

# REPORT

TO THE  
STOCKHOLDERS



ANNUAL MEETING  
FEBRUARY 21, 1956

**T**HE third Annual Meeting of the stockholders of National Theatres, Inc. was held at the office of the Company at 1837 South Vermont Avenue, Los Angeles, California on February 21, 1956.

The inspectors of election reported that 2,401,141 shares were represented at the meeting, either in person or by proxy, and that this constituted 87.58% of the shares entitled to vote.

All the directors and officers of the Company, as well as executives of some of its important subsidiaries, were in attendance at the meeting and were introduced to the assembled stockholders.

The President, Mr. Elmer C. Rhoden, welcomed the stockholders and expressed his appreciation for the large representation at the meeting, the highest percentage in the history of the Company.

Mr. Rhoden, in discussing general industry conditions, pointed out that 1955 had been a difficult year for all theatre operating companies. He attributed their difficulties to an acute shortage of pictures, stating that the annual supply of pictures produced for theatre showing had decreased from 566 in 1936 to 241 in 1955. Mr. Rhoden said an increase in production of approximately 20 pictures is expected for 1956, though this would not be sufficient to satisfy the demand. "Some way, somehow, there must be at least 100 more pictures available for the theatres of the United States," he declared. "One of the great virtues of the entertainment business is the fact that our customers never have an over-supply of our merchandise, and are always ready to spend their money at our box offices for good motion pictures."

Mr. Rhoden pointed out the shortage of motion pictures was so severe that two exhibitor organizations had appealed to the Department of Justice to remove restrictions from the

theatre circuits formerly affiliated with production companies so that they may participate in the production and distribution of motion pictures. It was an important event, he said, not only because it was the first time these organizations had joined hands on anything of this nature, but also because they recommended that any such company producing a picture should have the right to show the picture in its presently owned theatres prior to its release to competing exhibitors.

In reviewing the past year, Mr. Rhoden called attention to the progress made in achieving certain important objectives of management.

"First, as a number of our theatres were below our standards of equipment and appearance, we spent two million dollars in major rehabilitations, improvements and replacements of equipment. In those theatres where substantial renovations were made, our business improved.

"Our second objective was the liquidation of unproductive real estate. Our Board of Directors had approved my request to sell a number of properties that were costly for us to own. The proceeds of dispositions made so far were \$2,126,000, resulting in a gain, less federal taxes, of \$511,000. Not only did we add approximately two million dollars to our treasury, but also we saved \$109,000 of annual carrying charges on these properties. The job has not been completed, but we are making progress and I believe that in another year it can be completed.

"Our third objective was vigorous research. We felt that our Company should put aside a certain sum of money to dig out factual information concerning our business. Our Research Department has made a fine contribution, not only to this Company, but also to the industry in giving it the results of the various polls and reports on audience trends, patrons' theatre-going habits, and types of entertainment most preferred.

"Of great importance in the technological field is our research on a motion picture process we call Cinemiracle. During the past year a 3-panel projection system from one booth was perfected. In June 1955 we acquired the exclusive world-wide license to use the Smith-Dieterich patents covering a method of photography using three strips of film with a field of 145 degrees.

"Since the signing of that contract, we have been engaged in developing the first Cinemiracle camera, and our progress to date has been very satisfactory. If our efforts are successful, we will give the green light to Louis de Rochemont, producer of "Cinerama Holiday" in a three-panel process, for the production of our first picture in Cinemiracle.

"The Cinemiracle process can become a very valuable asset of the Company, which has applied to the Court for the right to make 16 pictures in the new Cinemiracle process, and to distribute and exhibit them." (On February 24, 1956 the Court granted the Company's application.)

"The fourth objective was rigid control of theatre operating expense and administrative costs. We have made decided headway. In spite of a drop in revenue of \$2,800,000, we were able to maintain the previous year's earnings. Administration expense was reduced by \$300,000.

"Our fifth objective was theatre expansion. In this regard we investigated many possibilities, but found few that were attractive. However, we did make a beginning, and with court approval five conventional and two drive-in theatres were added to our circuit. The acquisition of these theatres required a nominal amount of invested cash, and they have proved profitable."

Mr. Rhoden then turned to a discussion of current business, reporting a decided improvement as a result of the release of better films during the holiday season.

"The scarcity of quality pictures during the first quarter period of our fiscal year gave us a poor earnings report," he stated, "but it appears that our earnings for the second quarter will be comparable to the second quarter of last year. Gains from the further liquidation of unprofitable theatres will be substantial and our accumulated earnings for the half year will look, by comparison, much healthier than they did for the first quarter.

"Our business for 1956 should be equal to or better than 1955. It is not a question of the public tiring of the movies, or preferring home television. We have evidence of this in the figures of our subsequent run theatres which do not have such a shortage of pictures. To illustrate—in Southern California the first runs for the first nineteen weeks of the new fiscal year show a decrease in box office gross income, whereas the subsequent runs with more pictures available show an increase. In one of our subsequent run districts, 18 of 20 theatres are ahead of last year.

"Releases of motion pictures for the next few months from all producing companies appear stronger than last year," said Mr. Rhoden, "and we face the future with optimism."

"In conclusion, I want to thank the stockholders of National Theatres for their support of management. I also want to acknowledge with sincere appreciation the loyalty and cooperation received from my co-workers in National Theatres, and to thank our splendid Board of Directors for their keen interest and constructive approach to our problems.

"It should be of interest to our stockholders to note the increased number of National Theatres' shares held by our Directors. Last year's proxy statement showed that members of the Board of Directors held 56,367 shares. This year's proxy statement shows that such ownership of shares has increased to a total of 132,467. I think this very significant, as it shows the great confidence your management has in the future possibilities of National Theatres."

Upon concluding his remarks, the President invited questions from the stockholders.

One stockholder asked how the book value of land and buildings compared with their current market value. He was advised that the market value is not known and is most difficult to estimate, particularly as theatres are special purpose buildings. However, the opinion was expressed that the total market value would be somewhat higher than the total book value.

Another stockholder inquired as to what was being done in regard to the elimination of the 10 percent Federal Amusement tax. The President replied that the industry was united in a concerted drive to impress upon Congress and the Administration the inequity of keeping this "war" tax upon the amusement business, and that the leaders in the campaign were hopeful the tax would be eliminated or reduced.

There were comments from stockholders in regard to motion picture advertising and in regard to proxy solicitation costs, and these subjects were discussed briefly.

It was then reported by the judges of election that the Board of Directors had been re-elected, and that Lybrand, Ross Brothers and Montgomery had been chosen as auditors for the ensuing year.

There being no further business to come before the meeting, it was adjourned.

Following the stockholders meeting, the Board of Directors met, and all of the officers of the Company were re-elected.

**NATIONAL THEATRES, INC.**

**c/o THE CHASE MANHATTAN BANK**

**TRANSFER AGENT**

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