City Screens fiscal 1998 MD&A and Financial Statements

Management's Discussion and Analysis
(Note: Fiscal 1998 is for the year ending April 1, 1999)

OPERATING RESULTS

Revenues. Total revenues increased 20.4%, or $173,966,000, during the year (52 weeks) ended April 1, 1999 compared to the year (52 weeks) ended April 2, 1998.

Total domestic revenues increased 18.9%, or $150,999,000, from the prior year. Admissions revenues increased 18.4%, or $97,720,000, due to a 14.5% increase in attendance, which contributed $77,182,000 of the increase, and a 3.4% increase in average ticket prices, which contributed $20,538,000 of the increase. Attendance at megaplexes (theatres with predominantly stadium-style seating) increased as a result of the addition of 11 new megaplexes with 256 screens since April 2, 1998, offset by a 3.5% decrease in attendance at comparable megaplexes (theatres opened before fiscal 1997). Attendance at multiplexes (theatres generally without stadium-style seating) decreased due to a 11.7% decrease in attendance at comparable multiplexes and the closure or sale of 15 multiplexes with 83 screens since April 2, 1998. The decline in attendance at comparable multiplexes was related primarily to certain multiplexes experiencing competition from new megaplexes operated by the Company and other competing theatre circuits, a trend the Company generally anticipates will continue. The increase in average ticket prices was due to price increases and the growing number of megaplexes in the Company's theatre circuit, which yield higher average ticket prices than multiplexes. Concessions revenues increased 19.3%, or $48,509,000, due to the increase in total attendance, which contributed $36,511,000 of the increase, and a 4.2% increase in average concessions per patron, which contributed $11,998,000 of the increase. The increase in average concessions per patron was attributable to the increasing number of megaplexes in the Company's theatre circuit, where concession spending per patron is higher than in multiplexes.

Total international revenues increased 52.1%, or $14,576,000, from the prior year. Admissions revenues increased 47.4%, or $10,870,000, due primarily to an increase in attendance from the addition of a 24-screen megaplex in Spain, a 16-screen megaplex in Japan, an 11-screen megaplex in China (Hong Kong) and two new megaplexes with a total of 44 screens in Canada during the fifty-two weeks ended April 1, 1999. Attendance at comparable international megaplexes increased 7.7% for the year ended April 1, 1999 compared to the year ended April 2, 1998. Concession revenues increased 56.5%, or $2,821,000, due primarily to the increase in total attendance. International revenues were negatively impacted by a stronger U.S. dollar, although this did not have a material impact on consolidated net earnings.

Cost of Operations. Total cost of operations increased 25.2%, or $174,271,000, during the year (52 weeks) ended April 1, 1999 compared to the year (52 weeks) ended April 2, 1998.

Total domestic cost of operations increased 23.6%, or $15,763,000, from the prior year. Film exhibition costs increased 18.5%, or $53,137,000, due to higher attendance, which contributed $52,946,000 of the increase, and a slight increase in the percentage of admissions paid to film distributors, which increased film exhibition costs by $191,000. As a percentage of admissions revenues, film exhibition costs were 54.2% in the current and in the prior year. Concession costs increased 15.3%, or $6,153,000, due to the increase in concessions revenues, which contributed $7,751,000 of the increase, offset by a decrease in concession costs as a percentage of concessions revenues, which produced a decrease in concession costs of $1,598,000. As a percentage of concessions revenues, concession costs were 15.4% in the current year compared with 16.0% in the prior year. Rent expense increased 54.9%, or $55,396,000, due to the higher number of screens in operation, the growing number of megaplexes in the Company's theatre circuit, which generally have higher rent per screen than multiplexes, and the sale and lease back during the third and fourth quarters of the prior year of the real estate assets associated with 13 megaplexes, including seven theatres opened during fiscal 1997, to Entertainment Properties Trust ("EPT"), a real estate investment trust (the "Sale and Lease Back Transaction"). Other cost of operations increased 17.2%, or $37,077,000, from the prior year primarily due to the higher number of screens in operation. Other cost of operations includes $2,801,000 of theatre closure expense related to actual and estimated costs to close multiplexes during the current year. As a percentage of revenues, other cost of operations was 26.6% during the current year as compared with 27.0% in the prior year.

