

National CineMedia, Inc.
Form 10-Q
August 09, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2016

Commission file number: 001-33296

NATIONAL CINEMEDIA, INC.

(Exact name of registrant as specified in its charter)

Delaware 20-5665602
(State or Other Jurisdiction of (I.R.S. Employer
Incorporation or Organization) Identification No.)

9110 East Nichols Avenue, Suite 200

Centennial, Colorado 80112-3405
(Address of Principal Executive Offices) (Zip Code)

Registrant's telephone number, including area code: (303) 792-3600

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

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required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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, 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.

Large accelerated filer

Accelerated filer

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

As of August 3, 2016, 62,378,026 shares of the registrant's common stock (including unvested restricted shares), par value of \$0.01 per share, were outstanding.

TABLE OF CONTENTS

	Page
<u>PART I</u>	
Item 1. <u>Financial Statements</u>	1
<u>Unaudited Condensed Consolidated Balance Sheets</u>	1
<u>Unaudited Condensed Consolidated Statements of Income</u>	2
<u>Unaudited Condensed Consolidated Statements of Comprehensive Income</u>	3
<u>Unaudited Condensed Consolidated Statements of Cash Flows</u>	4
<u>Unaudited Condensed Consolidated Statements of Equity/(Deficit)</u>	6
<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	7
Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	22
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	35
Item 4. <u>Controls and Procedures</u>	35
<u>PART II</u>	
Item 1. <u>Legal Proceedings</u>	36
Item 1A. <u>Risk Factors</u>	36
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	36
Item 3. <u>Defaults Upon Senior Securities</u>	36
Item 4. <u>Mine Safety Disclosures</u>	36
Item 5. <u>Other Information</u>	36
Item 6. <u>Exhibits</u>	36
<u>Signatures</u>	38

PART I

Item 1. Financial Statements

NATIONAL CINEMEDIA, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED BALANCE SHEETS

(In millions, except share and per share data)

(UNAUDITED)

	June 30, 2016	December 31, 2015
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 17.4	\$ 31.7
Short-term marketable securities	18.5	13.2
Receivables, net of allowance of \$6.1 and \$5.6, respectively	126.3	148.9
Prepaid expenses	4.0	2.8
Income tax receivable	2.7	2.5
Current portion of notes receivable - founding members	4.2	4.2
Other current assets	0.6	0.3
Total current assets	173.7	203.6
NON-CURRENT ASSETS:		
Property and equipment, net of accumulated depreciation of \$62.8 and \$64.1, respectively	27.6	25.1
Intangible assets, net of accumulated amortization of \$105.2 and \$91.9, respectively	574.8	566.7
Deferred tax assets	219.1	217.1
Long-term notes receivable, net of current portion - founding members	12.5	12.5
Other investments	6.8	5.4
Long-term marketable securities	28.5	40.5
Debt issuance costs, net	2.2	2.3
Other assets	0.5	0.5
Total non-current assets	872.0	870.1
TOTAL ASSETS	\$1,045.7	\$1,073.7
LIABILITIES AND EQUITY/(DEFICIT)		
CURRENT LIABILITIES:		
Amounts due to founding members	\$ 12.4	\$ 35.5
Payable to founding members under tax receivable agreement	13.7	26.2
Accrued expenses	20.2	19.8
Accrued payroll and related expenses	9.9	18.1
Accounts payable	11.7	14.9
Deferred revenue	14.3	10.2
Total current liabilities	82.2	124.7
NON-CURRENT LIABILITIES:		
Long-term debt, net of debt issuance costs of \$9.6 and \$10.6, respectively	932.4	925.4
Deferred tax liability	48.9	50.1

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Income tax payable	5.0	4.9
Payable to founding members under tax receivable agreement	143.6	140.3
Total non-current liabilities	1,129.9	1,120.7
Total liabilities	1,212.1	1,245.4
COMMITMENTS AND CONTINGENCIES (NOTE 7)		
EQUITY/(DEFICIT):		
NCM, Inc. Stockholders' Equity/(Deficit):		
Preferred stock, \$0.01 par value; 10,000,000 shares authorized, none issued and outstanding, respectively	—	—
Common stock, \$0.01 par value; 175,000,000 shares authorized, 59,836,399 and 59,239,154 issued and outstanding, respectively	0.6	0.6
Additional paid in capital/(deficit)	(213.1)	(221.5)
Retained earnings (distributions in excess of earnings)	(210.3)	(186.1)
Total NCM, Inc. stockholders' equity/(deficit)	(422.8)	(407.0)
Noncontrolling interests	256.4	235.3
Total equity/(deficit)	(166.4)	(171.7)
TOTAL LIABILITIES AND EQUITY/DEFICIT	\$1,045.7	\$1,073.7

See accompanying notes to Condensed Consolidated Financial Statements.

