburban shopping centers. This decision was based on a number of factors:

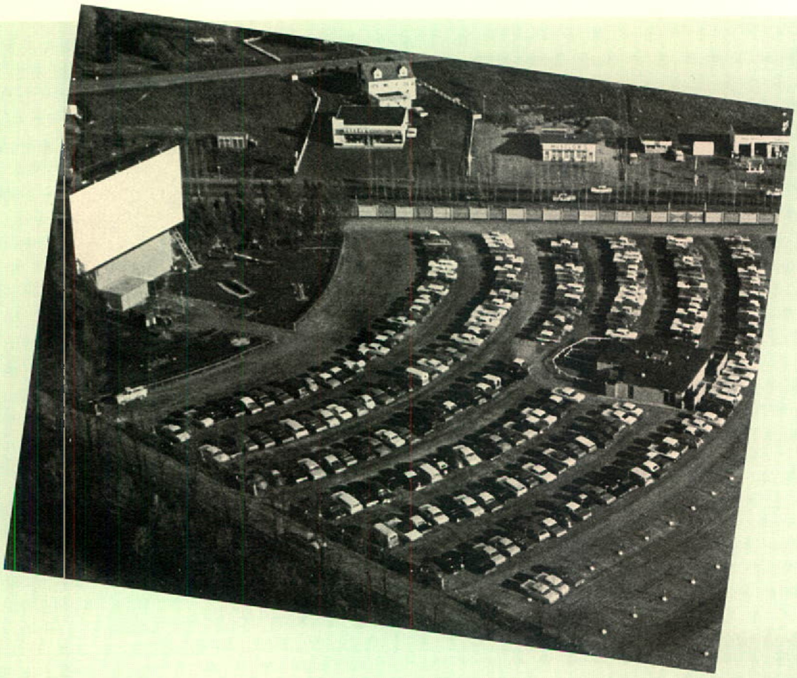
- ▲ Exceptionally high rates of return were possible almost immediately from new theatres.
- ▲ Suburban population growth was projected to continue to outpace that of cities, and regional shopping centers were seen as natural congregating points.
- ▲ The theatre business could generate a strong, positive cash flow which was available to reinvest in the business, to fund diversification and to pay out to shareholders as cash dividends.

*Growth in the Number of Indoor Screens*



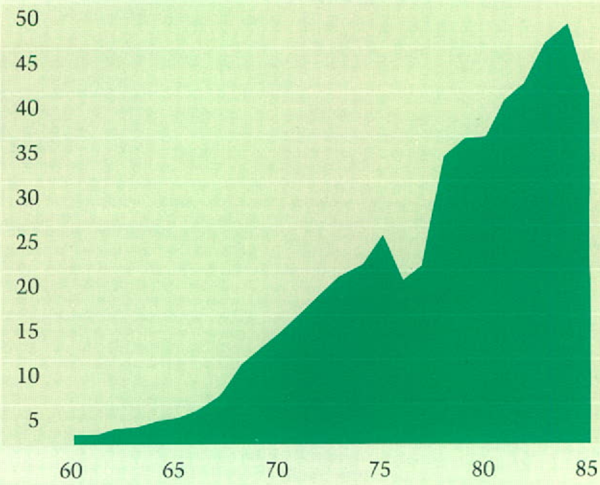
General Cinema's diversification efforts. We pursue only those acquisitions or investment opportunities which management believes over time will enhance shareholder value. We have concentrated on consumer businesses with which we feel comfortable and on those with above-average growth potential, high return on invested capital and strong and expanding cash flow.

Besides seeking operating businesses that generate cash earnings, we attempt to acquire them at prices which do not already fully discount their growth



General Cinema shareholders have benefited directly and significantly from this expansion program. Operating earnings and cash flow from our theatre business have risen dramatically over the years, helping the Company sustain a growth record which has supported steady stock price appreciation. This substantial, positive cash flow also helped fund General Cinema's entry into another growth business – soft drink bottling.

*Theatre Division Cash Flow**
**Pre-tax earnings plus depreciation*
*(Dollars in millions)*




During the 1960s and into the next decade, General Drive-In, renamed General Cinema, planned and successfully carried out an aggressive expansion program which ultimately established it as the nation's largest movie theatre circuit.

Over the years, the multiplex concept has evolved toward significantly more screens per location. This is because it affords economies of scale in operations and has gained universal consumer acceptance resulting in increased attendance. General Cinema's new multiplexes now average more than seven screens per location as compared to three screens per unit 10 years ago.

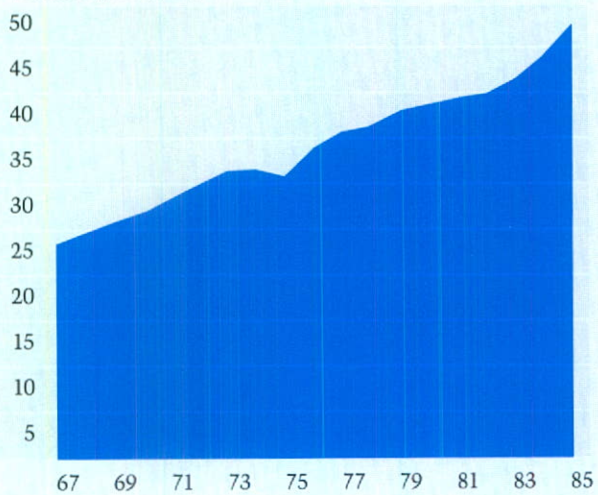
Today, the Company continues to invest in General Cinema Theatres by opening new units as well as by adding to existing locations. These investments, still generating high rates of return and a positive cash flow, enable General Cinema to maintain its position as the nation's largest grossing exhibitor.

## Successful Entry into Soft Drink Bottling

In the late 1960s, as management surveyed opportunities to reinvest Theatre Division excess cash flow in businesses where shareholders would realize real value and above-average rates of return, soft drink bottling, and especially the Pepsi-Cola segment, was identified as having a number of favorable characteristics:

- ▲ Per capita soft drink consumption had been rising steadily, and projections indicated the pace would accelerate.
- ▲ As with movie exhibition, soft drink bottling businesses generated strong, positive cash flow in excess of working capital requirements.
- ▲ Bottling businesses were at that time undervalued in the marketplace relative to their earnings potential.


*U.S. Soft Drink Consumption*
*(Gallons per capita)*




General Cinema management developed an acquisition strategy aimed at building a significant Pepsi-Cola bottling business concentrated in desirable geographic areas. This strategy was launched with the acquisition of the American Beverage Corporation in March 1968, the first of several major market Pepsi-Cola franchise acquisitions over the ensuing 17 years.

As a number of these purchased franchises were underdeveloped, the Company launched an aggressive investment program, consolidating production in modern, centrally-located facilities and adding allied brands such as Dr Pepper, 7-Up and later on Sunkist. By doing so, it forged what began as a collection of unintegrated bottlers into General Cinema Beverages, a large, efficiently-run soft drink bottling and distribution business which today serves more than 8% of the U.S. population.

The result of this strategy was to position General Cinema as the largest independent bottler of Pepsi-Cola products in the United States,

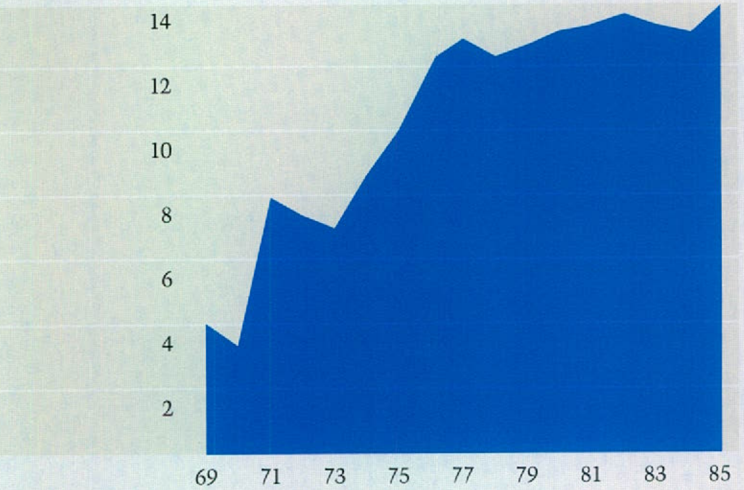
potential. As a result, the value added by General Cinema's management and financial commitment should accrue to the benefit of the Company's shareholders.

We have not been reluctant to divest businesses over the years that we felt could not meet our demanding goals, nor have we been hesitant to invest in smaller opportunities which appear to have dramatic growth potential.

with franchises concentrated principally in the Midwest and Southeast.

Over the years the Company has invested heavily in its bottling franchises. As a result, General Cinema Beverages has become a low-cost producer with strong management, efficient distribution and aggressive marketing–all of which have enabled it to outsell its primary competitor in most of its franchise areas and to significantly increase operating margins and profits.

*Beverage Division Profit Margins*
*(Percent)*

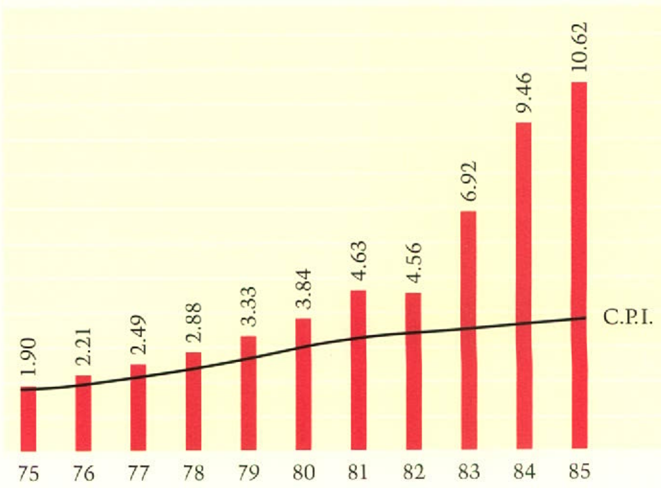



Revenues and operating earnings from soft drink bottling have grown steadily since General Cinema entered the business. By 1976, General Cinema Beverages provided more than half of the Company's overall earnings and contributed substantially to cash flow. Today, the Company continues to invest in its bottling operations and remains alert for opportunities to expand its franchise territories.

