SHOWSCAN®

Showscan
Film
Corporation

1990
Annual
Report

The Showscan Mission:
To provide unparalleled moving images and experiences that stimulate, entertain and educate the public.

To Our Shareholders:

Fiscal 1990 was a pivotal year in the history of Showscan®. It was a year during which our Dynamic Motion Simulator™ (DMS) came of age, attracting record attendance at venues around the world. It was a year during which we sold our first two American DMSs, which recently opened at the new Excalibur Hotel and Casino in Las Vegas. It was a year that marked the completion of the final stages of the Showscan® production equipment and technology and saw significant Showscan® accomplishments in the field of high-definition television (HDTV), including the introduction of our film-to-video Telecine Projector. It was a year that witnessed the expansion of our film library with three new DMS rides and two specialty films, "Call from Space" and "The Magic Balloon."

Revenue for the year was a record $22.7 million with a loss of $2.0 million ($0.69 loss per share), compared to last year's revenue of $9.8 million with a net loss of $2.9 million ($0.99 loss per share). Royalty and licensing revenue reached $1.9 million, a 22 percent increase over last year; most importantly, Showscan® reported its first annual positive operating cash flow (earnings before depreciation and amortization, interest and taxes) of $1.6 million.

Technology Advances

We completed the final steps in our film production technology this year: the CP-65 cameras were quieted and "blimped" for filming a close-up sequence without recording the sound of the camera; and 2,500 foot magazines were developed, giving a director the same amount of running time in Showscan® without reloading the camera, as he or she has currently with 35mm.

During the year, we also expanded our special effects capability and added slow motion, using Vistavision® converted to and incorporated in Showscan®. Now, special effects for Showscan® films can be created by all of the major special effect "houses" not just those equipped for 70mm.

Also important was the development, under an R&D contract with Zenith, of the Telecine Projector, which allows Showscan® films, as well as all 70mm and 35mm films, to be transferred directly to all television formats, including HDTV. The Telecine Projector, when combined with our ability to reduce Showscan® 70mm/60 frames-per-second to 35mm/24 frames-per-second, now makes Showscan® films available for distribution in all theater and video formats.

Other technological advances during the year included the introduction of touch-screen technology, streamlining DMS operation, and the development of an international diagnostic

DMS at Osaka Expo '90 at night; attracted 9,818 visitors one day of Golden Week, generating one-day box office gross of $44,000.

modem network, which assists in trouble-shooting field service and maintenance problems at DMS sites remote from headquarters.

We broadened our base of inventions, know-how and experience in the high end of image creation through acquisition of three patents during fiscal 1990: (1) a Canadian patent on the Showscan® film process; (2) the third US patent on simulator rides; and (3) a US patent on our method of converting film from 60fps to 24 fps, a process which enables Showscan® film to be printed to conventional film for exhibition in conventional theaters.

Image Technology

The viewers of the '90s insist on realism throughout the entire spectrum of their entertainment experiences. The media most in demand—television, movies, electronic games, animated or simulated "experiences"—are intimately involved in the ways in which modern people relate to the world around them.

But though the media has made strides in immediacy, quality and clarity of image presentation, some of their most basic technologies had not been substantially revised or rethought for decades until the development of the Showscan® 70mm/60fps film process and technology.

A prime example of archaic technology is the currently used 35mm/24fps standard for filming and projecting motion pictures, which was established before sound came to the movies, and has been refined but never radically changed since the early 1920s. It still conveys images at a threshold considerably below the visual capabilities of viewers, and forfeits the sense of reality in motion that even videotape bestows.

But while today's videotape conveys a more realistic sense of motion, it too is locked into a standard long since outdated: the NTSC television broadcast standard, largely unchanged since the early 1950s.

Showscan® breaks through the technology barriers that previously limited the scope and depth of realism in visual entertainment. Today, Showscan® is a leading provider of new image technologies, and is active in high-resolution film techniques, experiential simulation, and high-definition television (HDTV).