NATIONAL CINEMEDIA, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(In millions, except share and per share data)

(UNAUDITED)

	Three Months Ended		Six Months Ended	
	June 30,	July 2, 2015	June 30,	July 2, 2015
	2016		2016	
REVENUE (including revenue from founding members of \$7.2, \$9.0, \$14.5 and \$16.7, respectively)	\$ 115.4	\$ 121.5	\$ 191.6	\$ 198.4
OPERATING EXPENSES:				
Advertising operating costs	8.3	8.3	13.3	14.1
Network costs	4.3	4.2	8.8	8.7
Theatre access fees—founding members	18.9	19.2	37.6	36.4
Selling and marketing costs	19.1	17.0	37.7	33.0
Merger termination fee and related merger costs	—	0.9	—	34.3
Administrative and other costs	9.4	8.3	24.3	17.0
Depreciation and amortization	8.9	8.2	17.6	16.2
Total	68.9	66.1	139.3	159.7
OPERATING INCOME	46.5	55.4	52.3	38.7
NON-OPERATING EXPENSES:				
Interest on borrowings	13.5	13.1	26.9	26.2
Interest income	(0.4)	(0.3)	(1.0)	(0.9)
Accretion of interest on the discounted payable to founding members under tax receivable agreement	3.4	3.5	7.0	7.1
Amortization of terminated derivatives	—	—	—	1.6
Other non-operating expense	—	—	—	0.1
Total	16.5	16.3	32.9	34.1
INCOME BEFORE INCOME TAXES	30.0	39.1	19.4	4.6
Income tax expense	4.5	5.8	2.4	1.5
CONSOLIDATED NET INCOME	25.5	33.3	17.0	3.1
Less: Net income attributable to noncontrolling interests	18.7	23.2	14.5	2.0
NET INCOME ATTRIBUTABLE TO NCM, INC.	\$ 6.8	\$ 10.1	\$ 2.5	\$ 1.1
NET INCOME PER NCM, INC. COMMON SHARE:				
Basic	\$ 0.11	\$ 0.17	\$ 0.04	\$ 0.02
Diluted	\$ 0.11	\$ 0.17	\$ 0.04	\$ 0.02
WEIGHTED AVERAGE SHARES OUTSTANDING:				
Basic	59,831,675	58,974,581	59,721,270	58,931,628
Diluted	60,556,539	59,595,019	60,314,112	59,360,245



Dividends declared per common share	\$0.22	\$0.22	\$0.44	\$0.44
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See accompanying notes to Condensed Consolidated Financial Statements.

NATIONAL CINEMEDIA, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In millions)

(UNAUDITED)

	Three Months Ended		Six Months Ended	
	June 30, 2016	July 2, 2015	June 30, 2016	July 2, 2015
CONSOLIDATED NET INCOME, NET OF TAX OF \$4.5, \$5.8, \$2.4 AND \$1.5, RESPECTIVELY	\$25.5	\$33.3	\$17.0	\$3.1
OTHER COMPREHENSIVE INCOME, NET OF TAX:				
Amortization of terminated derivatives, net of tax of \$0.0, \$0.0, \$0.0 and \$0.3, respectively	—	—	—	1.3
CONSOLIDATED COMPREHENSIVE INCOME	25.5	33.3	17.0	4.4
Less: Comprehensive income attributable to noncontrolling interests	18.7	23.2	14.5	2.9
COMPREHENSIVE INCOME ATTRIBUTABLE TO NCM, INC.	\$6.8	\$10.1	\$2.5	\$1.5

See accompanying notes to Condensed Consolidated Financial Statements.

NATIONAL CINEMEDIA, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

(UNAUDITED)

	Six Months Ended	
	June 30, 2016	July 2, 2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Consolidated net income	\$17.0	3.1
Adjustments to reconcile consolidated net income to net cash provided by		
operating activities:		
Deferred income tax expense	2.1	1.0
Depreciation and amortization	17.6	16.2
Non-cash share-based compensation	10.3	5.9
Excess tax benefit from share-based compensation	—	(0.1)
Accretion of interest on the discounted payable to founding members		
under tax receivable agreement	7.0	7.1
Impairment on investment	0.7	—
Amortization of terminated derivatives	—	1.6
Amortization of debt issuance costs	1.3	1.3
Other	(0.1)	0.6
Changes in operating assets and liabilities:		
Receivables, net	20.6	(12.0)
Accounts payable and accrued expenses	(9.7)	(1.8)
Amounts due to founding members	0.3	1.0
Payment to founding members under tax receivable agreement	(23.5)	(17.2)
Deferred revenue	4.1	4.9
Income taxes and other	(1.8)	(1.4)
Net cash provided by operating activities	45.9	10.2
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(6.6)	(4.8)
Purchases of marketable securities	(25.9)	(40.8)
Proceeds from sale and maturities of marketable securities	32.8	49.9
Purchases of intangible assets from network affiliates	(1.1)	(0.9)
Net cash (used in) provided by investing activities	(0.8)	3.4
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payment of dividends	(28.2)	(26.4)
Proceeds from borrowings	93.0	113.0
Repayments of borrowings	(87.0)	(70.0)
Payment of debt issuance costs	(0.3)	—
Founding member integration payments	1.0	1.1