With regard to investment opportunities, our strategy is to acquire a large minority position in an undervalued company with significant growth potential, and then, through active board participation, work with existing management to enhance the value of our investment.

As our operating businesses and investments grow, and their earnings and cash generating capacity expand, they appreciate significantly in value. Today, General Cinema's businesses and investments have a "real" underlying market value substantially in excess of their book value, which is based on historical costs.

*Book Value Per Share*
*(Dollars)*



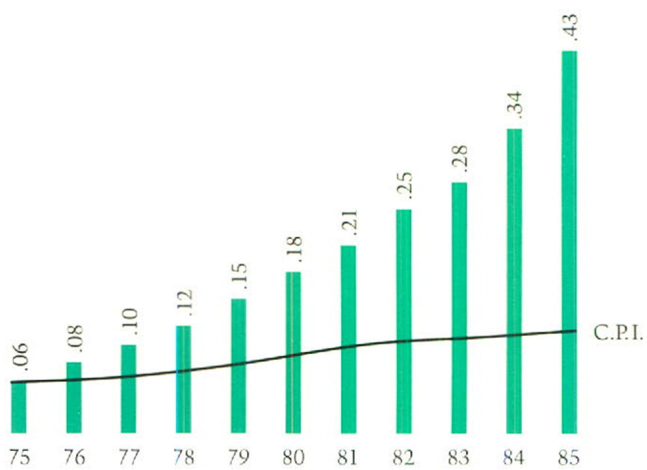

The issuance in 1985 of our Class B Stock removes an obstacle to the Company's judicious use of equity for acquisition purposes. However, over the years the issuance of equity has been General Cinema's highest-cost form of financing.

Management, therefore, has been reluctant to issue equity to finance the Company's expansion. In fact, the number of common and common equivalent shares outstanding, adjusted for stock splits, is approximately the same as when the Company went public in 1960. As a result, shareholder equity has not been diluted, and, on a per share basis, both cash flow and earnings have risen consistently over time.

Our expanding cash flow and earnings base over the years has been recognized in the investment community and reflected in a growing market value for the Company's shares. A share of General Cinema Common Stock purchased 10 years ago, adjusted for stock splits and stock dividends, has appreciated from $2.42 to $35.50 as of October 31, 1985.

Because General Cinema's businesses generate cash earnings significantly in excess of the funds required to sustain their internal growth, the Company has had a long-standing policy of sharing its earnings growth with shareholders through consistent increases in cash dividends. The Board of Directors has a stated policy of paying dividends equivalent to 25-30% of earnings. As a result, cash dividends have increased significantly each year as earnings have grown. During the last 10 years, cash dividends paid to our Common shareholders have increased at an average annual compound rate of 21.6% per year.

*Common Dividends Paid**
**Adjusted to reflect stock splits and stock dividends (Dollars per share)*




General Cinema management remains committed to its basic priority of actively managing the Company's productive assets and financial resources to enhance its earning power and increase its cash flow. By adhering to this principle, we believe we can accomplish our primary objective of creating lasting value by providing shareholders with a total return – appreciation in the market value of General Cinema shares plus cash dividends – well in excess of the inflation rate and consistent with the Company's past results.

**Diversification Activities: A Willingness to Assume Risk**

Throughout its history, General Cinema has sought ways to enhance its potential for profitable growth, always focusing on its corporate commitment to the creation of value for shareholders. In recent years, management has devoted an increasing amount of time to exploring opportunities outside General Cinema's two principal businesses – soft drink bottling and movie exhibition.

The Company has invested in a number of businesses in an attempt to diversify its operations. While not all activities have been successful, on balance shareholders have benefited from these entrepreneurial efforts.

*Business Start-Up*

Sunkist Soft Drinks illustrates General Cinema's ability to conceive, finance and develop a start-up venture. In 1977 General Cinema launched the Sunkist brand with the goal of establishing it as a leading nationally branded orange-flavored soft drink. Within two years, Sunkist Orange Soda was one of the 10 best selling soft drinks in the country and the leader in its category.

In 1984, with the realization that prospects for a single-brand soft drink franchisor were limited in a much-changed industry environment, General Cinema sold Sunkist Soft Drinks for $57.0 million, generating an after-tax capital gain for its shareholders of $37.0 million, or $.98 per share.

*Acquisitions*

Besides beverage franchises, General Cinema invested in the broadcasting industry during the late 1960s and early 1970s. In 1968 the Company acquired a minority interest in WCIX-TV, a money-losing Miami station. Over the next few years, General Cinema acquired the rest of the station and, with a modest investment, built WCIX-TV into one of the most profitable independent television stations in the country.

The high price of buying additional major market television stations made it impracticable for General Cinema to create an important communications group. Therefore, management decided if it could not add stations, it should sell WCIX-TV, which had appreciated in value dramatically.

The station was sold for $70 million plus WGRZ-TV, an NBC affiliate in Buffalo, New York. This transaction contributed $40.1 million, or $1.07 per share, to after-tax earnings in fiscal 1983, and General Cinema owns WGRZ-TV at a book cost well below its value.

*Investment with Involvement*

The Company's strong financial condition, built on the growing cash flow from its operating businesses, has enabled management to consider investments in other companies as a way of adding value. Following its concept of "investment with involvement," management looks for investment opportunities where it can become involved and provide strategic direction in addition to its financial commitment.

In 1984, General Cinema invested $300 million in Carter Hawley Hale Stores, Inc., one of the nation's largest retailers. As a result of this investment, General Cinema officers and directors occupy seven seats on Carter Hawley Hale's board of directors and have representation on its key committees. General Cinema is confident that its investment in 10% cumulative preferred stock, which is convertible into 38.6% of Carter Hawley Hale's common equity, will prove very rewarding to its shareholders.

*Record Results*

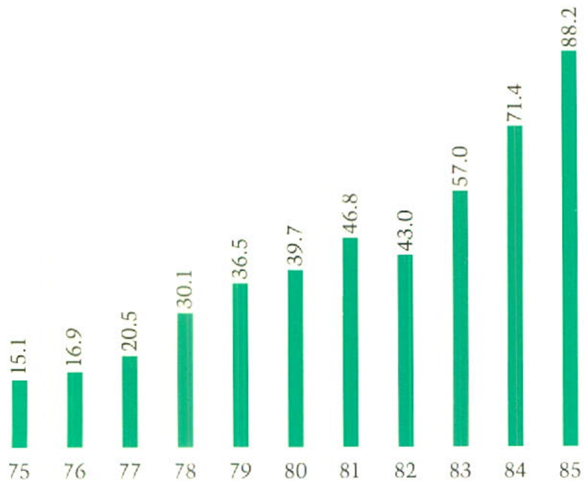
During the fiscal year 1985, General Cinema achieved record operating results and significantly improved its overall financial position. After-tax earnings, excluding nonoperating and discontinued items, increased 23.6% over the prior year to $88.2 million or $2.33 per share. Operating earnings increased 7.4% during the year to $116.8 million. Cash flow from operations (net income excluding nonoperating items plus noncash charges) was up 21.5% over the previous year to $135.8 million, or $3.59 per share. These records were achieved because of the excellent operating results of General Cinema Beverages and increased dividend income from the Company's investments, even though 1985 was a difficult year for General Cinema Theatres.

*Profitability*

Operating margins (operating earnings as a percent of revenues) of our continuing businesses have improved over the last 10 years. In fiscal 1985 operating margins increased to 12.1% from 11.9% in the prior year, reflecting the outstanding performance of General Cinema Beverages and the good job by General Cinema Theatres of controlling expenses in a down year.

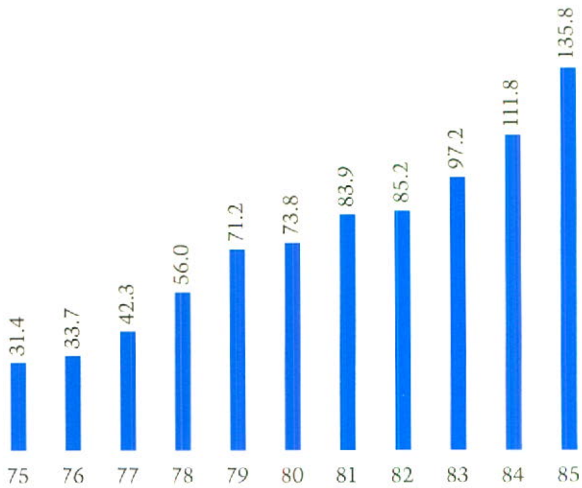
The Company's pretax return (excluding nonoperating and discontinued items) on average net assets employed decreased to 19.9% in 1985 from 21.5% in the prior year. This decline was primarily attributable to the substantial increase in average net assets added during the last several years, principally the Company's investments in Carter Hawley Hale Stores, Inc. and R.J. Reynolds Industries, Inc.

*Earnings from Continuing Operations**
*Excluding nonoperating income (deductions)*
*(Dollars in millions)*




Since 1975, earnings from continuing operations have increased at an annual compound rate of 19.3%, significantly greater than the rate of inflation.

*Cash Flow from Operations**
*Net earnings excluding nonoperating items, plus noncash charges.*
*(Dollars in millions)*




Cash flow from operations over the last 10 years has increased at an annual compound rate of 15.8%.

Historically, General Cinema has maintained a consistently high after-tax return on average shareholder equity. This return (excluding nonoperating and discontinued items) was 23.8% in fiscal 1985 and for the last 10 years has averaged 24.0%.

The combined federal and state income tax rate of 29.0% in 1985 was well below the statutory rates, reflecting primarily the lower federal tax rate on dividend income.

*Capitalization*

General Cinema significantly improved its capital structure during the fiscal year. Long-term debt to shareholders' equity was .76 to 1 at October 31, 1985, as compared to 1.15 to 1 at October 31, 1984.

Shareholders' equity increased to $386.3 million from $355.9 million. Shareholders' equity would have increased by an additional $43.2 million had the Company not repurchased 1.44 million shares of Common Stock (at $30 per share) late in the fiscal year. Book value per share increased 12.3% to $10.62.