Total international cost of operations increased 60.5%, or $15,735,000, from the prior year. Film exhibition costs increased 43.3%, or $5,374,000, due to higher attendance, offset by a decrease in the percentage of admissions paid to film distributors. Rent expense increased 65.8%, or $3,591,000, and other cost of operations increased $6,298,000, from the prior year, primarily due to the increased number of international screens in operation. International cost of operations were positively impacted by a stronger U.S. dollar, although this did not have a material impact on consolidated net earnings.

Depreciation and Amortization. Depreciation and amortization increased 27.2%, or $19,104,000, during the year (52 weeks) ended April 1, 1999. This increase was caused by an increase in employed theatre assets resulting from the Company's expansion plan, which was partially offset by lower depreciation and amortization as a result of the reduced carrying amounts of impaired multiplex assets.

Impairment of Long-lived Assets. During the fourth quarter of the current year, the Company recognized a non-cash impairment loss of $4,935,000 ($2,912,000 after tax, or $.13 per share) on 24 multiplexes with 186 screens in 11 states (primarily Georgia, Ohio, Texas and Colorado) including a loss of $937,000 associated with 7 theatres that were included in impairment losses recognized in previous periods. The estimated future cash flows of these theatres, undiscounted and without interest charges, were less than the carrying value of the theatre assets. The Company is evaluating its future plans for many of its multiplexes, which may include selling theatres, subleasing properties to other exhibitors or for other uses, retrofitting certain theatres to the standards of a megaplex or closing theatres and terminating the leases. Closure or other dispositions of certain multiplexes will result in expenses which are primarily comprised of expected payments to landlords to terminate leases or conversion costs. The Company anticipates that it will incur approximately $15 million of costs related to the closure of approximately 34 multiplexes with 220 screens in fiscal 1999. As of June 3, 1999, the Company had closed 18 of these multiplexes with 123 screens and recognized approximately $9 million of theatre closure expense. During fiscal 1998, the Company closed or sold 16 multiplexes with 87 screens.

During the second quarter of the prior year, the Company recognized a non-cash impairment loss of $46,998,000 ($27,728,000 after tax, or $1.50 per share) on 59 multiplexes with 412 screens in 14 states (primarily California, Texas, Missouri, Arizona and Florida) including a loss of $523,000 associated with 10 theatres that were included in impairment losses recognized in previous periods. The estimated future cash flows of these theatres, undiscounted and without interest charges, were less than the carrying value of the theatre assets.

LIQUIDITY AND CAPITAL RESOURCES

The Company is currently expanding its domestic theatre circuit and entering select international markets. During the current fiscal year, the Company opened 16 megaplexes with 351 screens (including 5 megaplexes with 95 screens in international markets) and acquired four multiplexes with 29 screens in strategic film zones. In addition, the Company sold three multiplexes with 17 screens, closed 12 multiplexes with 66 screens, closed 3 screens at an existing megaplex and discontinued operating one managed theatre with one screen resulting in a circuit total of 60 megaplexes with 1,335 screens and 173 multiplexes with 1,400 screens as of April 1, 1999.

The costs of constructing new theatres are funded by the Company through internally generated cash flow or borrowed funds. The Company generally leases its theatres pursuant to long-term non-cancelable operating leases which require the developer, who owns the property, to reimburse the Company for a portion of the construction costs. However, the Company may decide to own the real estate assets of new theatres and, following construction, sell and leaseback the real estate assets pursuant to long-term non-cancelable operating leases. During fiscal 1998, 14 new theatres with 301 screens were leased from developers. Historically, the Company has owned and paid for the equipment necessary to fixture a theatre. However, the Company entered into a master lease agreement in fiscal 1998 for up to $25,000,000 of equipment necessary to fixture certain theatres. The master lease agreement has an initial term of six years and includes early termination and purchase options. The Company classifies these leases as operating leases. As of April 1, 1999, the Company had construction in progress of $97,688,000 and reimbursable construction advances (amounts due from developers on leased theatres) of $22,317,000. The Company had 14 megaplexes with 316 screens under construction on April 1, 1999 (including 6 megaplexes with 140 screens in international markets).