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Distributions to founding members	(33.5)	(32.9)
Excess tax benefit from share-based compensation	—	0.1
Proceeds from stock option exercises	0.3	1.1
Repurchase of stock for restricted stock tax withholding	(4.7)	(1.2)
Net cash used in financing activities	(59.4)	(15.2)
CHANGE IN CASH AND CASH EQUIVALENTS	(14.3)	(1.6)
Cash and cash equivalents at beginning of period	31.7	13.4
Cash and cash equivalents at end of period	\$17.4	\$11.8

See accompanying notes to Condensed Consolidated Financial Statements.

NATIONAL CINEMEDIA, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

(In millions)

(UNAUDITED)

	Six Months Ended	
	June 30, 2016	July 2, 2015
Supplemental disclosure of non-cash financing and investing activity:		
Purchase of an intangible asset with NCM LLC equity	\$21.1	\$31.4
Accrued distributions to founding members	\$8.8	\$25.1
(Decrease) increase in dividends not requiring cash in the period	\$(1.5)	\$0.8
Increase in cost and equity method investments	\$2.0	\$1.7
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$25.5	\$24.8
Cash paid for income taxes, net of refunds	\$0.4	\$0.2

See accompanying notes to Condensed Consolidated Financial Statements.

NATIONAL CINEMEDIA, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY/(DEFICIT)

(In millions, except share and per share data)

(UNAUDITED)

	NCM, Inc.						
		Common Stock	Capital	Retained	Accumulated		
	Consolidated	Shares	Amount	Paid in	Earnings	Other	Noncontrolling
	Amount		(Deficit)	Capital	(Distribution	Comprehensive	Interest
					in Excess	Loss	
					of		
					Earnings)		
Balance—December 31, 2015	\$ (171.7)	59,239,154	\$ 0.6	\$ (221.5)	\$ (186.1)	\$ —	\$ 235.3
Distributions to founding members	(9.9)	—	—	—	—	—	(9.9)
NCM LLC equity issued for purchase							
of intangible asset	21.1	—	—	9.2	—	—	11.9
Income tax and other impacts of NCM							
LLC ownership changes	(2.3)	—	—	(3.7)	—	—	1.4
Comprehensive income, net of tax	17.0	—	—	—	2.5	—	14.5
Share-based compensation issued	(4.4)	597,245	—	(4.4)	—	—	—
Share-based compensation expense/capitalized	10.5	—	—	7.3	—	—	3.2
Cash dividends declared \$0.44 per share	(26.7)	—	—	—	(26.7)	—	—
Balance—June 30, 2016	\$ (166.4)	59,836,399	\$ 0.6	\$ (213.1)	\$ (210.3)	\$ —	\$ 256.4
Balance—January 1, 2015	\$ (208.7)	58,750,926	\$ 0.6	\$ (261.0)	\$ (147.4)	\$ (0.4)	\$ 199.5
Distributions to founding members	(25.1)	—	—	—	—	—	(25.1)
NCM LLC equity returned for purchase							
of intangible asset	31.4	—	—	14.1	—	—	17.3
Income tax and other impacts of NCM	(2.4)	—	—	(5.4)	—	—	3.0

LLC ownership changes							
Comprehensive income, net of tax	4.4	—	—	—	1.1	0.4	2.9
Share-based compensation issued	1.1	261,112	—	1.1	—	—	—
Share-based compensation expense/capitalized	4.9	—	—	3.0	—	—	1.9
Cash dividends declared \$0.44 per share	(27.2)	—	—	—	(27.2)	—	—
Balance—July 2, 2015	\$ (221.6)	59,012,038	\$ 0.6	\$ (248.2)	\$ (173.5)	\$ —	\$ 199.5

See accompanying notes to Condensed Consolidated Financial Statements.

