MARCUS CORP
Form 10-Q
April 06, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended February 25, 2010

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ________ to ________

Commission File Number 1-12604

THE MARCUS CORPORATION
(Exact name of registrant as specified in its charter)

Wisconsin (State or other jurisdiction of incorporation or organization)	39-1139844 (I.R.S. Employer Identification No.)
100 East Wisconsin Avenue, Suite 1900 Milwaukee, Wisconsin (Address of principal executive offices)	53202-4125 (Zip Code)

Registrant s telephone number, including area code: (414) 905-1000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes __X__ No ______

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ______ No ______

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer		Accelerated filer	X
Non-accelerated filer (do not check if a smaller reporting company)		Smaller reporting company	

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ______ No __X__

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

COMMON STOCK OUTSTANDING AT MARCH 31, 2010 21,010,313

CLASS B COMMON STOCK OUTSTANDING AT MARCH 31, 2010 8,854,179

THE MARCUS CORPORATION

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PART I - FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements
THE MARCUS CORPORATION

Consolidated Balance Sheets

(in thousands, except share and per share data)	(Unaudited) **February 25, 2010**	(Audited) **May 28, 2009**
ASSETS		
Current assets:		
Cash and cash equivalents	$ 9,886	$ 6,796
Accounts and notes receivable, net of reserves	8,601	12,239
Receivables from joint ventures, net of reserves	121	194
Refundable income taxes	6,747	
Deferred income taxes	2,552	3,139
Other current assets	6,306	7,776
Total current assets	34,213	30,144
Property and equipment:		
Land and improvements	88,221	89,090
Buildings and improvements	513,261	512,002
Leasehold improvements	60,538	60,423
Furniture, fixtures and equipment	208,550	210,684
Construction in progress	16,870	8,489
Total property and equipment	887,440	880,688
Less accumulated depreciation and amortization	304,125	285,132
Net property and equipment	583,315	595,556
Other assets:		
Investments in joint ventures	1,351	1,391
Goodwill	44,448	44,552
Condominium units available for sale	3,482	5,912
Other	33,491	33,968
Total other assets	82,772	85,823
TOTAL ASSETS	$ 700,300	$ 711,523

See accompanying notes to consolidated financial statements.

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THE MARCUS CORPORATION

Consolidated Balance Sheets

(in thousands, except share and per share data)	(Unaudited) **February 25, 2010**	(Audited) **May 28, 2009**
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Notes payable	$ 222	$ 229
Accounts payable	17,121	22,743
Income taxes		796
Taxes other than income taxes	11,205	13,015
Accrued compensation	6,686	4,665
Other accrued liabilities	26,902	24,540
Current maturities of long-term debt	39,607	14,432
Total current liabilities	101,743	80,420
Long-term debt	192,847	240,943
Deferred income taxes	40,903	32,024
Deferred compensation and other	30,120	30,696
Shareholders equity:		
Preferred Stock, $1 par; authorized 1,000,000 shares; none issued		
Common Stock, $1 par; authorized 50,000,000 shares; issued 22,335,334 shares at February 25, 2010 and 22,329,978 shares at May 28, 2009	22,335	22,330
Class B Common Stock, $1 par; authorized 33,000,000 shares; issued and outstanding 8,854,179 shares at February 25, 2010 and 8,859,535 shares at May 28, 2009	8,854	8,860
Capital in excess of par	48,491	47,649
Retained earnings	279,315	273,637
Accumulated other comprehensive loss	(2,608)	(2,781)
	356,387	349,695
Less cost of Common Stock in treasury (1,326,365 shares at February 25, 2010 and 1,364,585 shares at May 28, 2009)	(21,700)	(22,255)
Total shareholders equity	334,687	327,440
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$ 700,300	$ 711,523

See accompanying notes to consolidated financial statements.

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THE MARCUS CORPORATION

Consolidated Statements of Earnings (Unaudited)