Long-term debt decreased to $294.2 million at year-end as compared to $407.9 million a year ago. This debt reduction was made possible by the substantial cash generated from operations during the year, as well as the receipt of the proceeds from the sale of Sunkist Soft Drinks, Inc. More importantly, variable rate bank indebtedness was reduced to $11.0 million at October 31, 1985, as compared to $213.0 million outstanding at the beginning of the fiscal year. During the year the Company issued $100 million of 10.75% subordinated notes due 1995, the proceeds of which were used to retire bank indebtedness. As a result of this financing, most of the Company's long-term debt is subordinated without any sinking fund requirements. The remaining long-term debt consists primarily of capitalized leases and industrial revenue bonds. The weighted average interest rate on all of the Company's long-term debt is less than 10% with an average maturity of 15.6 years. During the year the Company renegotiated its $350 million revolving credit agreement, extending its final maturity to 1993.

*Cash Flow*

As shown in the following schedule, the Company's businesses have consistently generated a positive cash flow well in excess of that required to be reinvested in the form of capital expenditures and incremental working capital to sustain their growth. As a result, most of the

Cash Generation

| *(In millions)* | 1985 | 1984 | 1983 | 1982 | 1981 |
|---|---|---|---|---|---|
| Cash provided by operations* | $135.8 | $111.8 | $ 97.2 | $ 85.2 | $83.9 |
| Changes in working capital other than cash | (18.1) | (9.5) | 59.8 | (23.0) | 15.3 |
| Cash generated from operations | 117.7 | 102.3 | 157.0 | 62.2 | 99.2 |
| Capital expenditures | 69.0 | 52.2 | 54.7 | 43.3 | 47.7 |
| Cash flow available for other corporate purposes | $ 48.7 | $ 50.1 | $102.3 | $ 18.9 | $51.5 |

*Net earnings excluding nonoperating items, plus noncash charges.

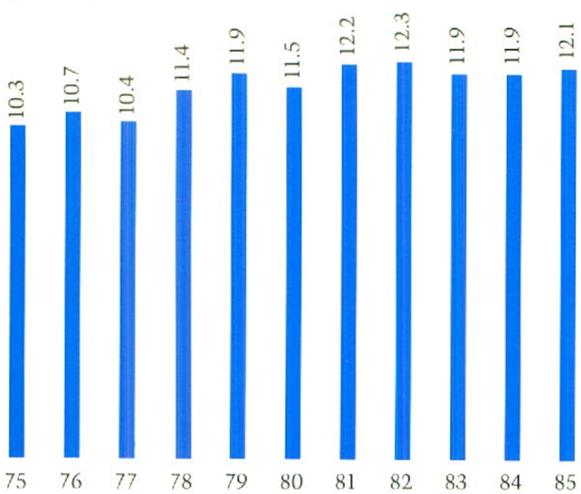
Company's earnings are available for investment in new business activities, as well as for debt repayment and dividends.

The strength and consistency of this cash flow enables the Company to make prompt and prudent use of its reserve debt capacity to further its acquisition and diversification goals. This was the case in the late 1960s and early 1970s when it acquired most of its beverage franchises; more recently in 1982 when the Company incurred significant bank debt in order to finance its investment in Heublein, Inc. and its Common Stock repurchase program; and again in 1984 to fund the Company's investment in Carter Hawley Hale.

*Liquidity*

Both of the Company's primary businesses operate with modest inventory and accounts receivable in relation to the size of their revenues. For this reason the Company can and often does operate with a significant negative working capital position. This was the situation at October 31, 1985 as well as throughout the year. This year a short-term note payable to a shareholder issued in connection with the repurchase of Common shares increased current liabilities at year-end above its normal level. Reflecting the working capital characteristics of our primary businesses, most of the Company's cash flow is not required to sustain their growth and therefore is available for debt repayment or to be used together with our substantial unused debt capacity for other corporate purposes, including diversification.

*Operating Margins*
*(Percent)*

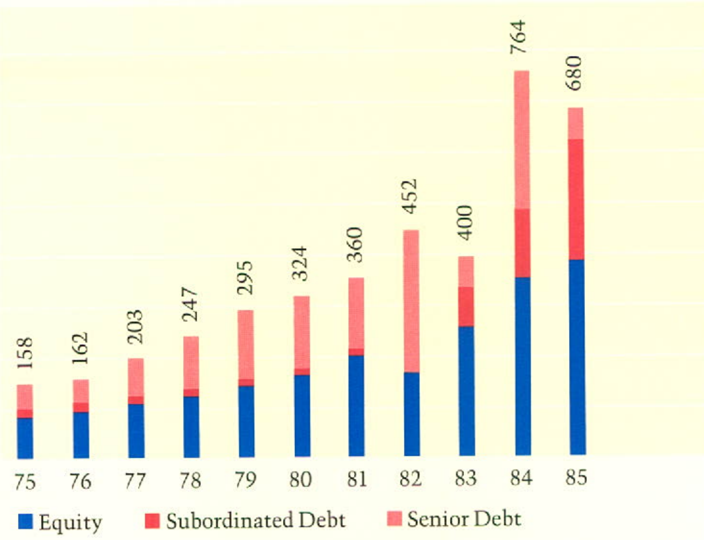



Our operating businesses have improved their profitability over the last 10 years.

*Average Net Assets Employed**
**Total assets less current liabilities exclusive of short-term debt*
*(Dollars in millions)*

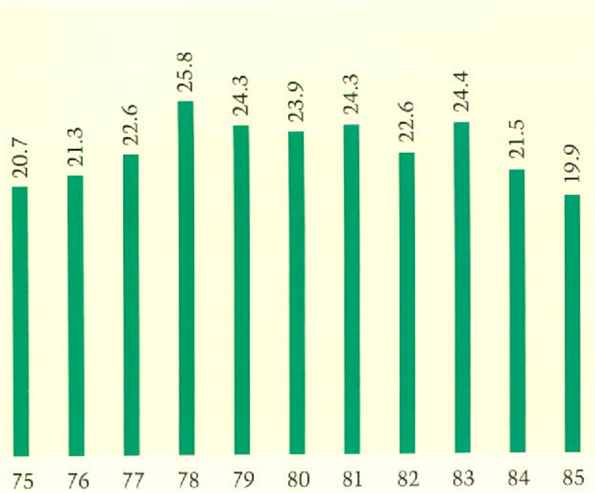

Average net assets have increased as the result of substantial investments made in the last several years.

*Capitalization*
*(Dollars in millions)*




The Company's capital structure consists primarily of equity and long-term subordinated debt.

*Return on Average Net Assets Employed**
**Earnings from continuing operations excluding non-operating income (deductions) before interest and taxes divided by average net assets employed.*
*(Percent)*




Pretax return on average net assets employed in our businesses has averaged 23.1% over the last 10 years.

*Capital Expenditures*

Capital expenditures incurred during fiscal 1985 were $69.0 million, compared to $52.2 million in the prior year, reflecting increased capital expenditures relating to expanded volume in the Company's soft drink operations and a stepped-up theatre expansion program. Capital expenditures are anticipated to approximate the 1985 level in fiscal 1986.

*Franchises, Licenses and Goodwill*

Franchises, licenses and goodwill consist almost entirely of nationally branded soft drink franchises which are stated at cost, well below their market value based upon recent sales of franchises by others.

Over the years General Cinema has consistently demonstrated its ability to report earnings and cash flow growth at average annual rates well above that of inflation. We believe that the Company has the proper mix of businesses, financial resources and management resolve to perpetuate this growth record in the years ahead.

## General Cinema Corporation and Subsidiaries
## Eleven-Year Summary (Unaudited)
*(In thousands except per share data)*

| Years Ended October 31 | 1985 | 1984 | 1983 | 1982 |
|---|---|---|---|---|
| *Revenues* | | | | |
| Beverage Division | $599,291 | $512,736 | $473,140 | $451,462 |
| Theatre Division | 341,383 | 350,659 | 353,099 | 343,914 |
| Other | 26,138 | 52,935 | 55,723 | 50,523 |
| Total | 966,812 | 916,330 | 881,962 | 845,899 |
| *Operating earnings* | | | | |
| Beverage Division | 83,599 | 66,673 | 63,121 | 61,229 |
| Theatre Division | 29,094 | 37,610 | 35,505 | 32,219 |
| Other | 4,103 | 4,515 | 5,901 | 10,389 |
| Total | 116,796 | 108,798 | 104,527 | 103,837 |
| *Corporate activities–net* | | | | |
| Interest–net | 34,941 | 30,031 | 20,746 | 24,222 |
| Administrative and other | 8,683 | 9,991 | 9,582 | 10,225 |
| Dividend income | (51,059) | (39,932) | (19,370) | (5,476) |
| | (7,435) | 90 | 10,958 | 28,971 |
| Earnings from continuing operations before other income (deductions) and income taxes | 124,231 | 108,708 | 93,569 | 74,866 |
| Other income (deductions)–net | – | 1,560 | 62,737 | 6,644 |
| Earnings from continuing operations before income taxes | 124,231 | 110,268 | 156,306 | 81,510 |
| Income taxes | 36,000 | 36,585 | 58,073 | 33,313 |
| Earnings from continuing operations | 88,231 | 73,683 | 98,233 | 48,197 |
| Net earnings | $ 88,231 | $110,959 | $ 98,519 | $ 48,036 |
| Depreciation and amortization | $ 39,098 | $ 36,592 | $ 37,571 | $ 38,098 |
| Capital expenditures | 69,000 | 52,181 | 53,992 | 42,741 |
| Total assets | 945,213 | 991,448 | 619,157 | 592,809 |
| Total long-term debt | 294,188 | 407,865 | 140,563 | 283,217 |
| Shareholders' equity | 386,253 | 355,922 | 259,096 | 169,157 |
| Long-term debt to shareholders' equity | .76 to 1 | 1.15 to 1 | .54 to 1 | 1.67 to 1 |
| Number of shares outstanding (a) | 37,808 | 37,701 | 37,616 | 40,366 |
| *Per share data (b)* | | | | |
| Earnings from continuing operations | $ 2.33 | $1.95 | $2.61 | $1.19 |
| Net earnings | 2.33 | 2.94 | 2.62 | 1.19 |
| Common dividends paid | .43 | .34 | .28 | .25 |
| Book value | 10.62 | 9.46 | 6.92 | 4.56 |

(a) Weighted average number of shares and common share equivalents outstanding adjusted to reflect stock splits and stock dividends.