NATIONAL CINEMEDIA, INC. AND SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

1. THE COMPANY

Description of Business

National CineMedia, Inc. (“NCM, Inc.”) was incorporated in Delaware as a holding company with the sole purpose of becoming a member and sole manager of National CineMedia, LLC (“NCM LLC”), a limited liability company owned by NCM, Inc., American Multi-Cinema, Inc. and AMC ShowPlace Theatres, Inc. (“AMC”), wholly owned subsidiaries of AMC Entertainment, Inc., Regal Cinemas, Inc. and Regal CineMedia Holdings, LLC, wholly owned subsidiaries of Regal Entertainment Group (“Regal”) and Cinemark Media, Inc. and Cinemark USA, Inc., wholly owned subsidiaries of Cinemark Holdings, Inc. (“Cinemark”). The terms “NCM”, “the Company” or “we” shall, unless the context otherwise requires, be deemed to include the consolidated entity. AMC, Regal and Cinemark and their affiliates are referred to in this document as “founding members”. NCM LLC operates the largest digital in-theatre network in North America, allowing NCM LLC to sell advertising (the “Services”) under long-term exhibitor services agreements (“ESAs”) with the founding members (approximately 21 years remaining as of June 30, 2016) and certain third-party theatre circuits (known as “network affiliates”) under long-term network affiliate agreements, which have terms from three to twenty years.

As of June 30, 2016, NCM LLC had 137,156,732 common membership units outstanding, of which 59,836,399 (43.6%) were owned by NCM, Inc., 27,072,701 (19.8%) were owned by Regal, 26,384,644 (19.2%) were owned by Cinemark and 23,862,988 (17.4%) were owned by AMC. The membership units held by the founding members are exchangeable into NCM, Inc. common stock on a one-for-one basis.

On May 5, 2014, NCM, Inc. entered into an Agreement and Plan of Merger (the “Merger Agreement”) to merge with Screenvision, LLC (“Screenvision”). On November 3, 2014, the Department of Justice filed a lawsuit seeking to enjoin the merger. On March 16, 2015, the Company announced the termination of the Merger Agreement and the lawsuit was dismissed. After the Merger Agreement was terminated, NCM LLC reimbursed NCM, Inc. for certain expenses pursuant to an indemnification agreement among NCM LLC, NCM, Inc. and the founding members. On March 17, 2015, NCM LLC paid Screenvision an approximate \$26.8 million termination payment on behalf of NCM, Inc. During the six months ended July 2, 2015, NCM LLC also either paid directly or reimbursed NCM, Inc. for the legal and other merger-related costs of approximately \$15.0 million (\$7.5 million incurred by NCM, Inc. during the year ended January 1, 2015 and approximately \$7.5 million incurred by NCM LLC during the six months ended July 2, 2015). The Company and the founding members each bore a pro rata portion of the merger termination fee and the related merger expenses based on their aggregate ownership percentages in NCM LLC when the expenses were incurred.

Basis of Presentation

The Company has prepared the unaudited Condensed Consolidated Financial Statements and related notes of NCM, Inc. in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and the rules and regulations of the Securities and Exchange Commission (“SEC”). Accordingly, certain information and footnote disclosures typically included in an annual report have been condensed or omitted for this quarterly report. The balance sheet as of December 31, 2015 is derived from the audited financial statements of NCM, Inc. Therefore, the unaudited Condensed Consolidated Financial Statements should be read in conjunction

with the audited Consolidated Financial Statements and notes thereto included in the Company's annual report on Form 10-K filed for the fiscal year ended December 31, 2015.

In the opinion of management, all adjustments necessary to present fairly in all material respects the financial position, results of operations and cash flows for all periods presented have been made. The Company's business is seasonal and for this and other reasons operating results for interim periods may not be indicative of the Company's full year results or future performance. As a result of the various related party agreements discussed in Note 4—Related Party Transactions, the operating results as presented are not necessarily indicative of the results that might have occurred if all agreements were with non-related third parties. The Company manages its business under one reportable segment of advertising. In the Condensed Consolidated Statements of Comprehensive Income, comprehensive income attributable to noncontrolling interests for the three months ended July 2, 2015 was omitted in the Company's previously filed Form 10-Q for the period ended July 2, 2015. This prior period omission was corrected within this Form 10-Q. There was no impact to the Condensed Consolidated Balance Sheets, Condensed Consolidated Statements of Income, the Condensed Consolidated Statements of Cash Flows or any notes thereto.

NATIONAL CINEMEDIA, INC. AND SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Estimates—The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates include those related to the reserve for uncollectible accounts receivable, share-based compensation and income taxes. Actual results could differ from those estimates.

Significant Accounting Policies

The Company's annual financial statements included in its Form 10-K filed for the fiscal year ended December 31, 2015 contain a complete discussion of the Company's significant accounting policies. Following is additional information related to the Company's accounting policies.