(in thousands, except per share data)	February 25, 2010 13 Weeks	February 25, 2010 39 Weeks	February 26, 2009 13 Weeks	February 26, 2009 39 Weeks
Revenues:				
Theatre admissions	$ 40,755	$ 111,809	$ 37,565	$ 106,384
Rooms	13,340	56,671	14,195	66,994
Theatre concessions	19,086	53,249	18,292	52,615
Food and beverage	10,097	33,361	11,114	38,048
Other revenues	13,166	34,873	9,845	35,284
Total revenues	96,444	289,963	91,011	299,325
Costs and expenses:				
Theatre operations	34,190	94,713	30,449	86,503
Rooms	7,115	22,966	7,373	25,165
Theatre concessions	4,551	13,275	4,290	12,700
Food and beverage	8,938	26,577	9,346	30,033
Advertising and marketing	4,396	14,526	4,416	15,874
Administrative	9,492	27,759	9,125	28,749
Depreciation and amortization	7,975	24,104	7,916	24,335
Rent	1,811	5,652	1,968	5,835
Property taxes	3,660	10,134	3,651	11,413
Other operating expenses	6,272	18,696	6,299	20,251
Impairment charge		2,575		
Total costs and expenses	88,400	260,977	84,833	260,858
Operating income	8,044	28,986	6,178	38,467
Other income (expense):				
Investment income (loss)	149	436	195	(1,460)
Interest expense	(2,768)	(8,423)	(3,455)	(10,893)
Gain (loss) on disposition of property, equipment and other assets	(261)	(88)	100	(1,072)
Equity losses from unconsolidated joint ventures, net	(76)	(112)	(324)	(423)
	(2,956)	(8,187)	(3,484)	(13,848)
Earnings before income taxes	5,088	20,799	2,694	24,619
Income taxes	1,897	7,713	1,031	9,627
Net earnings	$ 3,191	$ 13,086	$ 1,663	$ 14,992
Net earnings per share basic:				
Common Stock	$ 0.11	$ 0.45	$ 0.06	$ 0.52
Class B Common Stock	$ 0.10	$ 0.41	$ 0.05	$ 0.47
Net earnings per share diluted:				
Common Stock	$ 0.11	$ 0.44	$ 0.06	$ 0.50
Class B Common Stock	$ 0.10	$ 0.41	$ 0.05	$ 0.47
Dividends per share:				
Common Stock	$ 0.085	$ 0.255	$ 0.085	$ 0.255
Class B Common Stock	$ 0.077	$ 0.232	$ 0.077	$ 0.232

See accompanying notes to consolidated financial statements.

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THE MARCUS CORPORATION

Consolidated Statements of Cash Flows (Unaudited)

(in thousands)	39 Weeks Ended February 25, 2010	39 Weeks Ended February 26, 2009
OPERATING ACTIVITIES:		
Net earnings	$ 13,086	$ 14,992
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Losses on loans to and investments in joint ventures	113	1,223
Loss (gain) on disposition of property, equipment and other assets	431	(34)
Loss (gain) on sale of condominium units	(343)	1,106
Impairment charge	2,575	
Loss on available for sale securities		1,424
Amortization of loss on swap agreement	85	94
Amortization of favorable lease right	250	250
Depreciation and amortization	24,104	24,335
Stock compensation expense	1,185	1,035
Deferred income taxes	9,467	(225)
Deferred compensation and other	(337)	(267)
Changes in assets and liabilities:		
Accounts and notes receivable	3,993	5,800
Other current assets	1,470	(505)
Accounts payable	(3,692)	734
Income taxes	(7,538)	4,775
Taxes other than income taxes	(1,810)	(389)
Accrued compensation	2,021	496
Other accrued liabilities	2,362	4,570
Total adjustments	34,336	44,422
Net cash provided by operating activities	47,422	59,414
INVESTING ACTIVITIES:		
Capital expenditures	(14,639)	(21,027)
Proceeds from disposals of property, equipment and other assets	714	551
Increase in condominium units and other assets	(277)	(440)
Cash advanced to joint ventures		(243)
Net cash used in investing activities	(14,202)	(21,159)
FINANCING ACTIVITIES:		
Debt transactions:		
Proceeds from issuance of notes payable and long-term debt	40,895	12,002
Principal payments on notes payable and long-term debt	(63,823)	(45,611)
Equity transactions:		
Treasury stock transactions, except for stock options	(97)	(97)
Exercise of stock options	304	408
Dividends paid	(7,409)	(7,372)
Net cash used in financing activities	(30,130)	(40,670)
Net increase (decrease) in cash and cash equivalents	3,090	(2,415)

Cash and cash equivalents at beginning of period	6,796	13,440
Cash and cash equivalents at end of period	$ 9,886	$ 11,025

See accompanying notes to consolidated financial statements.

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THE MARCUS CORPORATION

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE 13 AND 39 WEEKS ENDED FEBRUARY 25, 2010

(Unaudited)

1. General

Accounting Policies Refer to the Company s audited financial statements (including footnotes) for the fiscal year ended May 28, 2009, contained in the Company s Form 10-K Annual Report for such year, for a description of the Company s accounting policies.