Unlike primitive efforts at ultra-real film, such as the old 3-D films, Showscan® films have no "gimmick." No glasses. No parabolic screen to distort the edges of the picture. No multiple-camera images to align. Showscan® film is projected in theaters from a single, largely standard, 70mm projector onto a standard movie screen. The secret lies in the rate at which images are projected (60fps).

Your mind perceives the world, biologists tell us, at a rate equivalent to 60fps of film. In Showscan® specialty theaters, Showscan® replicates this absorption rate and convinces your brain that what you see is "real." Showscan® draws the audience through a "window" into the center of the action depicted on the screen. Viewers are no longer passive observers, but become active participants in experiential entertainment. Showscan®'s realism is at the heart of our entire range of current and future products.

Experiential Simulation

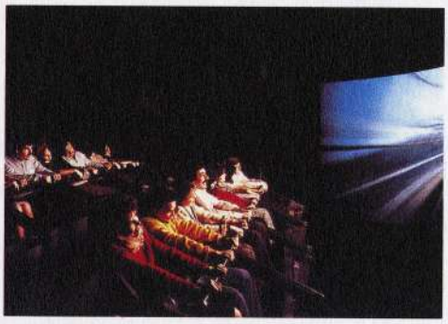
When you ride a Showscan® "roller-coaster" —in a comfortable seat in a darkened DMS— you will swear you feel the wind in your face and a bottomless pit in your stomach as you race down that first hill.

Chills and thrills have always been sought-after aspects of entertainment. We look for them in movie car chases, roller coasters, parachute drops and simulated experiences such as "fake" earthquakes and shark attacks.

Beginning with the first theme parks in the 1950s and 1960s, and continuing with the impact of video- and film-based special effects in the 1970s, the amusement industry has capitalized on the excitement of live-action experiences duplicated in simulated environments.

Enter the Showscan® DMS (Dynamic Motion Simulator), a product of three technologies: ultra-real 70mm/60fps Showscan® images, synchronization by sophisticated computer programming and motion platforms or seats that accentuate the psychogenic "reality" that DMS presents.