Concentration of Credit Risk and Significant Customers— Bad debts are provided for using the allowance for doubtful accounts method based on historical experience and management's evaluation of outstanding receivables at the end of the period. Receivables are written off when management determines amounts are uncollectible. Trade accounts receivable are uncollateralized and represent a large number of geographically dispersed debtors. The collectability risk with respect to national and regional advertising is reduced by transacting with founding members or large, national advertising agencies who have strong reputations in the advertising industry and clients with stable financial positions. The Company has smaller contracts with thousands of local clients that are not individually significant. As of June 30, 2016 and December 31, 2015, there were no advertising agency groups or individual customers through which the Company sources national advertising revenue representing more than 10% of the Company's outstanding gross receivable balance. During the three and six months ended June 30, 2016 and July 2, 2015, there were no customers that accounted for more than 10% of revenue.

Share-Based Compensation—The Company has issued stock options and restricted stock to certain employees and restricted stock units to its independent directors. The Company has not granted stock options since 2012. In 2015 and 2016, the restricted stock grants for Company officers vest upon the achievement of Company performance measures and/or service conditions, while non-officer grants vest only upon the achievement of service conditions. Compensation expense of restricted stock that vests upon the achievement of Company performance measures is based on management's financial projections and the probability of achieving the projections, which require considerable judgment. A cumulative adjustment is recorded to share-based compensation expense in periods that management changes its estimate of the number of shares of restricted stock expected to vest. Ultimately, the Company adjusts the expense recognized to reflect the actual vested shares following the resolution of the performance conditions. Dividends are accrued when declared on unvested restricted stock that is expected to vest and are only paid with respect to shares that actually vest. During the three months ended June 30, 2016 and July 2, 2015 and the six months ended June 30, 2016 and July 2, 2015, 25,225, 16,146, 893,830 and 254,461 shares of restricted stock and restricted stock units vested, respectively. During the three months ended June 30, 2016 and July 2, 2015 and the six months ended June 30, 2016 and July 2, 2015, 516, 57,890, 23,450 and 90,405 stock options were exercised at a weighted average exercise price of \$12.73, \$12.15, \$13.01 and \$12.18 per share, respectively.

Consolidation—NCM, Inc. consolidates the accounts of NCM LLC under the provisions of ASC 810, Consolidation (“ASC 810”). Under ASC 810, a managing member of a limited liability company (“LLC”) is presumed to control the LLC, unless the non-managing members have the right to dissolve the entity or remove the managing member without cause, or if the non-managing members have substantive participation rights. The non-managing members of NCM LLC do not have dissolution rights or removal rights. NCM, Inc. has evaluated the provisions of the NCM LLC membership agreement and has concluded that the various rights of the non-managing members are not substantive participation rights under ASC 810, as they do not limit NCM, Inc.’s ability to make decisions in the ordinary course of business.

NATIONAL CINEMEDIA, INC. AND SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

The following table presents the changes in NCM, Inc.'s equity resulting from net income attributable to NCM, Inc. and transfers to or from noncontrolling interests (in millions):

	Six Months Ended	
	June 30, 2016	July 2, 2015
Net income attributable to NCM, Inc.	\$2.5	\$1.1
NCM LLC equity issued for purchase of intangible asset	9.2	14.1
Income tax and other impacts of subsidiary ownership changes	(3.7)	(5.4)
Change from net income attributable to NCM, Inc. and transfers from noncontrolling interests	\$8.0	\$9.8

Recently Adopted Accounting Pronouncements

During the first quarter of 2016, the Company adopted Accounting Standards Update 2015-01, Income Statement Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items ("ASU 2015-01") on a prospective basis, which eliminates the concept of extraordinary items from GAAP. Under ASU 2015-01, reporting entities will no longer be required to assess whether an underlying event or transaction is extraordinary, however, presentation and disclosure guidance for items that are unusual in nature or occur infrequently are retained, and are expanded to include items that are both unusual in nature and infrequently occurring. The adoption of ASU 2015-01 did not have a material impact on the unaudited Condensed Consolidated Financial Statements or notes thereto.

During the first quarter of 2016, the Company adopted Accounting Standards Update 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis ("ASU 2015-02") on a prospective basis. ASU 2015-02 amends current consolidation guidance by modifying the evaluation of whether limited partnerships and similar legal entities are variable interest entities or voting interest entities, eliminating the presumption that a general partner should consolidate a limited partnership, and affects the consolidation analysis of reporting entities that are involved with variable interest entities. The adoption of ASU 2015-02 did not have a material impact on the unaudited Condensed Consolidated Financial Statements or notes thereto.