Basis of Presentation The consolidated financial statements for the 13 and 39 weeks ended February 25, 2010 and February 26, 2009 have been prepared by the Company without audit. In the opinion of management, all adjustments, consisting only of normal recurring adjustments necessary to present fairly the unaudited interim financial information at February 25, 2010, and for all periods presented, have been made. The results of operations during the interim periods are not necessarily indicative of the results of operations for the entire year or other interim periods. The Company s management has evaluated subsequent events after February 25, 2010 through April 6, 2010, which is the date the Company s financial statements were issued.

Comprehensive Income Total comprehensive income for the 13 and 39 weeks ended February 25, 2010 was $3,275,000 and $13,259,000, respectively. Total comprehensive income for the 13 and 39 weeks ended February 26, 2009 was $1,603,000 and $14,855,000, respectively.

Accumulated other comprehensive income (loss) consists of the following, all presented net of tax:

	February 25, 2010	May 28, 2009
	(in thousands)	
Unrealized gain on available for sale investments	$ 70	$ 99
Unrecognized loss on terminated interest rate swap agreement	(211)	(262)
Unrealized loss on interest rate swap agreement	(434)	(585)
Net unrecognized actuarial loss	(2,033)	(2,033)
	$ (2,608)	$ (2,781)

Earnings Per Share Net earnings per share (EPS) of Common Stock and Class B Common Stock is computed in accordance with Accounting Standard Codification (ASC) No. 260, *Earnings per Share*, formerly Statement of Financial Accounting Standards (SFAS) No. 128, using the two-class method. Basic net earnings per share is computed by dividing net earnings by the weighted-average number of common shares outstanding less any non-vested stock. Diluted net earnings per share is computed by dividing net earnings by the weighted-average number of common shares outstanding, adjusted for the effect of dilutive stock options and non-vested stock using the treasury method. Convertible Class B Common Stock is reflected on an if-converted basis. The computation of the diluted net earnings per share of Common Stock assumes the conversion of Class B Common Stock, while the diluted

net earnings per share of Class B Common Stock does not assume the conversion of those shares.

Holders of Common Stock are entitled to cash dividends per share equal to 110% of all dividends declared and paid on each share of Class B Common Stock. As such, the undistributed earnings for each period are allocated based on the proportionate share of entitled cash dividends. The computation of diluted net earnings per share of Common Stock assumes the conversion of Class B Common Stock and, as such, the undistributed earnings are equal to net earnings for that computation.

The following table illustrates the computation of Common Stock and Class B Common Stock basic and diluted earnings per share for net earnings and provides a reconciliation of the number of weighted-average basic and diluted shares outstanding:

	13 Weeks Ended February 25, 2010	13 Weeks Ended February 26, 2009	39 Weeks Ended February 25, 2010	39 Weeks Ended February 26, 2009
	(in thousands, except per share data)			
Numerator:				
Net earnings	$ 3,191	$ 1,663	$ 13,086	$ 14,992
Denominator:				
Denominator for basic EPS	29,794	29,653	29,786	29,641
Effect of dilutive employee stock options and non-vested stock	108	121	112	168
Denominator for diluted EPS	29,902	29,774	29,898	29,809
Net earnings per share basic				
Common Stock	$ 0.11	$ 0.06	$ 0.45	$ 0.52
Class B Common Stock	$ 0.10	$ 0.05	$ 0.41	$ 0.47
Net earnings per share diluted:				
Common Stock	$ 0.11	$ 0.06	$ 0.44	$ 0.50
Class B Common Stock	$ 0.10	$ 0.05	$ 0.41	$ 0.47

Fair Value Measurements Certain financial assets and liabilities are recorded at fair value in the financial statements. Some are measured on a recurring basis while others are measured on a non-recurring basis. Financial assets and liabilities measured on a recurring basis are those that are adjusted to fair value each time a financial statement is prepared. Financial assets and liabilities measured on a non-recurring basis are those that are adjusted to fair value when a significant event occurs. A fair value measurement assumes that a transaction to sell an asset or transfer a liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability.

The Company s assets and liabilities measured at fair value are classified in one of the following categories:

Level 1 Assets or liabilities for which fair value is based on quoted prices in active markets for identical instruments as of the reporting date. At February 25, 2010, the Company s $363,000 of available for sale securities were valued using Level 1 pricing inputs.