During the fifty-two weeks ended April 1, 1999, the Company had capital expenditures of $260,813,000. The Company estimates that total capital expenditures for fiscal 1999 will aggregate approximately $290 million. Included in these amounts are real estate assets of approximately $80 million which the Company plans to place into sale and leaseback or other comparable financing programs, which will have the effect of reducing the Company's net cash outlays to approximately $210 million.

On January 27, 1999, the company sold $225 million aggregate principal amount of 9 1/2% Senior Subordinated Notes due 2011 (the "Notes due 2011") in a private offering. As required by the Indenture to the Notes due 2011, the Company consummated a registered offer on May 10, 1999 to exchange the Notes due 2011 for notes of the Company with terms identical in all material respects to the Notes due 2011. Net proceeds from the issuance of the Notes due 2011 (approximately $219.3 million) were used to reduce borrowings under the Credit Facility.

As of April 1, 1999, the Company had outstanding borrowings of $123,000,000 under the Credit Facility at an average interest rate of 8.00% per annum, and approximately $162,000,000 was available for borrowing under the Credit Facility.

Covenants under the Credit Facility impose limitations on indebtedness, creation of liens, change of control, transactions with affiliates, mergers, investments, guaranties, asset sales, dividends, business activities and pledges. In addition, the Credit Facility contains certain financial covenants. Covenants under the Indentures relating to the Company's 9 1/2% Senior Subordinated Notes due 2009 and the Company's Senior Subordinated Notes due 2011 are substantially the same and impose limitations on the incurrence of indebtedness, dividends, purchases or redemptions of stock, transactions with affiliates, and mergers and sale of assets, and require the Company to make an offer to purchase the notes upon the occurrence of a change in control, as defined in the Indentures. As of April 1, 1999, the Company was in compliance with all financial covenants relating to the Credit Facility, the Notes due 2009 and the Notes due 2011.

The Company believes that cash generated from operations, existing cash and equivalents, amounts which may be received from sale and lease back transactions and the available commitment amount under its Credit Facility will be sufficient to fund operations and planned capital expenditures for the next 12 months.

Other Financial and Operating Data

	fiscal 1998	Years Ended			
	April 1, 1999	April 2, 1998	April 3, 1997	March 28, 1996	March 30, 1995
Other Financial Data:					
Capital expenditures	$260,813	$389,217	$253,380	$120,796	$ 56,403
Proceeds from sale/leasebacks	-	283,800	-	-	-
Rent expense	165,370	106,383	80,061	64,813	60,076
Preopening expense (3)	2,265	2,243	2,414	573	-
Theatre closure expense (4)	2,801	-	-	-	-
Adjusted EBITDA (5)	107,597	109,144	115,362	113,128	88,942
Operating Data (at period end):					
Number of megaplexes operated	60	44	19	5	-
Number of megaplex screens operated	1,335	987	379	98	-
Number of multiplexes operated	173	185	209	221	232
Number of multiplex screens operated	1,400	1,455	1,578	1,621	1,630
Screens per theatre circuit wide	11.7	10.7	8.6	7.6	7.0

(3) Preopening expense is comprised of advertising and promotional expense that is incurred in connection with the opening of a new theatre. Certain other preopening costs are capitalized and amortized over a two year period. In fiscal 2000 (as the result of a new accounting pronouncement), all capitalized preopening costs will be written off as a cumulative effect adjustment and all future preopening costs will be expensed as incurred.

(4) Theatre closure expense relates to actual and estimated lease exit costs on multiplex theatres. The Company anticipates that it will incur approximately $15 million of costs related to the closure of approximately 34 multiplexes with 220 screens in fiscal 2000.

(5) Represents net earnings (loss) plus interest, income taxes, depreciation and amortization and adjusted for impairment losses, preopening expense, theatre closure expense, gain (loss) on disposition of assets, equity in earnings of unconsolidated affiliates and extraordinary item.