During the first quarter of 2016, the Company adopted Accounting Standards Update 2015-03, Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs ("ASU 2015-03") on a retrospective basis, which provides guidance for simplifying the presentation of debt issuance costs. ASU 2015-03 requires that debt issuance costs be presented in the balance sheet as a direct deduction from the carrying amount of debt liability, consistent with debt discounts or premiums. The Company also adopted Accounting Standards Update 2015-15, Interest — Imputation of Interest ("ASU 2015-15") on a retrospective basis, which states the SEC staff would not

object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. The Company reclassified net deferred financing costs related to the Company's Term Loans, Senior Secured Notes and Senior Unsecured Notes in the Condensed Consolidated Balance Sheets as a direct deduction from the carrying amount of those borrowings, while net deferred financing costs related to the Company's Revolving Credit Facility remained an asset in the unaudited Condensed Consolidated Balance Sheets. Upon adoption of ASU 2015-03 and ASU 2015-15, net deferred financing costs of \$10.6 million in the December 31, 2015 unaudited Condensed Consolidated Balance Sheet were reclassified from an asset to a reduction of the carrying value of long-term debt.

During the first quarter of 2016, the Company adopted Accounting Standards Update 2015-05, Intangibles-Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement ("ASU 2015-05") on a prospective basis, which provides guidance on accounting for fees paid by a customer in a cloud computing arrangement. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The adoption of ASU 2015-05 did not have a material impact on the unaudited Condensed Consolidated Financial Statements or notes thereto.

NATIONAL CINEMEDIA, INC. AND SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

During the first quarter of 2016, the Company adopted Accounting Standards Update 2015-17, Income Taxes (Topic 740) - Balance Sheet Classification of Deferred Taxes (“ASU 2015-17”) on a retrospective basis. ASU 2015-17 requires the presentation of deferred tax liabilities and assets be classified as non-current in a classified statement of financial position, which is a change from the Company’s historical presentation whereby certain of its deferred tax assets and liabilities were classified as current and the remainder were classified as non-current. Upon adoption of ASU 2015-17, current deferred tax assets of \$6.2 million and current deferred tax liabilities of \$0.5 million in the December 31, 2015 unaudited Condensed Consolidated Balance Sheet were reclassified as non-current.

Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update 2014-09, Revenue from Contracts with Customers (Topic 606) (“ASU 2014-09”), which supersedes the revenue recognition requirements in Accounting Standards Codification 605, Revenue Recognition. The new revenue recognition standard requires entities to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. Accounting Standards Update 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, which was issued in August 2015, revised the effective date for this standard to annual and interim periods beginning on or after December 15, 2017, with early adoption permitted, but not earlier than the original effective date of annual and interim periods beginning after December 15, 2016, for public entities. Accounting Standards Update 2016-11, Revenue Recognition (Topic 605) and Derivatives and Hedging (Topic 815): Rescission of SEC Guidance Because of Accounting Standards Update 2014-09 and 2014-16 Pursuant to Staff Announcements at the March 3, 2016 EITF Meeting, which was issued in May 2016, rescinds several SEC Staff Announcements that are codified in Topic 605, including, among other items, guidance relating to accounting for shipping and handling fees and freight services. Accounting Standards Update 2016-12, Revenue from Contract with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients, which was issued in May 2016, provides guidance to reduce the risk of diversity in practice for certain aspects of ASU 2014-09, including collectability, noncash consideration, presentation of sales tax and transition. ASU 2014-09 allows for either a full retrospective or a modified retrospective transition method. The Company is currently evaluating the effect that adopting this guidance will have on the unaudited Condensed Consolidated Financial Statements or notes thereto, as well as, which transition method it intends to use.

In January 2016, the FASB issued Accounting Standards Update 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities (“ASU 2016-01”), which requires equity investments that are not accounted for under the equity method of accounting to be measured at fair value with changes recognized in earnings (rather than reported through other comprehensive income) and updates certain presentation and disclosure requirements. The guidance is effective for reporting periods (interim and annual) beginning after December 15, 2017, for public companies. The Company is currently assessing the impact of ASU 2016-01 on the unaudited Condensed Consolidated Financial Statements or notes thereto.

In February 2016, the FASB issued Accounting Standards Update 2016-02, Leases (Topic 842) (“ASU 2016-02”). ASU 2016-02 establishes a right-of-use (“ROU”) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard

is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Company is currently assessing the impact of ASU 2016-02 on the unaudited Condensed Consolidated Financial Statements or notes thereto.

In March 2016, the FASB issued Accounting Standards Update 2016-09, Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting (“ASU 2016-09”). The updated guidance changes how companies account for certain aspects of share-based payment awards to employees, including the accounting for income taxes, forfeitures and statutory tax withholding requirements, as well as classification in the statement of cash flows. ASU 2016-09 is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company is currently evaluating the effect that adopting this guidance will have on the unaudited Condensed Consolidated Financial Statements or notes thereto.