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Level 2 At February 25, 2010, the $723,000 liability related to the Company s interest rate hedge contract was based on valuation models for which pricing inputs were either directly or indirectly observable as of the reporting date.

Level 3 Assets or liabilities for which fair value is based on valuation models with significant unobservable pricing inputs and which result in the use of management estimates. At February 25, 2010, none of the Company s assets or liabilities were valued using Level 3 pricing inputs.

Long-Lived Assets The Company periodically considers whether indicators of impairment of long-lived assets are present. If such indicators are present, the Company determines whether the fair value attributable to such assets is less than their carrying amounts. The Company recognizes any impairment losses based on the excess of the carrying amount of the assets over their fair value. During the second quarter of Fiscal 2010, the Company determined that indicators of impairment of the condominium units available for sale were evident as the Las Vegas real estate market has been significantly impacted by the recessionary economic conditions. As such, the Company evaluated the ongoing value of its condominium units held for sale and determined that the fair value, measured using estimated sales prices of similar condominium units held for sale in the same market, or Level 2 pricing inputs, was less than their carrying value and recorded a $2,575,000 pre-tax impairment loss.

Defined Benefit Plan The components of the net periodic pension cost of the Company s unfunded nonqualified, defined-benefit plan are as follows:

	13 Weeks Ended February 25, 2010	13 Weeks Ended February 26, 2009	39 Weeks Ended February 25, 2010	39 Weeks Ended February 26, 2009
		(in thousands)		
Service Cost	$ 126	$ 130	$ 378	$ 390
Interest Cost	316	310	948	932
Net amortization of prior service cost, transition obligation and actuarial loss	22	29	66	86
Net periodic pension cost	$ 464	$ 469	$ 1,392	$ 1,408

Revenue Recognition Revenues from gift card sales are recorded as deferred revenue and are recognized when gift cards are redeemed. Gift card breakage income is recognized based upon historical redemption patterns and represents the balance of gift cards for which the Company believes the likelihood of redemption by the customer is remote. During the 13 weeks ended February 25, 2010, the Company determined that it had sufficient historical data to support a change in estimate related to its gift card liability and recognized $3,000,000 of gift card breakage income, of which $2,671,000 related to prior periods. Gift card breakage income is recorded in other revenues in the consolidated statements of earnings.

New Accounting Pronouncements - In June 2009, the Financial Accounting Standards Board (FASB) issued SFAS No. 167, *Amendment to FASB Interpretation No. 46(R)*, which amends certain requirements of FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities* (VIE) (codified in ASC No. 810-10). The statement requires a qualitative rather than quantitative analysis to determine the primary beneficiary of a VIE, requires continuous assessment of whether an enterprise is the primary beneficiary of a VIE and requires enhanced disclosures about an entity s involvement with a VIE. This statement is effective for the Company in fiscal 2011 and the Company is evaluating the impact of this statement on its overall financial position.

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In June 2009, the FASB issued SFAS No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles* (GAAP) (codified in ASC No. 105). SFAS No. 168 replaces FASB Statement No. 162, *The Hierarchy of Generally Accepted Accounting Principles*, and establishes the FASB Accounting Standards Codification (Codification) as the source of authoritative accounting principles recognized by the FASB in the preparation of financial statements in conformity with GAAP. The Codification supersedes all previously-existing non-SEC accounting and reporting standards. Rules and interpretive releases of the SEC under authority of federal securities laws will continue to be sources of authoritative GAAP for SEC registrants. The Company began using the new guidelines and numbering system prescribed by the Codification when referring to GAAP in the Quarterly Report on Form 10-Q for the period ending November 26, 2009. As the Codification was not intended to change or alter existing GAAP, it does not have any impact on the Company s consolidated financial results or financial position.

2. Derivatives and Hedging Activities

The Company utilizes derivatives principally to manage market risks and reduce its exposure resulting from fluctuations in interest rates. The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk-management objectives and strategies for undertaking various hedge transactions.