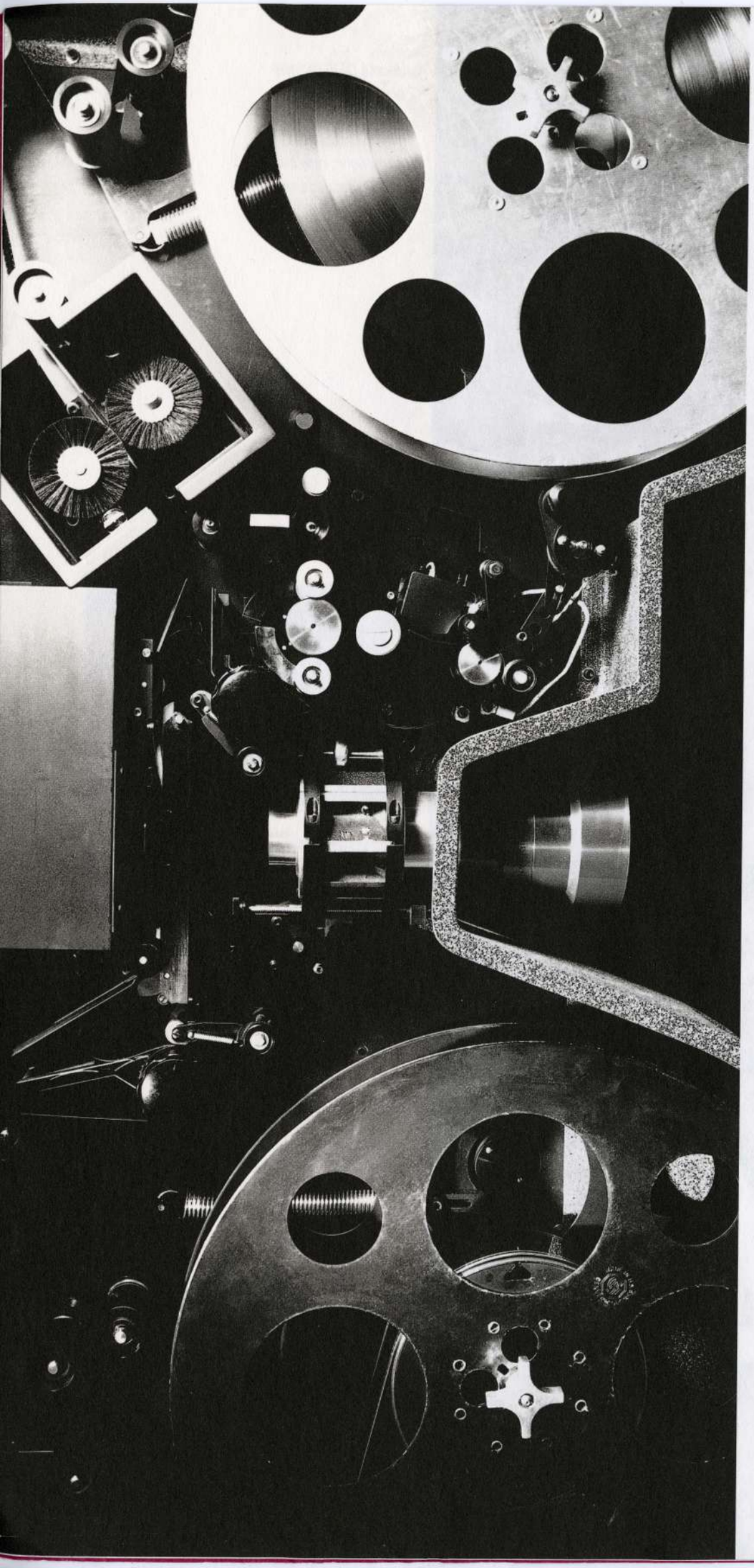
DMS provides not only a nerve- and composure-shattering raid on the body's supply of adrenalin, it offers amusement operators a flexibility that no other simulation system can approach. Why? Because, through the use of our electronic projector and touch-screen technology, the standard DMS can switch from roller-coaster to runaway train to high-speed car chase at the pressing of a button. And, importantly, a Showscan® DMS takes up far less valuable real estate than the comparable "real" rides, so that revenue per square foot can be much higher with a DMS than with, for example, a major roller-coaster. Our DMS equipment is field-tested and reliable, providing its operator with continuous attraction operation without regard to changing or regional weather conditions. Insurance costs are also significantly lower, since DMS "riders" remain stationary and experience the sensations—but not the risks—of thrill rides. Showscan® has sold more than twenty DMS



Interior of DMS located in 4,032-room Excalibur Hotel and Casino, which opened to 11,000 DMS patrons on June 19, 1990 in Las Vegas.

◁ *Recent DMS innovation—touchscreen technology which greatly simplifies operations; now available using Japanese Kanji symbols.*

Pilot DMS in Kanazawa, Japan; opened in July 1989 by Imagine Japan, Inc.



systems, more than all of our competitors combined. DMS installations are currently playing to sell-out crowds in France, Japan and Korea, and, most recently, the United States.

The DMS "secret" is that *your mind receives the same visual stimulus in a DMS ride that you would receive if you were actually on the ride.*

High-Definition Television

High-definition television (HDTV) and Showscan® are uniquely compatible technically, a fact that was verified by the Media Lab at the Massachusetts Institute of Technology ("MIT"). We believe the compatibility of the two media will make Showscan® a preferred film format for the HDTV development industry in the short term, and to the television broadcast industry in the long term.

Two projects for HDTV were completed during the past year. Both were resounding successes. The first was our participation in an audience preference test conducted by MIT's Media Lab's Audience Research Group.