NATIONAL CINEMEDIA, INC. AND SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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In March 2016, the FASB issued Accounting Standards Update 2016-07, Investments- Equity Method and Joint Ventures: Simplifying the Transition to the Equity Method of Accounting (“ASU 2016-07”). ASU 2016-07 eliminates the requirement to apply the equity method of accounting retrospectively when a reporting entity obtains significant influence over a previously held investment. ASU 2016-07 is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. The adoption of ASU 2016-07 is not expected to have a material effect on the unaudited Condensed Consolidated Financial Statements or notes thereto.

In June 2016, the FASB issued Accounting Standards Update 2016-13, Financial Instruments – Credit Losses (Topic 326), Measurement of Credit Losses on Financial Statements (“ASU 2016-13”), which requires a financial asset (or group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial asset(s) to present the net carrying value at the amount expected to be collected on the financial asset. ASU 2016-13 is effective for fiscal years beginning after November 29, 2020. The Company is currently evaluating the effect that adopting this guidance will have on the unaudited Condensed Consolidated Financial Statements or notes thereto.

The Company has considered all other recently issued accounting pronouncements and does not believe the adoption of such pronouncements will have a material impact on its unaudited Condensed Consolidated Financial Statements or notes thereto.

2. INCOME PER SHARE

Basic earnings per share is computed on the basis of the weighted average number of common shares outstanding. Diluted loss per share is computed on the basis of the weighted average number of common shares outstanding plus the effect of potentially dilutive common stock options, restricted stock and restricted stock units using the treasury stock method. The components of basic and diluted loss per NCM, Inc. share are as follows:

	Three Months Ended		Six Months Ended	
	June 30,	July 2,	June 30,	July 2,
	2016	2015	2016	2015
Net income attributable to NCM, Inc. (in millions)	\$6.8	\$10.1	\$2.5	\$1.1
Weighted average shares outstanding:				
Basic	59,831,675	58,974,581	59,721,270	58,931,628
Add: Dilutive effect of stock options and				
restricted stock	724,864	620,438	592,842	428,617
Diluted	60,556,539	59,595,019	60,314,112	59,360,245

Income per NCM, Inc. share:

Basic	\$0.11	\$0.17	\$0.04	\$0.02
Diluted	\$0.11	\$0.17	\$0.04	\$0.02

The effect of 77,320,333, 71,704,494, 76,721,038 and 70,814,007 exchangeable NCM LLC common units held by the founding members for the three months ended June 30, 2016 and July 2, 2015 and the six months ended June 30, 2016 and July 2, 2015, respectively, have been excluded from the calculation of diluted weighted average shares and earnings per NCM, Inc. share as they were antidilutive. NCM LLC common units do not participate in NCM, Inc. dividends. In addition, there were 677, 16,810, 56,383 and 61,329 stock options and non-vested (restricted) shares for the three months ended June 30, 2016 and July 2, 2015 and the six months ended June 30, 2016 and July 2, 2015, respectively, excluded from the calculation as they were antidilutive.

NATIONAL CINEMEDIA, INC. AND SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

3. INTANGIBLE ASSETS

In accordance with NCM LLC's Common Unit Adjustment Agreement with its founding members, on an annual basis NCM LLC determines the amount of common membership units to be issued to or returned by the founding members based on theatre additions or dispositions during the previous year. During the first quarter of 2016 and 2015, NCM LLC issued 1,416,515 and 2,160,915 common membership units to its founding members, respectively, for the rights to exclusive access to the theatre screens and attendees added, net of dispositions by the founding members to NCM LLC's network during the previous year. NCM LLC recorded a net intangible asset of \$21.1 million and \$31.4 million during the six months ended June 30, 2016 and July 2, 2015, respectively, as a result of the Common Unit Adjustments.

In addition, NCM LLC's Common Unit Adjustment Agreement requires that a Common Unit Adjustment occur for a specific founding member if its acquisition or disposition of theatres, in a single transaction or cumulatively since the most recent Common Unit Adjustment, results in an attendance increase or decrease in excess of two percent of the annual total attendance at the prior adjustment date. If an existing on-screen advertising agreement with an alternative provider is in place with respect to any acquired theatres, the founding members may elect to receive common membership units related to those encumbered theatres in connection with the Common Unit Adjustment. If the founding members make this election, then they are required to make payments on a quarterly basis in arrears in accordance with certain run-out provisions pursuant to the ESAs ("integration payments"). During the three months ended June 30, 2016 and July 2, 2015 and the six months ended June 30, 2016 and July 2, 2015, the Company recorded a reduction to net intangible assets of \$0.7 million, \$0.8 million, \$0.8 million and \$1.1 million, respectively, related to integration payments due from AMC and Cinemark related to their acquisitions of theatres from Rave Cinemas that are encumbered by an existing on-screen advertising agreement with an alternative provider. During the three months ended June 30, 2016 and July 2, 2015 and the six months ended June 30, 2016 and July 2, 2015, AMC and Cinemark paid a total of \$0.1 million, \$0.3 million, \$1.0 million and \$1.1 million, respectively, in integration payments.