The Company entered into an interest rate swap agreement on February 1, 2008 covering $25,170,000 of floating rate debt, which expires February 1, 2011, and requires the Company to pay interest at a defined rate of 3.24% while receiving interest at a defined variable rate of one-month LIBOR (0.25% at February 25, 2010). In accordance with ASC No. 815-10, *Accounting for Derivative Instruments and Hedging Activities*, formerly SFAS No. 133, the Company must recognize derivatives as either assets or liabilities on the balance sheet at fair value. The accounting for changes in the fair value (i.e., gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and on the type of hedging relationship. Derivatives that do not qualify for hedge accounting must be adjusted to fair value through earnings. The Company s interest rate swap agreement is considered effective and qualifies as a cash flow hedge. For derivatives that are designated and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive loss and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. For the 13 and 39 weeks ended February 25, 2010 and February 26, 2009, the interest rate swap was considered effective and had no effect on earnings. The increase in fair value of the interest rate swap of $143,000 ($86,000 net of tax) and $239,000 ($151,000 net of tax) is included in accumulated other comprehensive loss for the 13 and 39 weeks ended February 25, 2010, respectively. The decrease in fair value of the interest rate swap of $223,000 ($134,000 net of tax) and $1,083,000 ($655,000 net of tax), is included in accumulated other comprehensive loss for the 13 and 39 weeks ended February 26, 2009, respectively. The Company does not expect the interest rate swap to have any effect on earnings within the next 12 months.

As of February 25, 2010 and May 28, 2009, the notional amount of the swap was $25,170,000. The fair value of the swap as of February 25, 2010 and May 28, 2009 was a liability of $723,000 and $961,000, respectively, and was included in other long-term liabilities.

On February 29, 2008, the Company also entered into an interest rate swap agreement covering $25,000,000 of floating rate debt, which required the Company to pay interest at a defined rate of 3.49% while receiving interest at a defined variable rate of three-month LIBOR. The interest rate swap agreement was considered effective and qualified as a cash flow hedge. On March 19, 2008, the Company terminated the swap, at which time cash flow hedge accounting ceased. The fair value of the swap on the date of termination was a liability of $567,000 ($338,000 net of tax). For the 13 and 39 weeks ended February 25, 2010, the Company reclassified $28,000 ($17,000 net of tax) and $85,000 ($51,000 net of tax), respectively, from accumulated other comprehensive loss to interest expense. For the 13 and 39 weeks ended February 26, 2009, the Company reclassified $28,000 ($17,000 net of tax) and $94,000 ($56,000 net of tax), respectively, from other comprehensive loss to interest expense. The remaining loss at February 25, 2010 in accumulated other comprehensive loss will be reclassified into earnings as interest expense through April 15, 2013, the remaining life of the original hedge. The Company expects to reclassify approximately $113,000 ($68,000 net of tax) of loss into earnings within the next 12 months.

3. Income Taxes

The Company s effective income tax rate for the 39 weeks ended February 25, 2010 and February 26, 2009 was 37.1% and 39.1%, respectively. The decrease in the effective rate is primarily due to the decrease in the amount of unrecognized tax benefits resulting from a lapse of the applicable statute of limitations.

4. Contingencies

The Company has approximately three and one half years remaining on a ten and one half-year office lease. On July 7, 2005, the lease was amended in order to exit leased office space for the Company s former limited-service lodging division. To induce the landlord to amend the lease, the Company guaranteed the lease obligations of the new tenant of the relinquished space throughout the remaining term of the lease. The maximum amount of future payments the Company could be required to pay if the new tenant defaults on its lease obligations was approximately $1,720,000 as of February 25, 2010.

During the second quarter of Fiscal 2010, the Company s theatre division incurred a one-time $1,430,000 pre-tax withdrawal liability when it withdrew from an underfunded multi-employer Chicago projectionist union pension plan.

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5. Business Segment Information

The Company s primary operations are reported in the following business segments: Theatres and Hotels/Resorts. Corporate items include amounts not allocable to the business segments. Corporate revenues consist principally of rent and the corporate operating loss includes general corporate expenses. Corporate information technology costs and accounting shared services costs are allocated to the business segments based upon several factors, including actual usage and segment revenues.

The following is a summary of business segment information for the 13 and 39 weeks ended February 25, 2010 and February 26, 2009 (in thousands):

13 Weeks Ended

February 25, 2010	Theatres	Hotels/ Resorts	Corporate Items	Total
Revenues	$ 64,843	$ 31,354	$ 247	$ 96,444
Operating income (loss)	15,367	(4,739)	(2,584)	8,044
Depreciation and amortization	4,147	3,685	143	7,975

13 Weeks Ended

February 26, 2009	Theatres	Hotels/ Resorts	Corporate Items	Total
Revenues	$ 57,896	$ 32,836	$ 279	$ 91,011
Operating income (loss)	12,691	(3,832)	(2,681)	6,178
Depreciation and amortization	4,092	3,660	164	7,916