(b) Assuming full conversion of Series A Stock into Common Stock.

| 1981 | 1980 | 1979 | 1978 | 1977 | 1976 | 1975 |
|---|---|---|---|---|---|---|
| $445,012 | $412,321 | $364,836 | $315,156 | $240,415 | $188,935 | $178,441 |
| 323,200 | 307,776 | 266,461 | 266,370 | 213,757 | 168,391 | 180,006 |
| 25,102 | 20,846 | 17,499 | 13,331 | 10,894 | 7,989 | – |
| 793,314 | 740,943 | 648,796 | 594,857 | 465,066 | 365,315 | 358,447 |
| 59,004 | 54,018 | 46,197 | 38,739 | 31,169 | 23,424 | 18,004 |
| 31,034 | 27,494 | 27,745 | 25,928 | 14,991 | 13,873 | 18,853 |
| 6,716 | 4,059 | 3,159 | 3,051 | 2,295 | 1,945 | – |
| 96,754 | 85,571 | 77,101 | 67,718 | 48,455 | 39,242 | 36,857 |
| 5,364 | 8,623 | 8,741 | 9,445 | 8,601 | 6,988 | 7,451 |
| 5,516 | 5,000 | 3,343 | 3,450 | 2,012 | 1,228 | 955 |
| – | – | – | – | – | – | – |
| 10,880 | 13,623 | 12,084 | 12,895 | 10,613 | 8,216 | 8,406 |
| 85,874 | 71,948 | 65,017 | 54,823 | 37,842 | 31,026 | 28,451 |
| – | – | – | (2,280) | – | (300) | (800) |
| 85,874 | 71,948 | 65,017 | 52,543 | 37,842 | 30,726 | 27,651 |
| 39,045 | 32,270 | 28,501 | 23,959 | 17,373 | 14,016 | 13,129 |
| 46,829 | 39,678 | 36,516 | 28,584 | 20,469 | 16,710 | 14,522 |
| $ 44,265 | $ 29,931 | $ 26,472 | $ 24,213 | $ 19,847 | $ 16,710 | $ 14,522 |
| $ 37,057 | $ 35,368 | $ 32,469 | $ 27,145 | $ 20,830 | $ 16,858 | $ 15,155 |
| 47,277 | 49,790 | 57,088 | 51,529 | 56,318 | 30,291 | 19,957 |
| 503,328 | 441,796 | 385,325 | 351,641 | 287,553 | 223,175 | 221,377 |
| 156,436 | 155,292 | 149,085 | 148,322 | 122,748 | 88,460 | 94,233 |
| 203,815 | 168,542 | 146,217 | 125,929 | 109,949 | 97,378 | 83,809 |
| .77 to 1 | .92 to 1 | 1.02 to 1 | 1.18 to 1 | 1.12 to 1 | .91 to 1 | 1.12 to 1 |
| 44,324 | 44,038 | 43,938 | 44,460 | 44,500 | 44,828 | 44,468 |
| $1.06 | $ .90 | $ .83 | $ .64 | $ .46 | $ .37 | $ .33 |
| 1.00 | .68 | .60 | .54 | .45 | .37 | .33 |
| .21 | .18 | .15 | .12 | .10 | .08 | .06 |
| 4.63 | 3.84 | 3.33 | 2.88 | 2.49 | 2.21 | 1.90 |

## General Cinema Corporation and Subsidiaries
## Consolidated Balance Sheets
*(In thousands)*

| | October 31 | 1985 | 1984 |
|---|---|---|---|
| **Assets** | *Current assets* | | |
| | Cash | $ 6,845 | $ 828 |
| | Short-term investments – at cost (which approximates market) | – | 30,512 |
| | Receivable from sale of Sunkist Soft Drinks, Inc. | – | 57,000 |
| | Notes and accounts receivable – trade, less allowance for doubtful accounts of $1,951 and $2,152 | 43,246 | 42,096 |
| | Sundry deposits and receivables | 19,834 | 14,811 |
| | Inventory | 28,869 | 32,144 |
| | Other current assets | 20,716 | 19,906 |
| | Total current assets | 119,510 | 197,297 |
| | *Property, plant and equipment* | | |
| | Land, buildings and improvements | 190,473 | 174,181 |
| | Equipment, fixtures and vehicles | 293,326 | 256,397 |
| | Returnable containers | 34,770 | 37,215 |
| | | 518,569 | 467,793 |
| | Less accumulated depreciation and amortization | 240,193 | 218,834 |
| | Total net property, plant and equipment | 278,376 | 248,959 |
| | *Investments* | | |
| | Carter Hawley Hale Stores, Inc. | 295,375 | 295,375 |
| | R.J. Reynolds Industries, Inc. | 154,578 | 154,690 |
| | Other | 14,639 | 11,862 |
| | Total investments | 464,592 | 461,927 |
| | Other assets | 30,848 | 30,208 |
| | Beverage franchises, licenses and goodwill | 51,887 | 53,057 |
| | | $945,213 | $991,448 |

See notes to consolidated financial statements.

## Liabilities and Shareholders' Equity

| October 31 | 1985 | 1984 |
|---|---|---|
| *Current liabilities* | | |
| Long-term liabilities – due within one year | $ 11,296 | $ 9,709 |
| Note payable to shareholder | 43,214 | – |
| Accounts payable and other current liabilities | 113,854 | 105,588 |
| Taxes payable | 26,147 | 48,836 |
| Total current liabilities | 194,511 | 164,133 |
| *Long-term liabilities* | | |
| Senior debt | 54,606 | 263,542 |
| Subordinated debt | 233,922 | 134,590 |
| Other | 5,660 | 9,733 |
| Total long-term liabilities | 294,188 | 407,865 |
| Unearned exchange income | 40,270 | 42,088 |
| Deferred income taxes | 29,991 | 21,440 |
| Commitments and contingencies | – | – |
| *Shareholders' equity* | | |
| Preferred Stock – $1.00 par value | | |
| Authorized – 40,000,000 shares | | |
| Issued – 3,154,107 and 13,123,902 shares of | | |
| Series A Cumulative Convertible | 3,154 | 13,124 |
| Common stocks: | | |
| Class B Stock – $1.00 par value | | |
| Authorized – 40,000,000 shares | | |
| Issued – 11,116,619 shares | 11,117 | – |
| Common Stock – $1.00 par value | | |
| Authorized – 80,000,000 shares | | |
| Issued – 22,090,439 and 24,502,680 shares | 22,090 | 24,503 |
| Retained earnings | 349,892 | 318,295 |
| Total shareholders' equity | 386,253 | 355,922 |
| | $945,213 | $991,448 |

See notes to consolidated financial statements.

**General Cinema Corporation and Subsidiaries**
**Consolidated Statements of Earnings**
*(In thousands except for per share data)*

| Years ended October 31 | 1985 | 1984 | 1983 |
|---|---|---|---|
| *Revenues* | | | |
| Beverage operations | $599,291 | $512,736 | $473,140 |
| Theatre operations | 341,383 | 350,659 | 353,099 |
| Other | 26,138 | 52,935 | 55,723 |
| | 966,812 | 916,330 | 881,962 |
| *Operating costs and expenses* | | | |
| Costs applicable to revenues: | | | |
| Beverage operations | 352,083 | 299,951 | 273,147 |
| Theatre operations | 282,624 | 284,862 | 301,367 |
| Other | 14,626 | 45,697 | 41,379 |
| | 649,333 | 630,510 | 615,893 |
| Selling, delivery and general and administrative expenses | 200,683 | 177,022 | 161,542 |
| | 850,016 | 807,532 | 777,435 |
| Operating earnings | 116,796 | 108,798 | 104,527 |
| *Corporate activities – net* | | | |
| Interest – net of interest income of $8,201 in 1985, $9,608 in 1984 and $2,755 in 1983 | 34,941 | 30,031 | 20,746 |
| Administrative and other | 8,683 | 9,991 | 9,582 |
| Dividend income | (51,059) | (39,932) | (19,370) |
| Total corporate activities – net | (7,435) | 90 | 10,958 |
| Earnings from continuing operations before income taxes and nonoperating income net of (deductions) | 124,231 | 108,708 | 93,569 |
| Gain on sale of broadcast properties | – | 2,511 | 62,737 |
| Nonoperating income net of (deductions) | – | (951) | – |
| Earnings from continuing operations before income taxes | 124,231 | 110,268 | 156,306 |
| Income taxes | 36,000 | 36,585 | 58,073 |
| Earnings from continuing operations | 88,231 | 73,683 | 98,233 |
| *Discontinued operations* | | | |
| Income from discontinued operations net of taxes of $260 in 1984 and $243 in 1983 | – | 305 | 286 |
| Gain on disposal of Sunkist Soft Drinks, Inc. – net of income taxes of $16,000 | – | 36,971 | – |
| Net earnings | $ 88,231 | $110,959 | $ 98,519 |
| *Net earnings per common and common equivalent share* | | | |
| From continuing operations | $2.33 | $1.95 | $2.61 |
| From discontinued operations | – | .99 | .01 |
| Net earnings | $2.33 | $2.94 | $2.62 |

See notes to consolidated financial statements.