The Company's intangible assets with its founding members are recorded at the fair market value of NCM, Inc.'s publicly traded stock as of the date on which the common membership units were issued. The NCM LLC common membership units are fully convertible into NCM, Inc.'s common stock. In addition, the Company records intangible assets for up-front fees paid to network affiliates upon commencement of a network affiliate agreement. The Company's intangible assets have a finite useful life and the Company amortizes the assets over the remaining useful life corresponding with the ESAs or the term of the network affiliate agreement. If common membership units are issued to a founding member for newly acquired theatres that are subject to an existing on-screen advertising agreement with an alternative provider, the amortization of the intangible asset commences after the existing agreement expires and NCM LLC can utilize the theatres for all of its services. Integration payments are calculated based upon the advertising cash flow that the Company would have generated if it had exclusive access to sell advertising in the theatres with pre-existing advertising agreements.

4. RELATED PARTY TRANSACTIONS

Founding Member Transactions—In connection with NCM, Inc.’s initial public offering (“IPO”), the Company entered into several agreements to define and regulate the relationships among NCM, Inc., NCM LLC and the founding members. They include the following:

- ESAs. Under the ESAs, NCM LLC is the exclusive provider within the United States of advertising services in the founding members’ theatres (subject to pre-existing contractual obligations and other limited exceptions for the benefit of the founding members). The advertising services include the use of the digital content network (“DCN”) equipment required to deliver the on-screen advertising and other content included in the FirstLook pre-show, use of the lobby entertainment network (“LEN”) and rights to sell and display certain lobby promotions. Further, 30 to 60 seconds of advertising included in the FirstLook pre-show is sold to NCM LLC’s founding members to satisfy the founding members’ on-screen advertising commitments under their beverage concessionaire agreements. In consideration for access to the founding members’ theatres, theatre patrons, the network equipment required to display on-screen and LEN video advertising and the use of theatres for lobby promotions, the founding members receive a monthly theatre access fee.

NATIONAL CINEMEDIA, INC. AND SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

- Common Unit Adjustment Agreement. The common unit adjustment agreement provides a mechanism for increasing or decreasing the membership units held by the founding members based on the acquisition or construction of new theatres or sale of theatres that are operated by each founding member and included in NCM LLC's network.
 - Tax Receivable Agreement. The tax receivable agreement provides for the effective payment by NCM, Inc. to the founding members of 90% of the amount of cash savings, if any, in U.S. federal, state and local income tax or franchise tax that is actually realized as a result of certain increases in NCM, Inc.'s proportionate share of tax basis in NCM LLC's tangible and intangible assets resulting from the IPO and related transactions.
 - Software License Agreement. At the date of the Company's IPO, NCM LLC was granted a perpetual, royalty-free license from NCM LLC's founding members to use certain proprietary software that existed at the time for the delivery of digital advertising and other content through the DCN to screens in the U.S. NCM LLC has made improvements to this software since the IPO date and NCM LLC owns those improvements, except for improvements that were developed jointly by NCM LLC and NCM LLC's founding members, if any.
- The following tables provide summaries of the transactions between the Company and the founding members (in millions):

	Three Months Ended		Six Months Ended	
	June 30, 2016	July 2, 2015	June 30, 2016	July 2, 2015
Included in the Condensed Consolidated Statements of Income:				
Revenue:				
Beverage concessionaire revenue (included				
in advertising revenue) (1)	\$7.1	\$9.0	\$14.3	\$16.6
Advertising inventory revenue (included in				
advertising revenue) (2)	0.1	—	0.2	0.1
Operating expenses:				
Theatre access fee (3)	18.9	19.2	37.6	36.4
Purchase of movie tickets and concession				
products and rental of theatre space				
(included in selling and marketing costs) (4)	0.5	0.3	0.8	0.5
Purchase of movie tickets and concession				
products and rental of theatre space				
(included in other administrative costs)	0.1	0.1	0.1	0.1

Non-operating expenses:

Interest income from notes receivable

(included in interest income) (5)	0.2	0.2	0.4	0.5
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(1) For the six months ended June 30, 2016, two of the founding members purchased 60 seconds of on-screen advertising time and one founding member purchased 30 seconds (with all three founding members having a right to purchase up to 90 seconds) from NCM LLC to satisfy their obligations under their beverage concessionaire agreements at a 30 second equivalent cost per th