39 Weeks Ended

February 25, 2010	Theatres	Hotels/ Resorts	Corporate Items	Total
Revenues	$ 175,400	$ 113,822	$ 741	$ 289,963
Operating income (loss)	36,445	89	(7,548)	28,986
Depreciation and amortization	12,478	11,195	431	24,104

39 Weeks Ended

February 26, 2009	Theatres	Hotels/ Resorts	Corporate Items	Total
Revenues	$ 166,488	$ 131,948	$ 889	$ 299,325
Operating income (loss)	35,427	10,783	(7,743)	38,467
Depreciation and amortization	12,420	11,421	494	24,335

THE MARCUS CORPORATION

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

Special Note Regarding Forward-Looking Statements

Certain matters discussed in this Management s Discussion and Analysis of Financial Condition and Results of Operations are forward-looking statements intended to qualify for the safe harbors from liability established by the Private Securities Litigation Reform Act of 1995. These forward-looking statements may generally be identified as such because the context of such statements include words such as we believe, anticipate, expect or words of similar import. Similarly, statements that describe our future plans, objectives or goals are also forward-looking statements. Such forward-looking statements are subject to certain risks and uncertainties which may cause results to differ materially from those expected, including, but not limited to, the following: (1) the availability, in terms of both quantity and audience appeal, of motion pictures for our theatre division, as well as other industry dynamics such as the maintenance of a suitable window between the date such motion pictures are released in theatres and the date they are released to other distribution channels; (2) the effects of increasing depreciation expenses, reduced operating profits during major property renovations, and preopening and start-up costs due to the capital intensive nature of our businesses; (3) the effects of adverse economic conditions in our markets, particularly with respect to our hotels and resorts division; (4) the effects of adverse weather conditions, particularly during the winter in the Midwest and in our other markets; (5) the effects of the relative industry supply of available rooms at comparable lodging facilities in our markets on our occupancy and room rates; (6) the effects of competitive conditions in our markets; (7) our ability to identify properties to acquire, develop and/or manage and the continuing availability of funds for such development; and (8) the adverse impact on business and consumer spending on travel, leisure and entertainment resulting from terrorist attacks in the United States, the United States responses thereto and subsequent hostilities. Shareholders, potential investors and other readers are urged to consider these factors carefully in evaluating the forward-looking statements and are cautioned not to place undue reliance on such forward-looking statements. The forward-looking statements made herein are made only as of the date of this Form 10-Q and we undertake no obligation to publicly update such forward-looking statements to reflect subsequent events or circumstances.

RESULTS OF OPERATIONS

General

We report our consolidated and individual segment results of operations on a 52-or-53-week fiscal year ending on the last Thursday in May. Fiscal 2010 is a 52-week year, as was fiscal 2009. We divide our fiscal year into three 13-week quarters and a final quarter consisting of 13 or 14 weeks. Our primary operations are reported in the following two business segments: movie theatres and hotels and resorts.

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The following table sets forth revenues, operating income (earnings before other income/expense and income taxes), other income (expense), net earnings and net earnings per common share for the comparable third quarter and first three quarters of fiscal 2010 and 2009 (in millions, except for per share and variance percentage data):

	Third Quarter				First Three Quarters			
			Variance				Variance	
	F2010	F2009	Amt.	Pct.	F2010	F2009	Amt.	Pct.
Revenues	$ 96.4	$ 91.0	$ 5.4	6.0%	$ 290.0	$ 299.3	$ (9.3)	-3.1%
Operating income	8.0	6.2	1.8	30.2%	29.0	38.5	(9.5)	-24.6%
Other income (expense)	(3.0)	(3.5)	0.5	15.2%	(8.2)	(13.8)	5.6	40.9%
Net earnings	$ 3.2	$ 1.7	$ 1.5	91.9%	$ 13.1	$ 15.0	$ (1.9)	-12.7%
Net earnings per common share - diluted:	$ 0.11	$ 0.06	$ 0.05	83.3%	$ 0.44	$ 0.50	$ (0.06)	-12.0%

Revenues, operating income and net earnings increased during the third quarter compared to the same period last year due in large part to improved results from our theatre division, partially offset by continued reduced operating results from our hotels and resorts division. Our revenues, operating income and net earnings for the first three quarters of fiscal 2010 decreased compared to the same period last year due entirely to reduced operating results from our hotels and resorts division. Fiscal 2010 third quarter and first three quarters revenues and operating income in our theatre division increased compared to last year s same periods due in part to a strong slate of films. Operating results from our hotels and resorts division continued to be negatively impacted by reduced business spending on travel due to the current economic environment, resulting in lower average daily rates and reduced year-to-date occupancies compared to the prior year. A reduction in our interest expense favorably impacted our net earnings during our fiscal 2010 third quarter and first three quarters compared to the same periods last year. Comparisons to last year s first three quarters results were also favorably impacted by significant unusual investment losses and losses on property, equipment and other assets during fiscal 2009 totaling approximately $0.07 per diluted common share.