**General Cinema Corporation and Subsidiaries**
**Consolidated Statements of Changes in Financial Position**
*(Source (use) of cash in thousands)*

| Years ended October 31 | 1985 | 1984 | 1983 |
|---|---|---|---|
| *Cash provided by operations* | | | |
| Net earnings | $ 88,231 | $110,959 | $ 98,519 |
| Depreciation and amortization | 39,098 | 36,592 | 37,571 |
| Less: Gain on sale of Sunkist Soft Drinks, Inc. | – | (36,971) | – |
| Gain on sale of broadcasting properties | – | (2,511) | (41,402) |
| Gain on sale of investment securities | – | (1,992) | – |
| Other items | 8,480 | 5,738 | 2,479 |
| | 135,809 | 111,815 | 97,167 |
| *Changes in components of operating working capital* | | | |
| Accounts receivable | (1,150) | (1,917) | (747) |
| Sundry deposits and receivables | (5,023) | 873 | 7,918 |
| Inventories | 3,275 | 1,172 | 9,393 |
| Other current assets | (810) | 3,255 | (12,181) |
| Accounts payable | 8,266 | (11,861) | 15,176 |
| Taxes payable | (22,689) | 469 | 40,201 |
| | (18,131) | (8,009) | 59,760 |
| Total from operations | 117,678 | 103,806 | 156,927 |
| Cash dividends paid | (15,843) | (13,596) | (11,220) |
| Total before investment and financing transactions | 101,835 | 90,210 | 145,707 |
| *Investment transactions* | | | |
| Additions to property, plant and equipment | (69,000) | (52,181) | (54,661) |
| Net proceeds from disposition of assets | 1,643 | 47,821 | 56,132 |
| Receivable from sale of Sunkist Soft Drinks, Inc. | 57,000 | (57,000) | – |
| Investments | (2,665) | (297,805) | 2,867 |
| Net increase in franchises, licenses and goodwill | – | (14,029) | – |
| Other items | (640) | 3,190 | (9,984) |
| Total from investment transactions | (13,662) | (370,004) | (5,646) |
| Total before financing transactions | 88,173 | (279,794) | 140,061 |
| *Financing transactions* | | | |
| Debt transactions: | | | |
| Issuance of long-term debt | 100,500 | 378,213 | 107,519 |
| Repayment of long-term debt | (215,912) | (93,076) | (227,182) |
| Increase (decrease) in current maturities | 1,587 | (5,123) | (1,841) |
| Note payable to shareholder | 43,214 | – | – |
| Equity transactions: | | | |
| Capital stock issued | 1,157 | 1,957 | 2,708 |
| Capital stock repurchased | (43,214) | (2,494) | (68) |
| Total from financing transactions | (112,668) | 279,477 | (118,864) |
| *Cash and short-term investments* | | | |
| Increase (decrease) during the year | (24,495) | (317) | 21,197 |
| Beginning balance | 31,340 | 31,657 | 10,460 |
| Ending balance | $ 6,845 | $ 31,340 | $ 31,657 |

See notes to consolidated financial statements.

**General Cinema Corporation and Subsidiaries**
**Consolidated Statements of Shareholders' Equity**
*(Dollar amounts in thousands)*

Years Ended October 31,1985, 1984 and 1983

| | Common Stocks | | Series A Stock | | Paid-In | Retained | Treasury |
|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | Capital | Earnings | Stock |
| *Balance*–October 31, 1982 | 23,323,684 | $23,324 | 15,842,593 | $15,843 | $ – | $204,442 | $74,451 |
| Net earnings | | | | | | 98,519 | |
| Cash dividends paid | | | | | | | |
| –$.275 per Common share | | | | | | (5,965) | |
| –$.335 per Series A share | | | | | | (5,255) | |
| Conversion of Series A Stock | 1,860,063 | 1,860 | | | | | 1,860 |
| Shares issued on exercise of stock options | | | | | | (1,356) | (3,086) |
| Shares contributed to employee stock plan | | | | | | (18) | (996) |
| Shares reacquired | | | | | | | 68 |
| *Balance*–October 31, 1983 | 25,183,747 | 25,184 | 15,842,593 | 15,843 | – | 290,367 | 72,297 |
| Net earnings | | | | | | 110,959 | |
| Cash dividends paid | | | | | | | |
| –$.34 per Common share | | | | | | (8,162) | |
| –$.40 per Series A share | | | | | | (5,434) | |
| Shares issued on exercise of stock options | 3,650 | 4 | 31,691 | 31 | | (1,147) | (2,773) |
| Shares contributed to employee stock plan | | | | | | | (295) |
| Shares reacquired & retired | (684,717) | (685) | (2,750,382) | (2,750) | | (68,288) | (69,229) |
| *Balance*–October 31, 1984 | 24,502,680 | 24,503 | 13,123,902 | 13,124 | – | 318,295 | – |
| Net earnings | | | | | | 88,231 | |
| Cash dividends paid | | | | | | | |
| –$.425 per Common share | | | | | | (9,955) | |
| –$.293 per Class B share | | | | | | (3,252) | |
| –$.485 per Series A share | | | | | | (2,636) | |
| Conversion of Series A Stock | 10,048,807 | 10,049 | (10,048,807) | (10,049) | | | |
| Shares issued on exercise of stock options | 104,317 | 104 | 81,032 | 81 | 634 | | |
| Shares contributed to employee stock plan | 12,568 | 12 | | | 326 | | |
| Shares reacquired & retired | (1,461,314) | (1,461) | (2,020) | (2) | (960) | (40,791) | |
| *Balance*–October 31, 1985 | 33,207,058 | $33,207 | 3,154,107 | $ 3,154 | $ – | $349,892 | $ – |

See notes to consolidated financial statements.

## Note 1. Summary of Significant Accounting Policies

*Principles of consolidation*

All majority-owned subsidiaries are included in the consolidated financial statements. Investments are carried at cost except for investments in theatre and beverage related companies in which the Company owns less than a majority interest, which are accounted for by the equity method. All intercompany accounts and transactions have been eliminated.

*Inventory*

Inventory is stated at the lower of cost (first-in, first-out method) or market. Market represents the lower of replacement cost or net realizable value.

*Beverage franchises, licenses and goodwill*

Franchises, licenses and goodwill acquired prior to fiscal 1971 are not amortized because management considers their value to be of a permanent nature. Intangibles resulting from acquisitions subsequent to fiscal 1970 in the amount of $23,463,893 are amortized on the straight-line basis over 40 years. The amortization amounted to $662,000 in 1985, $270,000 in 1984 and $372,000 in 1983.

*Unearned exchange income*

Unearned exchange income represents the value of the exchange rights associated with the 10% exchangeable subordinated debentures due 2008 and 2009. The value was determined using the difference between the interest rates at which the debentures were issued and the estimated rates at which the debentures would have been issued absent the exchange feature. This amount is being amortized over the terms of the debentures.

*Income taxes*

The Company and its subsidiaries file a consolidated Federal income tax return and, where practical, consolidated state tax returns. Investment credits are accounted for on the flow-through method whereby the benefit is reflected currently.

*Deferred income taxes*

Deferred income taxes represent the effect of timing differences between financial and tax reporting. The principal differences relate to depreciation and the accounting for the funding of certain employee benefits.

*Depreciation and amortization*

Depreciation and amortization are provided on the straight-line method over the estimated useful lives of the related assets.

## Note 2. Description of Operations

*Beverage Division*

The Company manufactures and distributes soft drinks, principally Pepsi-Cola, Dr Pepper, 7-UP and Sunkist products. The beverage business is conducted primarily under franchise agreements. Production and distribution facilities are located in nine states.

*Theatre Division*

The Company operates motion picture theatres in 37 states and the District of Columbia. The theatre units are predominantly multi-screen complexes located in regional shopping centers.

*Other*

Other operations include broadcasting, furniture retailing and leasing of real estate. The furniture retail stores were sold in 1985.

*Additional financial information*

| *(In thousands)* | 1985 | 1984 | 1983 |
|---|---|---|---|
| *Revenues* | | | |
| Beverage | $599,291 | $512,736 | $473,140 |
| Theatre | 341,383 | 350,659 | 353,099 |
| Other | 26,138 | 52,935 | 55,723 |
| Total revenues | $966,812 | $916,330 | $881,962 |
| *Operating earnings* | | | |
| Beverage | $ 83,599 | $ 66,673 | $ 63,121 |
| Theatre | 29,094 | 37,610 | 35,505 |
| Other | 4,103 | 4,515 | 5,901 |
| Total operating earnings | $116,796 | $108,798 | $104,527 |
| *Identifiable assets* | | | |
| Beverage | $299,307 | $274,837 | $245,153 |
| Theatre | 140,772 | 119,450 | 121,688 |
| Other | 28,964 | 37,115 | 46,917 |
| Discontinued operations | – | – | 9,437 |
| Corporate | 476,170 | 560,046 | 195,962 |
| Total identifiable assets | $945,213 | $991,448 | $619,157 |
| *Capital expenditures* | | | |
| Beverage | $ 43,924 | $ 32,658 | $ 32,515 |
| Theatre | 23,297 | 16,509 | 16,991 |
| Other | 1,779 | 3,014 | 4,486 |
| Total capital expenditures | $ 69,000 | $ 52,181 | $ 53,992 |
| *Depreciation and amortization* | | | |
| Beverage | $ 27,059 | $ 25,300 | $ 26,534 |
| Theatre | 11,017 | 10,131 | 9,440 |
| Other | 1,022 | 1,161 | 1,597 |
| Total depreciation and amortization | $ 39,098 | $ 36,592 | $ 37,571 |

## Note 3. Inventory

| *(In thousands)* | 1985 | 1984 |
|---|---|---|
| Finished products | $13,446 | $12,208 |
| Raw materials and supplies | 13,370 | 12,867 |
| Products held for resale | 2,053 | 7,069 |
| | $28,869 | $32,144 |

## Note 4. Investments

*Carter Hawley Hale Stores, Inc.*

In April 1984 the Company purchased 1,000,000 shares of Cumulative Convertible Preferred Stock, $300 stated value per share, of Carter Hawley Hale Stores, Inc. (CHH) for an aggregate consideration of $300,000,000 in cash. The CHH preferred stock has an annual dividend rate of 10% and, at October 31, 1985, was convertible into 12,227,407 common shares of CHH at a conversion price of $24.535 subject to antidilution protection. The preferred shares are not redeemable by CHH until 1989 and may be sold by the Company after July 1, 1986, subject to certain restrictions which are applicable until February 1, 1991. The closing market price of CHH common stock at October 31, 1985 was $28.75 per share.

As further consideration for the $300,000,000 payment, CHH granted the Company an option, exercisable on or before October 31, 1984, to purchase Walden Book Company, Inc. In July 1984 the Company agreed to terminate its option for consideration of $5,000,000. This amount was accounted for as a reduction in the cost of the Company's investment in CHH.

*R.J. Reynolds Industries, Inc.*

During fiscal 1982 the Company invested $159,982,000 to acquire 4,092,900 shares of the common stock of Heublein, Inc. In October 1982 Heublein was acquired and merged into a wholly-owned subsidiary of R.J. Reynolds Industries, Inc. As a result of the merger, the Company's Heublein shares were converted into 6,589,568 shares of Reynolds common stock (adjusted for a 5-for-2 stock split in 1985) and 1,023,225 shares of Reynolds Series B (11.5%) cumulative preferred stock. The Company has issued $178,167,000 of 10% subordinated debentures due 2008 and 2009, exchangeable for all of its shares of Reynolds common stock which have been deposited into escrow. During 1985, $215,000 principal amount of subordinated debentures were exchanged for 8,550 shares of Reynolds common stock. The market value of 6,581,017 and 6,589,568 common shares at October 31, 1985 and 1984 was approximately $170,283,000 and $180,884,000, respectively. The shares of Reynolds Series B preferred stock, the market value of which was approximately $113,962,000 and $107,700,000 at October 31, 1985 and 1984, respectively, are redeemable at $100 per share commencing in 1989.