City Screens fiscal 1998 MD&A and Financial Statements

City Screens, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)

	fiscal 1998 52 Weeks Ended April 1, 1999	52 Weeks Ended April 2, 1998	53 Weeks Ended April 3, 1997
Revenues			
Admissions	$662,161	$553,571	$492,951
Concessions	307,347	256,017	225,167
Other	57,213	43,167	34,786
Total revenues	1,026,721	852,755	752,904
Expenses			
Film exhibition costs	358,437	299,926	258,809
Concession costs	48,687	42,062	36,748
Other	458,647	349,512	287,752
Total cost of operations	865,771	691,500	583,309
General and administrative	58,419	54,354	56,647
Depreciation and amortization	89,221	70,117	52,572
Impairment of long-lived assets	4,935	46,998	7,231
Total expenses	1,018,346	862,969	699,759
Operating income (loss)	8,375	(10,214)	53,145
Other expense (income)			
Interest expense			
Corporate borrowings	30,195	26,353	12,016
Capital lease obligations	8,433	9,326	10,006
Investment income	(1,368)	(1,090)	(856)
Loss (gain) on disposition of assets	(2,369)	(3,704)	84
Earnings (loss) before income taxes	(26,516)	(41,099)	31,895
Income tax provision	(10,500)	(16,600)	12,900
Net earnings (loss)	$(16,016)	$(24,499)	$18,995
Preferred dividends	-	4,846	5,907
Net earnings (loss) for common shares	$(16,016)	$(29,345)	$13,088

City Screens, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)

	fiscal 1998	
	April 1, 1999	April 2, 1998
ASSETS		
Current assets:		
Cash and equivalents	$ 13,239	$ 9,881
Receivables, net of allowance for doubtful accounts of $540 as of April 1, 1999 and $706 as of April 2, 1998	18,325	13,018
Reimbursable construction advances	22,317	58,488
Other current assets	48,707	25,736
Total current assets	102,588	107,123
Property, net	726,025	562,158
Intangible assets, net	18,723	22,066
Other long-term assets	128,394	104,433
Total assets	$975,730	$795,780
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 69,381	$ 72,633
Construction payables	24,354	24,588
Accrued expenses and other liabilities	77,304	72,598
Current maturities of corporate borrowings and capital lease obligations	18,017	4,017
Total current liabilities	189,056	173,836
Corporate borrowings	547,045	348,990
Capital lease obligations	44,558	50,605
Other long-term liabilities	79,606	82,894
Total liabilities	860,265	656,325
Stockholders' equity:		
$1.75 Cumulative Convertible Preferred Stock, 66 2/3 par value; 1,800,331 shares issued and outstanding as of April 2, 1998(aggregate liquidation preference of $45,008 as of April 2, 1998)	-	1,200
Common Stock, 66 2/3 par value; 19,447,598 and 15,376,821 shares issued as of April 1, 1999 and April 2, 1998, respectively	12,965	10,251
Convertible Class B Stock, 66 2/3 par value; 4,041,993 and 5,015,657 shares issued and outstanding as of April 1, 1999 and April 2, 1998, respectively	2,695	3,344
Additional paid-in capital	106,713	107,676
Accumulated other comprehensive income	(2,690)	(3,689)
Retained earnings	5,026	21,042
	124,709	139,824
Less:		
Employee notes for Common Stock purchases	8,875	-
Common Stock in treasury, at cost, 20,500 shares as of April 1, 1999 and April 2, 1998	369	369
Total stockholders' equity	115,465	139,455
Total liabilities and stockholders' equity	$975,730	$795,780

City Screens, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands, except per share data)