Our fiscal 2010 third quarter and first three quarters operating results also benefited from a change in estimate related to our deferred gift card revenue. We introduced a gift card program in our theatre division several years ago and subsequently expanded it to our hotels and resorts division. With very little history as to redemption patterns, we had been taking a very conservative approach to our deferred gift card liability. During our fiscal 2010 third quarter, we determined that we had enough historical gift card redemption data available to support a change in estimate of our gift card liability. Accordingly, gift card breakage income will now be recognized based upon our historical redemption patterns and will represent the gift card balances for which we believe customer redemption is remote.

As a result of this change in estimate, we reported cumulative gift card breakage income of $3.0 million (pre-tax) during our fiscal 2010 third quarter, of which approximately $2.7 million (pre-tax), or approximately $0.05 per diluted common share, related to periods prior to our fiscal 2010 third quarter. Approximately $2.4 million (pre-tax), or approximately $0.05 per diluted common share, of this change in estimate related to fiscal years 2009 and earlier. Our theatre division benefited the most from this change in estimate recognizing $2.5 million of gift card breakage income during our fiscal 2010 third quarter, of which $2.2 million related to periods prior to the third quarter and $2.0 million related to fiscal years 2009 and earlier. Based upon recent redemption levels, we currently estimate our fiscal 2010 fourth quarter aggregate gift card breakage income to be approximately $100,000 and our future annual breakage to be in the $600,000-$700,000 range. If gift card sales continue to increase in the future, our annual breakage income may also increase.

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Our fiscal 2010 first three quarters operating results were also significantly impacted by a one-time pension withdrawal liability in our theatre division of $1.4 million (pre-tax) and a non-cash impairment charge in our hotels and resorts division of $2.6 million (pre-tax), both reported during our fiscal 2010 second quarter. Together, these two adjustments negatively impacted our fiscal 2010 first three quarters operating income by approximately $4.0 million and our net earnings per diluted common share by $0.08.

We recognized investment income of $149,000 and $436,000 during the third quarter and first three quarters of fiscal 2010, respectively, compared to investment income (loss) of $195,000 and $(1.5) million during the same periods last year. Last year during our second quarter, we reported two unusual investment losses, totaling approximately $2.2 million, related to investment losses on securities held for sale and losses on loans to, and investments in, a former Baymont Inns & Suites joint venture that owned real estate which declined in value because of continuing weakness in the commercial real estate market. We do not expect a significant variation in investment income during the remainder of fiscal 2010, compared to the same period last year.

Our interest expense totaled $2.8 million and $8.4 million for the third quarter and first three quarters of fiscal 2010, respectively, compared to $3.5 million and $10.9 million during the same periods last year. The decrease in interest expense during the fiscal 2010 periods compared to the prior year was the result of reduced borrowings and lower short-term interest rates during fiscal 2010. Assuming no significant changes in short-term interest rates during the remainder of our fiscal year, it is likely that we will again report a decrease in interest expense during our fiscal 2010 fourth quarter compared to the same period last year.

We reported small losses on disposition of property, equipment and other assets of $261,000 and $88,000 during the fiscal 2010 third quarter and first three quarters, respectively, compared to gains (losses) of $100,000 and $(1.1) million during the same periods last year. Our fiscal 2010 losses were the result of the disposal of miscellaneous furniture, fixtures and equipment, partially offset by a gain resulting from a favorable legal settlement related to the original construction of the condominium units at our Platinum Hotel & Spa in Las Vegas, Nevada. Our fiscal 2009 first three quarters results include a loss of approximately $1.1 million related to an adjustment of prior pro-rated gains recorded on the sale of the Platinum condominium units. The timing of periodic sales of our property and equipment varies from quarter to quarter, resulting in variations in our reported gains or losses on disposition of property and equipment. We anticipate periodic additional sales of non-core property and equipment with the potential for additional disposition gains or losses from time to time during future periods, but the current economic environment will likely limit our sales activity during the near term.