## Note 5. Note Payable to Shareholder

On September 12, 1985 the Company purchased 1,440,464 shares of its Common Stock for $30.00 per share from Sidney Stoneman, a director. In full payment of the purchase price, the Company issued an 8.5% promissory note due January 2, 1986, in the principal amount of $43,213,920.

## Note 6. Long-term Liabilities (Excluding Current Maturities)

| *(In thousands)* | Interest rate | Maturity | 1985 Amount | 1984 Amount |
|---|---|---|---|---|
| Unsecured: | | | | |
| Revolving line of credit (a) | various | 1990-1993 | $ 11,000 | $213,000 |
| Subordinated exchangeable debentures (b) | 10% | 2008-2009 | 134,401 | 134,564 |
| Subordinated notes (c) | 10.75% | 1995 | 99,521 | – |
| Other notes | various | 1987-1995 | 16,108 | 17,350 |
| Collateralized (d) | 7.75-12% | 1987-2002 | 2,572 | 2,510 |
| Capitalized lease obligations (e) | 6.25-12.8% | 1987-2012 | 24,926 | 30,708 |
| Other liabilities | | 1987-1994 | 5,660 | 9,733 |
| | | | $294,188 | $407,865 |

(a) The Company's 1981 revolving credit agreement, as amended on October 31, 1985, provides for a maximum credit of $350,000,000, with semiannual reductions of $43,750,000 each, commencing on November 1, 1989. The rate of interest payable under the credit agreement is, at the Company's option, the prime rate, a function of the London Inter-Bank Offering Rate or a function of the domestic certificate of deposit rate. The credit agreement does not require the Company to maintain compensating cash balances. The Company pays a commitment fee at an annual rate of 1/4% of the unused credit line. During 1985 and 1984 the largest amount borrowed under the revolving credit agreement was $213,000,000 and $288,000,000, respectively. The weighted average annual rate of interest was 8.8% at October 31, 1985.

(b) In April 1983 the Company issued $100,000,000 of 10% subordinated debentures due 2008, exchangeable into 3,984,000 shares of R.J. Reynolds Industries, Inc. common stock (adjusted for a 5-for-2 stock split in 1985) with no sinking fund requirements. The debentures are exchangeable at the rate of 39.840 shares (subject to adjustment in certain events) plus $45.94 (attributable to the after-tax proceeds from the sale of the Sea-Land Corporation common stock distributed by Reynolds) per $1,000 principal amount. The Company may call the debentures at any time after March 14, 1986, at redemption prices which reduce from 107% in 1986 to par in 1993. During 1985, $213,000 principal amount of debentures were exchanged for 8,484 shares of Reynolds common stock and $9,785 in cash.

In January 1984 the Company issued $78,167,000 of 10% subordinated debentures due 2009, exchangeable into 2,605,568 shares of Reynolds common stock (adjusted for a 5-for-2 stock split in 1985) with no sinking fund requirements. The debentures are exchangeable at the rate of 33.333 shares (subject to adjustment in certain events) plus 2.667 shares of Sea-Land common stock (included in Other Investments) per $1,000 principal amount. The Company may call the debentures at any time, at redemption prices which reduce from 109% in 1985 to par in 1994. During 1985, $2,000 principal amount of debentures were exchanged for 66 shares of Reynolds common stock and 5 shares of Sea-Land common stock.

Both debenture issues are reflected as long-term debt net of an aggregate debt discount of $43,551,000 and $43,911,000 at October 31, 1985 and 1984, respectively, attributable to the exchange features.

(c) On June 11, 1985 the Company issued $100,000,000 of 10.75% subordinated notes priced at 99.5%, due 1995, with no sinking fund requirements. The notes may be redeemed at any time on or after June 1, 1992 at par value. The subordinated notes are reflected as long-term debt net of discount of $479,000 at October 31, 1985.

(d) Real estate and equipment, carried at $5,365,000 in 1985 and $5,761,000 in 1984, have been pledged as collateral for indebtedness.

(e) Capitalized lease obligations relate to beverage plants and facilities, vending machines, vehicles, and theatres. Amounts representing interest and executory costs aggregate $15,638,000 at October 31, 1985. The present value of the future minimum lease payments is $24,926,000.

The aggregate maturities of all long-term liabilities and capitalized lease obligations are as follows: 1986–$11,296,000; 1987–$12,008,000; 1988–$8,535,000; 1989–$7,208,000; 1990–$4,293,000; and thereafter–$262,144,000.

Certain loan agreements contain, among other restrictions, provisions limiting the issuance of additional debt and guarantees, the execution of additional leases, the redemption of the Company's capital stock and the payment of dividends. At October 31, 1985, $270,000,000 of consolidated retained earnings were available for the payment of dividends.

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**Note 7. Shareholders' Equity**

*Series A Cumulative Convertible Stock*

Each share of Series A Stock is entitled to dividends at the quarterly rate of $.015 plus an amount equal to the quarterly dividend paid on each share of Common Stock. Each Series A share is entitled to a liquidation preference of $10 plus any accrued but unpaid dividends; liquidation proceeds remaining after the satisfaction of such preference and the payment of $10 per common share would be distributed ratably to the common and Series A shareholders. Each Series A share is convertible into one Common share, subject to certain limitations. At October 31, 1985, 3,307,605 Common shares were reserved for the conversion of Series A shares outstanding and issuable upon exercise of stock options.

*Class B Stock*

On December 18, 1984 the shareholders approved a proposal to authorize 40,000,000 shares of new Class B Stock. On December 31, 1984 an exchange offer commenced offering a one-time-only opportunity for all shareholders to exchange their shares of Common Stock for Class B Stock on a share-for-share basis prior to February 2, 1985.

The holders of Common Stock are entitled to cash dividends 11.11% higher per share than the cash dividends paid per share of Class B Stock. The Class B Stock is not transferable except to family members and related entities, but is convertible at any time on a share-for-share basis into Common Stock. The Class B Stock and the Common Stock are each entitled to vote separately as a class on charter amendments, mergers, consolidations and certain extraordinary transactions which are required to be approved by shareholders under Delaware law. Under certain circumstances, the holders of Class B Stock have the right to 10 votes per share for the election of directors.

*Common Stock options*

Eligible employees have been granted 10-year options under the 1976 and 1981 Stock Option Plans. No further grants may be made under the 1976 Plan. Options outstanding at October 31, 1985 were granted at prices (not less than 100% of the fair market value on the date of grant) varying from $5.91 to $29.38 per share and expire between 1986 and 1995. As a result of the Series A Stock dividend paid on October 29, 1982, optionees exercising Common Stock options outstanding on October 5, 1982 will also receive an equivalent number of shares of Series A Stock. There were 158 employees with options outstanding at October 31, 1985. The weighted average exercise price for all outstanding shares at October 31, 1985 was $19.89.

| | Common shares | |
|---|---|---|
| | 1985 | 1984 |
| Options outstanding–beginning of year | 527,580 | 521,658 |
| Add: Granted | 134,300 | 169,300 |
| | 661,880 | 690,958 |
| Less: Exercised | 104,117 | 142,078 |
| Cancelled | 56,730 | 21,300 |
| | 160,847 | 163,378 |
| Options outstanding–end of year | 501,033 | 527,580 |
| Exercisable options–end of year | 185,817 | 179,032 |

At October 31, 1985 the aggregate number of authorized shares for which future options may be granted under the 1981 Stock Option Plan was 630,880 Common shares.

There were 1,131,913 Common shares and 153,498 Series A shares reserved at October 31, 1985 for issuance upon the exercise of stock options.

*Earnings per common and common equivalent share*

Earnings per share are based upon 37,808,000 shares in 1985, 37,701,000 shares in 1984 and 37,616,000 shares in 1983, the weighted average number of common and common equivalent shares outstanding during each year.

Earnings per common and common equivalent share assuming full dilution have not been presented because the dilutive effect is not material.

**Note 8. Income Taxes**

A reconciliation of the Company's statutory and effective Federal income tax expense and rates is as follows:

| | 1985 | | 1984 | | 1983 | |
|---|---|---|---|---|---|---|
| *(Dollar amounts in thousands)* | Amount | % | Amount | % | Amount | % |
| Statutory tax expense | $57,146 | 46 | $50,723 | 46 | $71,901 | 46 |
| State income taxes–net of Federal tax effect | 2,322 | 2 | 3,456 | 3 | 3,942 | 3 |
| Investment tax credit | (3,673) | (3) | (2,566) | (2) | (1,182) | (1) |
| Dividends received exclusion | (19,963) | (16) | (15,607) | (14) | (7,574) | (5) |
| Capital gains | (225) | – | (658) | (1) | (9,157) | (6) |
| Other | 393 | – | 1,237 | 1 | 143 | – |
| Income taxes | $36,000 | 29 | $36,585 | 33 | $58,073 | 37 |

State income taxes were $4,300,000 in 1985, $6,400,000 in 1984, and $7,300,000 in 1983.

The tax effects of deferred items are as follows:

| *(In thousands)* | 1985 | 1984 | 1983 |
|---|---|---|---|
| Depreciation expense | $8,200 | $6,000 | $4,900 |
| Prefunding of benefits | 600 | (700) | 6,000 |
| Other | 900 | 800 | (1,500) |
| Deferred tax expense | $9,700 | $6,100 | $9,400 |

**Note 9. Nonoperating Income Net of (Deductions)**

*Sale of broadcast properties*

In 1984 the Company sold its 80% equity interest in radio stations WHUE-AM and FM for 60,000 shares of the Company's Series A Stock (prior to a 2-for-1 stock split, effective October 31, 1984) valued at $2,333,000. The transaction resulted in a nontaxable gain of $2,511,000.