	April 1, 1999	April 2, 1998	April 3, 1997
Cash flows from operating activities:	**fiscal 1998**		
Net earnings (loss)	$(16,016)	$(24,499)	$18,995
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:			
Impairment of long-lived assets	4,935	46,998	7,231
Depreciation and amortization	89,221	70,117	52,572
Deferred income taxes	2,562	(37,325)	(2,476)
Loss (gain) on disposition of long-term assets	(2,369)	(3,704)	84
Change in assets and liabilities:			
Receivables	(5,307)	(3,180)	(1,451)
Other current assets	(19,694)	(4,835)	1,578
Accounts payable	(1,736)	6,066	16,751
Accrued expenses and other liabilities	15,118	42,231	13,283
Other, net	453	(547)	2,772
Net cash provided by operating activities	67,167	91,322	109,339
Cash flows from investing activities:			
Capital expenditures	(260,813)	(389,217)	(253,380)
Proceeds from sale/leasebacks	-	283,800	-
Investments in real estate	(8,935)	(4,349)	(7,692)
Net change in reimbursable construction advances	36,171	(25,295)	(21,076)
Preopening expenditures	(8,049)	(10,026)	(6,827)
Proceeds from disposition of long-term assets	10,255	18,111	15,054
Other, net	(7,946)	(6,761)	(9,996)
Net cash used in investing activities	(239,317)	(133,737)	(283,917)
Cash flows from financing activities:			
Net borrowings (repayments) under Credit Facility	(27,000)	40,000	(10,000)
Proceeds from issuance of 9 1/2% Senior Subordinated Notes due 2009	-	-	198,938
Proceeds from issuance of 9 1/2% Senior Subordinated Notes due 2011	225,000	-	-
Principal payments under capital lease obligations and other	(6,047)	(3,385)	(2,835)
Repurchase of 11 7/8% Senior and 12 5/8% Senior Subordinated Notes	-	(5,817)	-
Cash overdrafts	(1,516)	4,691	(11,673)
Change in construction payables	(234)	(1,903)	24,735
Funding of employee notes for Common Stock purchases, net	(8,579)	-	-
Proceeds from exercise of stock options	-	647	140
Dividends paid on $1.75 Preferred Stock	-	(5,064)	(5,993)
Deferred financing costs and other	(6,556)	(1,466)	(4,595)
Net cash provided by financing activities	175,068	27,703	188,717
Effect of exchange rate changes on cash and equivalents	440	(122)	(219)
Net increase (decrease) in cash and equivalents	3,358	(14,834)	13,920

NOTE 9 - LEASES

The majority of the Company's operations are conducted in premises occupied under lease agreements with base terms ranging generally from 13 to 25 years, with certain leases containing options to extend the leases for up to an additional 20 years. The leases provide for fixed rentals and/or rentals based on revenues with a guaranteed minimum. The Company also leases certain equipment under leases expiring at various dates. The majority of the leases provide that the Company will pay all, or substantially all, taxes, maintenance, insurance and certain other operating expenses. Assets held under capital lease obligations are included in property.

Following is a schedule, by year, of future minimum rental payments required under existing operating leases that have initial or remaining non-cancelable terms in excess of one year as of April 1, 1999:

(In thousands)	
1999	$ 161,235
2000	160,550
2001	158,305
2002	154,774
2003	153,043
Thereafter	1,663,115
Total minimum payments required	$2,451,022

Rent expense is summarized as follows:

(In thousands)	1998	1997	1996
Minimum rentals	$151,360	$ 94,103	$ 69,845
Common area expenses	14,087	12,011	10,555
Percentage rentals based on revenues	2,783	2,869	2,278
	$168,230	$108,983	$ 82,678

Capital Leases. Minimum annual payments required under existing capital lease obligations (net present value thereof) and maturities of corporate borrowings as of April 1, 1999, are as follows:

	Capital Lease Obligations				
(In thousands)	Minimum Lease Payments	Less Interest	Net Present Value	Corporate Borrowings	Total
1999	$ 11,648	$ 7,631	$ 4,017	$ 14,000	$18,017
2000	11,376	6,927	4,449	-	4,449
2001	10,547	6,197	4,350	-	4,350
2002	9,901	5,458	4,443	-	4,443
2003	9,831	4,648	5,183	-	5,183
Thereafter	47,503	21,370	26,133	547,045	573,178
Total	$100,806	$52,231	$48,575	$561,045	$609,620