Sponsored by the Media Lab's Television of Tomorrow program, NTSC, HDTV and Very High Definition Television ("VHDTV") technologies were presented to an audience of over 200 participants selected at random. The participants were shown the same Showscan® programming on a 525-line NTSC monitor, an 1,125-line HDTV monitor and on a large rear-projection screen simulating, via Showscan® 2,000-line VHDTV.

The second HDTV project completed during the past year was the development for Zenith Electronics Corporation, of a Telecine Projector to transfer motion picture images on a live, real-time basis from high-resolution 70mm Showscan® to a television camera for Zenith's HDTV System.

The demonstration system used Showscan® 60 fps film images and Zenith's 59.94 fps progressive-scan HDTV. The system, demonstrated at the April 1990 annual meeting of the National Association of Broadcasters to considerable acclaim, produced high-resolution television images free of the motion artifacts inherent in other film-to-HDTV systems.

Our activities culminated recently in the selection of Showscan® by the FCC Advisory Committee on Advanced Television Service as the chosen image source for the testing of all future motion picture technology and their compatibility with the proposed HDTV transmission systems.

Based on the technological compatibility of Showscan® and HDTV, and based on demonstration projects to date, we believe that Showscan® film will play a key role in the pro-

gramming of HDTV in the second half of the 1990s and beyond.

What Does the Future Hold?

Our increasing knowledge of our technology, products and markets provides us with a better understanding of our mission: to provide unparalleled moving images and experiences that stimulate, entertain and educate the public. The breadth of this mission has led us to ask our stockholders to approve a change in the name of the company to "Showscan® Corporation."

Our sales approach has become more active than reactive due to our outstanding DMS market acceptance:

- The 100-seat DMS installation in the "Spark Scan" complex at Expo '90 in Osaka opened in April and averaged 7,600 daily visitors in early May. Operating at 84% of capacity, the DMS attracted 9,818 visitors in just one day.
- The 45-seat DMS at Futuroscope in Poitiers, France, after attracting nearly 610,000 DMS patrons last year (84% of all Park visitors), has now entered its third season. Averaging 99 shows per day, it drew nearly 18,000 patrons in the first week of the new season, and in one day, 6,300 of the 8,000 total Park attendees rode it with an average of 13 shows per hour.
- Lotte World in Seoul installed a 90-seat DMS in July 1989, and through April 1990 over 570,000 patrons have ridden it with per-ride occupancy rates as high as 79%.
- The first DMS installation in Japan at Himeji Central Park near Osaka opened in late 1989. The 50-seat DMS draws nearly 33% of all Park patrons despite bearing the Park's most expensive ticket price of US$7.00, while other rides at Himeji draw only 20%.
- Circus Circus' new 4,032-room Excalibur Hotel/Casino in Las Vegas, the largest in the world, opened its two 45-seat DMSs ("Magic Motion Machines") in mid-June 1990 as an integral part of its 500,000 square foot "Fantasy Faire" family-entertainment complex.

Our relationship with Intamin, the supplier of the DMS seats, has been extended indefinitely and together we are exploring new concepts for simulation.

Specialty Theater attractions and feature films remain an important aspect of our future marketing strategies. With the expansion of our "specialty film" library during the past year, the completion of our film production technologies, and the integration of standard special effects and slow motion techniques into Showscan® we are well positioned to pursue the opportunities available in these promising market segments.

The heart of Showscan®'s business will continue to be the exciting DMS family of prod-

◁ *Proprietary EP-70 electronic projector used in DMS projection booth.*

DMS and Specialty Theater located at Futuroscope in Poitiers, France; now in its third season of operation; the DMS attracted more than 610,000 people or 84% of all park patrons last season.

SHOWSCAN
CP-65
WILCAM

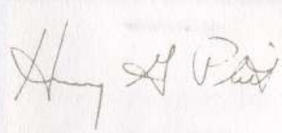
ucts. Royalty and licensing fees will grow from the record fiscal 1990 level in proportion to the progress we make in increasing the size of our installed base.