We reported net equity losses from unconsolidated joint ventures of $76,000 and $112,000 during the third quarter and first three quarters of fiscal 2010, respectively, compared to losses of $324,000 and $423,000 during the same periods of fiscal 2009. Net losses during both years included our share of results from our remaining Baymont joint venture and two hotel joint ventures. We currently do not expect significant variations in net equity gains or losses from unconsolidated joint ventures during the fourth quarter of fiscal 2010 compared to the same period last year.

We reported income tax expense for the third quarter and first three quarters of fiscal 2010 of $1.9 million and $7.7 million, respectively, compared to $1.0 million and $9.6 million during the same periods of fiscal 2009. Our fiscal 2010 first three quarters effective income tax rate was 37.1% compared to our fiscal 2009 first three quarters effective rate of 39.1%. The decrease in our effective tax rate was primarily due to a decrease in our liability for unrecognized tax benefits as a result of a lapse of the applicable statute of limitations during fiscal 2010. We currently expect our effective tax rate for the remaining quarter of fiscal 2010 to be in our historical 38-40% range, pending any further lapses of statutes of limitations during the year or the completion of tax examinations by taxing authorities. Our actual fiscal 2010 effective income tax rate may be different from our estimated quarterly rates depending upon actual facts and circumstances.

Theatres

The following table sets forth revenues, operating income and operating margin for our theatre division for the third quarter and first three quarters of fiscal 2010 and 2009 (in millions, except for variance percentage and operating margin):

	Third Quarter				First Three Quarters			
			Variance				Variance	
	F2010	F2009	Amt.	Pct.	F2010	F2009	Amt.	Pct.
Revenues	$ 64.8	$ 57.9	$ 6.9	12.0%	$ 175.4	$ 166.5	$ 8.9	5.4%
Operating income	15.4	12.7	2.7	21.1%	36.4	35.4	1.0	2.9%
Operating margin (% of revenues)	23.7%	21.9%			20.8%	21.3%		

Consistent with the seasonal nature of the motion picture exhibition industry, our fiscal third quarter is typically one of the strongest periods for our theatre division due to the traditionally strong holiday season. Our theatre division fiscal 2010 third quarter record operating results benefited from the previously described gift card breakage income, an increase in our average ticket price and a small increase in attendance. Excluding the portion of the gift card breakage income related to periods prior to our fiscal 2010 third quarter, our third quarter operating income increased by approximately $480,000, or 3.8%, compared to the same period last year, and our operating margin decreased from 21.9% during the fiscal 2009 third quarter to an adjusted 21.0% this year. The mix of films during our fiscal 2010 third quarter contributed to higher film costs and reduced margins during the period compared to the third quarter last year. During our fiscal 2010 third quarter, our top four films accounted for approximately 46% of our total box office revenue, compared to only 23% of our total box office provided by our top four films during the fiscal 2009 third quarter. Higher grossing blockbuster films historically have a higher film cost as a percentage of box office revenues than other films, and therefore our operating margin decreases when a relatively small number of high grossing films make up such a large percentage of our box office revenue.

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Our theatre division revenues for the first three quarters of fiscal 2010 increased compared to prior year s same period despite reduced overall attendance, due primarily to an increase in our average ticket price. Excluding prior period gift card breakage income related to fiscal years 2009 and earlier and a one-time pension withdrawal liability described below, our operating income increased during the fiscal 2010 first three quarters by approximately $440,000, or 1.2%, compared to the same period last year. Again excluding the prior period gift card breakage and the pension adjustment, our fiscal 2010 first three quarters operating margin for our theatre division was 20.7% compared to 21.3% during last year s same period. Our lower comparable operating margin during the fiscal 2010 first three quarters was due primarily to higher film costs and the negative impact that reduced attendance had on our total concession revenues.

As noted previously, our fiscal 2010 operating income was negatively impacted by a one-time $1.4 million pre-tax adjustment for a pension withdrawal liability incurred during our fiscal 2010 second quarter. This non-recurring liability related to our decision to withdraw from an underfunded multi-employer Chicago projectionist union pension plan. We only had a few active associates remaining in this union and we believed it was fiscally prudent to withdraw from this pension plan and lock in our existing portion of the unfunded liability using favorable August 2008 valuations (prior to the market downturn).

The following table breaks down the components of revenues for the theatre division for the third quarter and first three quarters of fiscal 2010 and 2009 (in millions, except for variance percentage):

	Third Quarter				First Three Quarters			
			Variance				Variance	
	F2010	F2009	Amt.	Pct.	F2010	F2009	Amt.	Pct.
Box office receipts	$ 40.7	$ 37.6						