In 1983 the Company sold the assets of WCIX-TV for $65,000,000 in cash, $5,000,000 in notes and the assets of WGRZ-TV, resulting in an after-tax gain of $40,100,000. Also in 1983, the Company sold radio station WIFI for $6,000,000 in cash and deferred payments for an after-tax gain of $1,300,000.

*Other nonoperating income, net of (deductions)*
Other nonoperating income net of (deductions) in 1984 represents the after-tax gain of $1,992,000 from the sale of certain shares of Sea-Land Corporation stock received from R.J. Reynolds Industries, Inc. as a nontaxable dividend and a pretax deduction of $2,943,000 for the recognition of guarantees on certain operating leases.

## Note 10. Discontinued Operations

In October 1984 the Company reached an agreement to sell all of the outstanding stock of Sunkist Soft Drinks, Inc. for $57,000,000. This amount was received on November 20, 1984, the date of the closing. Operating results of Sunkist Soft Drinks for 1984 and prior years have been accounted for as discontinued operations so as to show separately the results of continuing operations.

## Note 11. Commitments and Contingencies

*Leases*
The Company's long-term operating leases generally provide that the Company will pay real estate taxes and other expenses and, in certain cases, additional rentals based on revenue. Rent expense consists of:

| *(In thousands)* | 1985 | 1984 | 1983 |
|---|---|---|---|
| Basic rent | $27,227 | $25,984 | $25,880 |
| Real estate taxes | 4,612 | 3,427 | 3,189 |
| Additional rent | 7,528 | 7,870 | 8,455 |
| | $39,367 | $37,281 | $37,524 |

These leases are primarily real estate leases and provide for minimum annual rentals. Unless the Company exercises its renewal options, the future minimum rental payments will be as follows: 1986–$30,730,000; 1987–$30,089,000; 1988–$28,732,000; 1989–$28,075,000; 1990–$27,375,000; and thereafter $257,419,000.

*Pension plans*
The Company has three noncontributory retirement plans for certain employees not covered by other plans. Pension expense was $3,824,000 in 1985, $3,739,000 in 1984 and $4,051,000 in 1983 including amounts for prior service generally amortized over a 30-year period.

In determining the actuarial present value of accumulated plan benefits, current employees' salary levels and past and future service periods are considered. Future salary factors are omitted from the calculations. The assumed rate of return used in the calculations for the various plans was 6.0%.

The current values of net assets available for benefits represent the fair market value of the plans' assets.

| | November 1 | |
|---|---|---|
| *(In thousands)* | 1984 | 1983 |
| Actuarial present value of accumulated plan benefits: | | |
| Vested | $22,977 | $19,799 |
| Nonvested | 3,729 | 3,777 |
| | $26,706 | $23,576 |
| Current values of net assets available for benefits | $38,939 | $33,926 |

## Note 12. Comparative Quarterly Financial Information (Unaudited)

*(In thousands except for per share data)*

| 1985 | First quarter | Second quarter | Third quarter | Fourth quarter | Full year |
|---|---|---|---|---|---|
| Revenues | $214,788 | $219,371 | $284,180 | $248,473 | $966,812 |
| Gross profit | $ 66,618 | $ 74,268 | $ 93,124 | $ 83,469 | $317,479 |
| Net earnings | $ 14,334 | $ 18,669 | $ 31,405 | $ 23,823 | $ 88,231 |
| Net earnings per share: | $ .38 | $ .49 | $ .83 | $ .64 | $2.33 |
| Dividends per share– | | | | | |
| Common Stock | $ .10 | $ .10 | $ .10 | $.125 | $.425 |
| Class B Stock | – | $ .09 | $ .09 | $.1125 | $.2925 |
| Series A Stock | $.115 | $.115 | $.115 | $ .14 | $.485 |

| 1984 | First quarter | Second quarter | Third quarter | Fourth quarter | Full year |
|---|---|---|---|---|---|
| Revenues | $197,188 | $207,680 | $277,993 | $233,469 | $916,330 |
| Gross profit | $ 64,661 | $ 69,238 | $ 92,765 | $ 59,156 | $285,820 |
| Earnings from continuing operations | $ 11,024 | $ 12,741 | $ 28,977(a) | $ 20,941 | $ 73,683 |
| Earnings (loss) from discontinued operations | (1,044) | 1,047 | (553) | 37,826 | 37,276 |
| Net earnings | $ 9,980 | $ 13,788 | $ 28,424 | $ 58,767 | $110,959 |
| Earnings per share: | | | | | |
| Continuing operations | $ .29 | $ .34 | $ .77(a) | $ .55 | $1.95 |
| Discontinued operations | (.03) | .03 | (.02) | 1.00 | .99 |
| Net earnings per share: | $ .26 | $ .37 | $ .75 | $1.55 | $2.94 |
| Dividends per share– | | | | | |
| Common Stock | $ .08 | $ .08 | $ .08 | $ .10 | $ .34 |
| Series A Stock | $.095 | $.095 | $.095 | $.115 | $ .40 |

(a) Net earnings for the third quarter of 1984 include the gain recognized on the sale of radio stations and the gain recognized on the sale of Sea-Land Corporation common shares, partially offset by a provision established to recognize guarantees of certain operating leases. These items increased net earnings by $2,300,000, or $.06 per share.

## Report of Independent Certified Public Accountants

Board of Directors and Shareholders
General Cinema Corporation

We have examined the consolidated balance sheets of General Cinema Corporation and subsidiaries as of October 31, 1985 and 1984, and the related consolidated statements of earnings, shareholders' equity and changes in financial position for each of the three years in the period ended October 31, 1985. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the financial position of General Cinema Corporation and subsidiaries as of October 31, 1985 and 1984, and the results of their operations and the changes in their financial position for each of the three years in the period ended October 31, 1985, in conformity with generally accepted accounting principles applied on a consistent basis.

Boston, Massachusetts
December 20, 1985

TOUCHE ROSS & CO.
Certified Public Accountants

## Statement of Management's Responsibility for Financial Statements

The management of General Cinema is responsible for the integrity and objectivity of the financial and operating information contained in this Annual Report, including the consolidated financial statements covered by the Auditors' Report. These statements were prepared in conformity with generally accepted accounting principles and include amounts that are based on the best estimates and judgments of management.

The Company maintains a system of internal financial controls which provides management with reasonable assurance that transactions are recorded and executed in accordance with its authorizations, that assets are properly safeguarded and accounted for, and that financial records are maintained so as to permit preparation of financial statements in accordance with generally accepted accounting principles. This system includes written policies and procedures, an organizational structure that segregates duties, and a comprehensive program of periodic audits by the internal auditors. The Company also has instituted policies and guidelines which require employees to maintain a high level of ethical standards.

In addition, the Audit Committee of the Board of Directors, consisting solely of outside directors, meets periodically with management, the internal auditors and the certified public accountants to review internal accounting controls, audit results and accounting principles and practices, and annually recommends to the Board of Directors the selection of independent certified public accountants.

## Supplemental Information on the Effects of Inflation and Changing Costs (Unaudited)

The following supplementary information is presented as an alternative to historical cost accounting information in accordance with the provisions of the Financial Accounting Standards Board Statement on Financial Reporting and Changing Prices. This statement was issued in response to the belief that financial statements prepared in accordance with generally accepted accounting principles based on historical cost measurement fail to reflect the effects of inflation which could result in an overstatement of profits.

The historical statements have been restated to measure the effects of changes in specific prices of resources (fixed assets) used by an enterprise valued at current cost.

The differences between net income, as reported, and net income for current cost represents the increase in depreciation and amortization expense attributable to restating assets to a current cost basis. The current cost of the Company's inventories approximates its historical cost because of the rapidity of turnover. The current cost of the Company's plant and equipment has been determined by use of estimates and externally generated indices applicable to the types of assets which the Company utilizes. The amounts of plant and equipment and related accumulated depreciation and amortization to which the specific indices were applied were based upon the same accounting methods and principles used in conventional financial statements.

The approximate current value of plant and equipment net of accumulated depreciation and amortization on October 31, 1985 was $450,000,000, whereas the conventional financial statements reflect net plant and equipment of $278,000,000.

Five-year comparison of selected financial information adjusted for general inflation and specific costs (unaudited)

*(Dollar amounts in thousands except for per share data)*

| Years ended October 31 | 1985 | 1984 | 1983 | 1982 | 1981 |
|---|---|---|---|---|---|
| Average consumer price index | 321.9 | 310.7 | 298.2 | 288.6 | 269.7 |
| Revenues: | | | | | |
| As reported | $966,812 | $916,330 | $881,962 | $845,899 | $793,314 |
| Earnings from continuing operations: | | | | | |
| As reported | $ 88,231 | $ 73,683 | $ 98,233 | $ 48,197 | $ 46,829 |
| Current cost | 61,205 | 46,931 | 72,536 | 15,987 | 20,113 |
| Earnings from continuing operations per common share: | | | | | |
| As reported | $ 2.33 | $ 1.95 | $ 2.61 | $ 1.19 | $ 1.06 |
| Current cost | 1.62 | 1.24 | 1.92 | .39 | .46 |
| Cash dividends per Common share (a): | | | | | |
| As paid | $ 0.425 | $ 0.34 | $ 0.275 | $ 0.215 | $ 0.21 |
| Market price per share at year end (a): | | | | | |
| As quoted | $ 35.50 | $ 27.50 | $ 22.50 | $ 13.44 | $ 9.44 |
| Purchasing power gain on net monetary liabilities owed during the year | $ 5,230 | $ 8,848 | $ 13,825 | $ 17,894 | $ 17,711 |
| Net assets at October 31: | | | | | |
| As reported | $386,253 | $355,922 | $259,096 | $169,157 | $203,815 |
| Current cost | 558,147 | 531,366 | 462,740 | 388,537 | 424,925 |
| Increase (decrease) in specific prices of inventory and property, plant and equipment, net of general inflation | $ 35,333 | $ (6,415) | $ 2,522 | $ 16,119 | $ (1,409) |

(a) Cash dividends paid per Common share and market price per Common share prior to 1983 have been adjusted retroactively to reflect the Series A Stock dividend paid on October 29, 1982 as though it were a stock split.

*Liquidity and Capital*

The information included in the Eleven-Year Summary on pages 24 and 25 of this report shows the Company's revenue and earnings growth and continuing improved financial position over the last decade.