There can never be any guarantees about the future, but we believe that the growing evidence of audience and attendance figures will encourage potential DMS operators and accelerate the pace of DMS installations. With average installation prices exceeding $1 million apiece, DMS sales cycles should be favorably impacted by the ability to visit well-attended reference sites in three major areas of the world: Asia, the United States and Europe. Our marketing and sales personnel are finding that potential customers are better able to visualize their own uses and returns from DMS when they see one of the successful installations now "up and running."

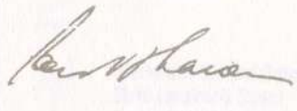
Our business goals for fiscal 1991 are to expand the installed base of Showscan® attractions and to augment our film and thrill ride libraries. We will also prepare for future markets by expanding our participation in HDTV development projects, and by continuing to explore image technology applications. If we are able to achieve these goals, we will quickly reach the time when we can report consistent profitability. We look forward to reporting favorable results to you next year.

Our thanks are due to all who have helped in the progress of the past year, including our hard-working employees, our enthusiastic customers, our vendors and shareholders—and the millions who thus far have visited Showscan® attractions around the world.

Sincerely,



Henry G. Plitt
Chairman of the Board



Roy H. Aaron
President and Chief Executive Officer

◁ *Proprietary CP-65 Showscan camera with 2,500 ft. cassette-type film magazines; "blimped" version has a noise level of less than 30db, thus capable of filming with "sync" sound at 60fps.*

Specialty Theater located at the Niagara Reservation Interpretive Center in Niagara Falls, New York; specialty film "Niagara Magic" produced for this venue.

Corporate Information

Board of Directors	Henry G. Plitt *Chairman of the Board of Directors. Chairman of the Board and Chief Executive Officer, Plitt Entertainment Group, Inc.* Roy H. Aaron *President and Chief Executive Officer. President, Chief Operating Officer, Director, Plitt Entertainment Group, Inc.* Peter F. Beale *Executive Vice President and President of Production* James A. Sorensen *Financial Vice President, Treasurer and Assistant Secretary. Financial Vice President, Secretary, Treasurer and Director, Plitt Entertainment Group, Inc.* Raymond C. Fox *Vice President and Secretary. Senior Vice President, Director, Plitt Entertainment Group, Inc.* Thomas J. Corcoran, Jr. *Director, President and Chief Executive Officer, Integra—A Hotel and Restaurant Company* William D. Eberle *Private investor* E. Eric Johnson *Chairman, The Benefits Group, Inc.*
Officers	Henry G. Plitt *Chairman of the Board* Roy H. Aaron *President and Chief Executive Officer* Peter F. Beale *Executive Vice President and President of Production* Edgar Johnson *Senior Vice President* James A. Sorensen *Financial Vice President, Treasurer and Assistant Secretary* Raymond C. Fox *Vice President—Distribution and Operations and Secretary* David W. Nassif *Vice President—Business Affairs and Assistant Secretary* Edward M. Plitt *Vice President—Systems and Engineering*
Corporate Headquarters	1801 Century Park East, Suite 1225, Los Angeles, California 90067
Operating Offices and Studio	3939 Landmark Street, Culver City, California 90232-2315
Transfer Agent and Registrar	Continental Stock Transfer & Trust Company, 72 Reade Street, New York, New York 10007
Auditors	Altschuler, Melvoin and Glasser, 2049 Century Park East, Suite 1010, Los Angeles, California 90067
Annual Meeting	The annual meeting of stockholders of Showscan Film Corporation will be held at 10:00 a.m. on August 3, 1990, at 3939 Landmark Street, Culver City, California
Form 10-K	A copy of the Company's Annual Report on Form 10-K, as filed with the Securities and Exchange Commission, will be furnished without charge to any stockholder on request to: Joseph Allen, South Coast Group, Inc., at 714 731 4341
Common Stock	NASDAQ Symbol: SHOW. Philadelphia Stock Exchange: Symbol: SFC

Showscan Film Corporation

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