General Cinema's businesses have not required substantial working capital to finance their internal growth. Movie exhibition is a cash business with no accounts receivable and modest refreshment inventories. The Beverage Division sells its products primarily for cash, or on 30-day terms with major chain stores, and its inventories turn over rapidly. As a result, General Cinema has operated from time to time with substantial negative working capital.

Because General Cinema's operating businesses have required little working capital, cash generated from operations ($135.8 million in 1985 and $111.8 million in 1984) has been available in large part for debt repayment as well as for various other corporate purposes. In addition, the sale of Sunkist Soft Drinks, Inc. and an AM/FM radio station in 1984 contributed significantly to General Cinema's cash flow and net earnings.

During the year the Company issued $100 million of 10.75% subordinated notes due 1995, the proceeds of which were used to retire variable rate bank indebtedness. As a result of this financing, most of the Company's long-term indebtedness is at fixed rates and is subordinated.

Long-term debt at October 31, 1985 totalled $294.2 million, consisting primarily of $134.4 million of 10% (minimum interest rate) 25-year subordinated debentures exchangeable for common stock of R.J. Reynolds Industries, Inc.; $99.5 million of 10.75% 10-year subordinated notes; $24.9 million of capitalized leases; and $11.0 million borrowed under the Company's revolving credit agreement. Cash generated from operations and the proceeds from the sale of Sunkist Soft Drinks were applied to reduce long-term indebtedness by $113.7 million during 1985.

Management anticipates that in fiscal 1986 the operating businesses will generate cash flow in excess of the amount required to be reinvested by them in the form of capital expenditures and incremental working capital necessary to sustain their growth.

Capital expenditures for fiscal 1986 are planned to be about the same as the $69.0 million spent in fiscal 1985, and will be used primarily for expanding and replacing beverage equipment and facilities as well as for expansion and remodeling of the theatre circuit.

*1985 vs. 1984*

Consolidated revenues increased $50.5 million (6%) during 1985. The increase resulted primarily from a 14% increase in case sales in the Beverage Division partially offset by decreased revenues (3%) in the Theatre Division due to lower patronage levels. Revenues from Other operations declined by $26.8 million primarily because of the Company's withdrawal from the retail furniture business in March 1985.

During the year, consolidated operating earnings increased $8.0 million (7%). Beverage Division operating earnings increased $16.9 million (25%) primarily as the result of increased unit volume and the acquisition of the Ft. Myers, Florida franchise. Theatre Division earnings declined $8.5 million (23%) primarily because of lower attendance.

Interest expense-net totalling $34.9 million increased $4.9 million primarily because of higher average borrowings related to the Company's investment in Carter Hawley Hale Stores, Inc. in April 1984. Administrative and other expenses declined by $1.3 million from 1984, in which year the Company incurred unusually high professional charges. The $11.1 million increase in dividend income was primarily attributable to a full year of dividends from General Cinema's investment in Carter Hawley Hale.

The 1985 effective income tax rate of 29.0% reflected primarily the impact of increased dividend income, taxed at a lower effective rate, as compared with 1984. A more specific analysis is detailed in Note 8 to the financial statements.

*1984 vs. 1983*

Consolidated revenues increased $34.4 million (4%) during 1984. The increase resulted primarily from a 10% increase in case sales in the Beverage Division partially offset by decreased revenues (1%) in the Theatre Division due to lower patronage levels. Revenues from Other operations decreased 5%, primarily reflecting the exchange of a Miami television station for the Buffalo television station in May 1983.

During the year, consolidated operating earnings from continuing operations increased $4.3 million (4%). Beverage Division operating earnings increased $3.6 million (6%) primarily as a result of increased unit volume, and Theatre Division operating earnings increased $2.1 million (6%) primarily because of lower operating costs. Operating earnings from Other operations declined primarily because of the exchange of television stations discussed above.

Interest expense-net, totalling $30.0 million, increased $9.3 million, primarily because of higher average borrowings which related to the investment in Carter Hawley Hale as well as the sale of $78.2 million in exchangeable subordinated debentures due 2009, partially offset by increased interest earned on higher average cash balances. The $20.6 million increase in dividend income was primarily attributable to General Cinema's investment in Carter Hawley Hale.

After-tax gains recorded on the sales of broadcasting properties, as well as other nonoperating income, are discussed in Note 9 to the financial statements.

Discontinued operations resulted from the sale of Sunkist Soft Drinks and are discussed in Note 10 to the financial statements.

The 1984 effective income tax rate of 33.2% reflected primarily the impact of increased dividend income, taxed at a lower effective rate, as compared with 1983. A more specific analysis is detailed in Note 8 to the financial statements.

## Operating Officers

*General Cinema Beverages, Inc.*
Bert J. Einloth III
President

John W. Bliss
Group Vice President

Edward E. Jenkins
Group Vice President

Lester Jones
Group Vice President

John P. Koss
Vice President – Operations

Douglas M. Robertson
Vice President – Marketing

Lamar H. Russell
Group Vice President

Gary Schirripa
Group Vice President

Norman R. Wirtz
Vice President – Finance

*General Cinema Theatres, Inc.*
Paul R. Del Rossi
President

Phil D. Batton
Vice President – Engineering

Victor E. Gattuso
Vice President – Marketing

Philip V. Holberton
Vice President – Finance

David N. Leavitt
Vice President – Controller

John E. Leonard
Vice President – Concessions

Robert E. Painter
Vice President – Operations

Jay M. Shapiro
Vice President – Real Estate

James C. Tharp
Vice President – Head Film Buyer

*WGRZ-TV, Inc.*
Lyn P. Stoyer
Senior Vice President & General Manager

### Directors

Richard A. Smith (1)
Chairman of the Board

J. Atwood Ives (1)
Vice Chairman of the Board

S. Sidney Stoneman (1)(3)(4)
Chairman of the Executive Committee

William L. Brown (2)(3)
Chairman, Bank of Boston Corporation

Abram T. Collier (2)(4)
Retired Chairman of the Board of New England Mutual Life Insurance Company

Nelson J. Darling, Jr. (3)(4)
Director of several industrial corporations

Daniel E. Hogan (3)
Chairman of the Board, Standex International Corporation

Herbert J. Hurwitz
Consultant to Company and former officer

Herbert W. Jarvis (2)
President, Sybron Corporation

Robert J. Tarr, Jr.
President

Hugo Uyterhoeven (2)(4)
Timken Professor of Business Administration, Harvard Business School

Melvin R. Wintman
Consultant to Company and former officer

Emmanuel Kurland*
Of Counsel, Singer, Stoneman, Kunian & Kurland, P.C., Attorneys

*Director Emeritus

(1) Executive Committee
(2) Audit Committee
(3) Compensation Committee
(4) Nominating Committee

### Corporate Officers

Richard A. Smith (1)
Chairman of the Board
Chief Executive Officer

J. Atwood Ives (1)
Vice Chairman of the Board
Chief Financial Officer

Robert J. Tarr, Jr. (1)
President
Chief Operating Officer

Samuel Frankenheim (1)
Senior Vice President
Chief Legal Officer

Thomas C. Colbert
Vice President – Human Resources

Paul R. Del Rossi
Vice President

Bert J. Einloth III
Vice President

James C. Moodey
Vice President – Treasurer

A. Anthony Trauber
Vice President – Controller

Emmanuel Kurland
Secretary

Eric P. Geller
Associate General Counsel

Mayer Rabinovitz
Associate General Counsel – Real Estate
Assistant Secretary

Donald G. Wheeler
Assistant Treasurer

(1) Members of the Office of the Chairman

## Shareholder Information

General inquiries about the Company, its direction and results, along with requests for published financial information, should be made to the Director of Investor Relations, General Cinema Corporation, Box 1000, Chestnut Hill, MA 02167, (617) 232-8200.

For assistance on address changes, consolidation of multiple holdings, dividend payments or related matters, please contact the Transfer Agent.

*Automatic Dividend Reinvestment and Cash Stock Purchase Plan*
The Plan provides Shareholders with a convenient way to purchase Common shares by reinvesting their Common and/or Series A cash dividends and/or by investing additional cash amounts. The Company will absorb all brokerage and agency fees for stock purchased in connection with the Plan. For further information, please write to: General Cinema Corporation, c/o The First National Bank of Boston, Automatic Dividend Reinvestment Plan, Post Office Box 1681, Boston, MA 02105.

*Transfer Agent and Registrar for Common and Series A Stock*
The First National Bank of Boston
Post Office Box 644, Boston, MA 02101

*10-K available*
The Company's Form 10-K as filed with the Securities and Exchange Commission is available upon written request to the Investor Relations Department of the Company.

*Annual Meeting*
Annual Meeting of Stockholders, Friday, March 14, 1986, at 10 a.m., The First National Bank of Boston, 100 Federal Street, Boston, Massachusetts.

*Stock Information*
General Cinema's Common Stock and Series A Cumulative Convertible Stock are traded on the New York Stock Exchange under the ticker symbols GCN and GCNA, respectively. The following table indicates the quarterly price range of the Common Stock and the Series A Stock for the past two years.

| | Common Stock | | | | Series A Stock | | | |
|---|---|---|---|---|---|---|---|---|
| | 1985 | | 1984 | | 1985 | | 1984 | |
| Quarter | High | Low | High | Low | High | Low | High | Low |
| First | $30.88 | $22.63 | $22.88 | $20.63 | $30.25 | $22.00 | $22.25 | $20.00 |
| Second | $34.75 | $29.50 | $21.25 | $16.75 | $33.50 | $29.25 | $21.00 | $16.63 |
| Third | $39.50 | $29.75 | $24.25 | $19.32 | $38.00 | $29.50 | $24.00 | $19.00 |
| Fourth | $37.88 | $30.25 | $27.75 | $22.13 | $36.25 | $30.63 | $27.00 | $21.75 |

General Cinema had 3,421 and 3,105 Common shareholders of record at October 31, 1985 and 1984, respectively, and 1,507 and 2,267 Series A shareholders of record at October 31, 1985 and 1984. The Series A shares are convertible into Common Stock on a share-for-share basis subject to certain limitations.

*Corporate Address*
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Chestnut Hill, MA 02167
(617) 232-8200

General Cinema is an Equal Opportunity Employer.

Graphic Design, Photography – Weymouth Design, Inc. Printing – Acme Printing Company